

Fiscal Year 2026 budget shortfalls

Keokuk approved a budget for Fiscal Year 2026 that called for the General Fund to have a net positive cash flow of \$2,150,000. This was a fairly optimistic budget, and, if accurate, would have been a very good year for the City.

However, there were a few flaws with the budget. Our net financial position for this year is more likely to be a shortfall of close to \$2,000,000. Given that the General Fund came into the Fiscal Year with about a \$4,000,000 balance, this is very significant, and will leave the General Fund out of money if it is repeated in Fiscal Year 2027.

There were several issues that have led to this \$4,000,000 inaccuracy in the current budget.

The first issue revolves around two fire truck purchases that went across FY 2025 and FY 2026. The purchases involved a \$1,000,000 pumper truck (actual purchase spread across two years) that was damaged last year and a new \$1.8 million ladder truck.

We budgeted to receive \$1.8 million in bond funds in the current year for the ladder truck while only budgeting to spend \$500,000, the final payment for the pumper truck.

The end result of all of this in Fiscal Year 2026, in regards to fire truck purchases, is that we will have \$1,800,000 less money than we budgeted and presented to the community about the financial position for this Fiscal Year.

A second issue has to do with grant funded projects in the General Fund.

The airport was one of the areas this involved. Keokuk budgeted to receive \$1,200,000 for two airport improvement projects: a hangar rehabilitation and a terminal renovation. However, we only budgeted to spend about \$104,000 on the projects, meaning that we were budgeting at least a \$1,100,000 profit on the projects.

And original estimates called for the two projects to cost about \$485,000, but necessary change orders have pushed those costs to \$630,000. About \$580,000 of this will be covered by grants, meaning a net cost to the city will be about \$50,000.

With the \$50,000 cost to the city for the airport projects and the revenue-expense budgeting error, the projects will have a net impact to the City of about \$1,150,000 more than we originally planned.

A similar situation happened with the grant funded riverfront trail. This project was placed in the budget with a grant revenue line item of \$1,700,000 and a project expenditure amount of about \$1,100,000, which again would end up being a profit of about \$600,000 for the City.

The project bids came back high enough, though, that the overall project costs will be closer to \$1,300,000 inclusive of engineering fees, while the corresponding grants expected to be received will be closer to \$950,000, meaning the project will cost the City about \$350,000 after

reimbursements. Overall, that means this project will have about a \$950,000 net larger cost to the City of Keokuk than what was put into the FY2026 Budget.

The issues associated with how the revenues and expenditures were presented in the Fiscal Year 2026 Budget means that Keokuk was structuring its budget for the current fiscal year to have an operating shortfall of \$1,800,000, but didn't recognize it due to having budgeted \$3,800,000 more net revenue than it was going to receive.

How did Keokuk end up in a position where we adopted a budget that in actuality was going to spend that much more than it received? Part of it had to do with a one time item, the unexpected replacement of a damaged pumper truck. That still leaves a budget that if presented accurately had about a \$1,300,000 deficit in ongoing operating costs exceeding revenues. This is an ongoing budget issue that has been growing rapidly over the past couple of years. How? There are two primary drivers of this.

First, Gaming Revenue rapidly decreased from \$414,000 in Fiscal Year 2024 to the \$112,000 amount anticipated this year, with no corresponding reduction in City expenses to offset this lost revenue.

Increasing salary costs have been the lion's share of the remaining budget imbalance, with actual salary expenditures increasing from \$4,100,000 in Fiscal Year 2024 to a budgeted salary amount of \$4,800,000 in Fiscal Year 2026 with no identified source of funding to cover the additional cost.

Those two items in and of themselves represent \$1,000,000 of annual costs that have not been addressed in the past two budget cycles. Both of these issues will compound as we approach Fiscal Year 2027; gaming revenue will be completely eliminated next year, another \$100,000 loss and salaries bargained for in employee contracts will increase another \$200,000, meaning these two items in and of themselves create a deficit of \$1,300,000 for next year.

There is also the issue of a structural deficit in the Southeast Iowa Development Center's operating budget, where costs exceed revenues by close to \$100,000, a deficit that needs to be covered by the General Fund. This will add additional pressure to the General Fund.

A final issue that needs to be addressed moving forward is the Property Tax Reduction portion of Local Option Sales Tax (LOST) that has been covered in a previous article, a \$750,000 annual funding stream previously allocated to the General Fund that can only be partially justified. Approximately \$650,000 of this funding stream will not be eligible to be transferred to the General Fund except as an offset to property tax collections.

Overall, the total deficit currently expected to be in place for Fiscal Year 2027 is about \$2,000,000. This is accounting for rising employee costs, the loss of Gaming Revenue, only budgeting to transfer to the General Fund from LOST what we can justify, and accounting for SID Center operating expense shortfalls.

The deficit we see in the current year can be covered by cash on hand, but our cash balance for General Fund operations are anticipated to be cut in half this year, leaving us with about \$2,000,000 for the General Fund by June 30, 2026.

Keokuk cannot afford to go through the next budget season without finding avenues to address our anticipated shortfalls; without changes, we will run out of money in the General Fund next year.

Alterations will need to be made, whether in expenditures or by increasing revenues. To begin the process of evaluating options, we will take a look at how we are currently spending money for various services. We will make some comparisons with how our spending habits for different services compares to other communities.

Next: Where we spend our money compared to other Cities