

## Fiscal Year 2026 budget shortfalls

Keokuk passed and approved a budget for Fiscal Year 2026 that included a projection 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. There were a few flaws with the budget, though, and a few items missed. Our net financial position for this year is more likely going to end with 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 which have led to this \$4,000,000 inaccuracy in the current budget. The first issue was that we budgeted to receive \$1.8 million in bond funds in the current year for a fire truck purchase while only budgeting \$500,000 for any actual vehicle purchase. The \$1.8 million was actually received and spent on a ladder truck in Fiscal Year 2025, while we are still anticipating the budgeted expenditure of \$500,000 for a pumper truck to still occur in this year's budget to replace a unit that was damaged last year. The end result of all of this in Fiscal Year 2026 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 budgeted in the General Fund. The Airport was one of the areas this involved. Keokuk budgeted to receive \$1,205,000 for two airport improvement projects, a hanger rehabilitation as well as a terminal rehabilitation. We only budgeted to expense about \$104,000 on the projects, meaning that we were budgeting at least a \$1,100,000 profit on the projects. The projects were originally projected (though not put into the budget) to cost a total of \$485,000, but we are currently projecting after change orders to see an overall cost of \$630,000, with about \$575,000 being covered by grant funds. This means that these airport projects will have a net impact on the City of about \$1,150,000 more than we originally budgeted. Airport projects are typically very affordable projects, given that we can receive 90-95% federal funding for them. Unfortunately, we presented them in our Fiscal Year 2026 budget as potentially providing an extra \$1,100,000 than they actually were.

The final grant funded project that was in the General Fund was the 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. Not all of this deficit was for ongoing expenses; \$500,000 was associated with the purchase of a replacement Fire Truck. \$60,000 was

associated with Police Department Equipment. \$100,000 was associated with the purchase of a tractor. There was 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. That amounts to about \$750,000 of the deficit for the Current Fiscal Year. A majority of the remaining shortfall occurred as 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.

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 next June 30, 2026. Keokuk cannot afford to go through the next budget season without finding avenues to address our anticipated shortfalls; we will run out of money in the General Fund next year absent changes.

**Next: Where we spend our money compared to other Cities**