



STAFF REPORT

TO: CLAYTON CITY COUNCIL

FROM: Dennis Bozanich

DATE: May 5, 2026

SUBJECT: Review FY26 Budget Status and Consider Approval of FY27 Budget Revisions

BACKGROUND

The City Council adopted the Fiscal Year (FY)26 and FY27 budgets with the understanding that adjustments would be necessary as new financial information became available. Since adoption, staff has monitored revenue performance, expenditure trends, and policy direction from the City Council.

This staff report provides:

- An updated FY26 General Fund (GF) year-end projection
- Recommended FY27 budget revisions based on Council direction
- Integration of reserve-funded capital and one-time projects
- Updated outlook on fund balance and reserve levels

These updates reflect both external revenue impacts and internal policy decisions, and are intended to position the City for improved fiscal stability heading into FY27.

CEQA

No impacts

FISCAL IMPACT

The Council's action will consider impacts, adopt budget revisions and provide guidance to staff on the use of fund balances.

DISCUSSION

The FY26 year-end projection reflects a continued structural imbalance in the General Fund, driven primarily by unanticipated revenue reductions and increased expenditures. Since the adoption of the adjusted budget, the City has experienced a net revenue loss of approximately \$433,758, largely attributable to reductions in RPTTF, well water revenues, and fiduciary fund transfers. At the same time, expenditures have increased by approximately \$344,348 due to contractual obligations and operational costs. As a result, the City is projecting a year-end deficit of approximately \$778,106. This outcome reinforces prior financial forecasts indicating

that, absent corrective action, the City's expenditures will continue to outpace revenues.

In response, the proposed FY27 budget revisions reflect targeted adjustments to reduce the structural deficit while maintaining core service levels. Revenues are projected to remain essentially flat, with only nominal growth, reflecting broader constraints in the City's revenue base. However, expenditures have been reduced by approximately \$339,172 through organizational restructuring, operational efficiencies, and reduced services and supplies costs. These changes improve the projected FY27 deficit from approximately \$667,349 in the adopted budget to \$323,458 in the revised budget—effectively cutting the deficit in half. While this represents meaningful progress, it does not fully resolve the underlying imbalance.

Despite ongoing deficits, the City's fund balance remains above policy minimums in the near term, with projected ending balances of approximately \$6.19 million in FY26 and \$5.86 million in FY27. These reserves provide short-term stability and allow the City to fund critical one-time investments, including approximately \$5.09 million in capital improvement projects and \$2.75 million in one-time augmentations. However, ongoing cost pressures—estimated between \$113,000 and \$277,000 annually—continue to pose long-term challenges. While Special Revenue Funds remain balanced with minimal adjustments, the General Fund will require additional structural solutions to ensure long-term fiscal sustainability.

These budget adjustments should also be viewed within the City's broader fiscal strategy, which is focused on balancing near-term stabilization with long-term sustainability. The FY27 revisions reflect a deliberate approach of implementing expenditure controls and organizational efficiencies while strategically deploying reserves for one-time capital and operational needs. At the same time, the City continues to evaluate longer-term revenue solutions, including potential voter-approved measures, to address the underlying structural imbalance. This multi-pronged strategy—combining cost containment, prudent use of reserves, and exploration of new revenue sources—positions the City to maintain service levels in the short term while working toward a more sustainable financial model over the long term.

ATTACHMENTS

[ATT A - FY27 adopted vs adjusted budget details.pdf](#)

[ATT B - May 5 version of FY26 and FY27 Budget Revision Presentation.pdf](#)