



Memorandum

TO: RULES AND OPEN
GOVERNMENT COMMITTEE

FROM: Mayor Matt Mahan

SUBJECT: 2026-2027 Preliminary
General Fund Forecast and
Budget Priorities Study
Session

DATE: January 14, 2026

Approved: *Matt Mahan*

Date: Jan 14, 2026

RECOMMENDATION

Direct the City Manager to prepare an agenda and content for the 2026-2027 Preliminary General Fund Forecast and Budget Priorities Study Session scheduled for February 5, 2026, from 1:30 p.m. to 4:30 p.m. that incorporates the framework outlined in this memorandum to ensure that the City Council is prepared to provide clear and meaningful input that will directly inform the development of the 2026-2027 Mayor's March Budget Message and subsequent 2026-2027 Proposed Budget.

BACKGROUND

The City Charter requires the Mayor to deliver an annual March Budget Message outlining budget priorities for the upcoming year. In collaboration with the City Manager's Office, we have developed the framework below to ensure that the February 5th Study Session is not only informational, but serves as a critical forum for City Councilmembers to engage with one another on shared priorities, trade-offs, and risks at the outset of the budget development process so that we can give thoughtful budget and policy direction to the City Manager as she prepares the 2026-2027 Proposed Budgets.

DISCUSSION

As we learned in December 2025, the City's budgetary outlook is worse than previously anticipated, with the three largest revenue categories either weaker than expected (Property Tax and Utility Taxes) or continuing to only modestly grow as projected (Sales Tax), while day-to-day operating costs continue to escalate. Because of these factors, the City Manager preliminarily estimates an ongoing General Fund shortfall ranging

from \$55 - \$65 million in 2026-2027, followed by an additional shortfall of approximately half that in 2027-2028.

The value of this Study Session extends beyond information-sharing about the state of the General Fund. It provides me, as Mayor, a critical opportunity to hear directly from City Council colleagues about their priorities, concerns, and ideas at the outset of the budget process. This dialogue ensures that the March Budget Message – the foundational document guiding the City's budget direction – reflects a shared understanding of fiscal realities and a genuine synthesis of Councilmember perspectives. As such, active participation and candid exchange during this session are essential to shaping a budget that is both responsive and representative.

Accordingly, the City Manager is directed to use the following framework to develop the agenda and content for the 2026-2027 Preliminary General Fund Forecast and Budget Priorities Study Session, with the explicit goal of maximizing the time for thoughtful City Council discussion.

1. **2026-2027 Preliminary Forecast Overview.** Provide a concise overview of the factors driving the preliminarily projected General Fund shortfall, including economic conditions, the performance of major revenue categories, and significant cost drivers.
2. **Community Priorities.** Present relevant data from recent community surveys, polling, or other relevant sources that highlight community concerns, service expectations, and perceived priorities. This information should help ground Councilmember discussions in community values within the context of budget constraints.
3. **Focus Areas, Core Services/Programs, and Organizational Risks.** Briefly review the major initiatives within the 2025-2026 Focus Areas, identify other key organizational risks the City Council should be aware of within the context of City core services and programs, and review staff's existing leadership capacity to implement significant change. Given our limited resources, we must narrow the breadth of services that can be significantly improved—focusing on our most important services and risk areas is more relevant than ever. This approach underscores the need for other jurisdictions to assume more substantial responsibility over their mission critical service delivery.
4. **Preliminary Budget Balancing Strategy Considerations.** Outline preliminary approaches to balance the General Fund budget, giving context to the types and scale of reductions that may be necessary to address the projected shortfall. This section should also review any recommended updates to the City's *Budget Principles* and *Budget Balancing Strategy Guidelines*.

5. **City Council Discussion on Budget Priorities.** Presentations associated with the preceding sections should be deliberately concise to ensure ample time for City Councilmembers to engage in discussion with one another. This portion of the Study Session is intended to facilitate a candid, policy-driven conversation among Councilmembers about priorities, trade-offs, and risks, and to surface areas of alignment and divergence early in the process.

To support a productive and focused discussion, City Councilmembers should be prepared to engage with the following questions during the Study Session:

- The City Council Focus Area framework approved by the City Council on September 30, 2025, sets the City on the right path to make the most difference in the outcomes our community cares about most. Should we further modify, refine, or narrow any Focus Area scope given the City's budgetary outlook?
- Which programs or services are the most essential to preserve, even in the face of significant budget constraints, and why?
- Which programs or services should be considered for reduction?
- Are there program areas where the City Council is willing to consider structural changes, service model shifts, or eliminations rather than incremental reductions?
- What criteria should the Administration apply when bringing forward budget-balancing proposals for City Council consideration?
- How should the City weigh services that are uniquely provided by the City against those where other public, nonprofit, or private providers play a significant role?
- How should the City weigh services that produce substantial improvements for smaller, vulnerable populations against services that deliver more modest benefits to a broader segment of the community?

While there is a shared desire to expand or enhance services across many areas, current budget realities make that impossible. The task before the City Council is to collectively identify where the City can responsibly scale back or eliminate lower priority services, so that limited resources can be directed toward the services and outcomes that matter most to our community.

I look forward to a substantive and collaborative discussion on February 5th and am confident that a strong exchange of perspectives among City Councilmembers will provide the clarity and direction necessary to navigate this challenging budget cycle and inform the development of the March Budget Message.