

City of Clayton FAQ - City Budget

Is this really the right time to discuss a tax increase?

Yes. The City continues to face a long-term structural imbalance between ongoing revenues and the cost of maintaining current service levels. Several revenue losses are permanent, while costs for public safety, infrastructure maintenance, utilities, insurance, general services continue to rise. Discussing potential revenue options now allows the community time to evaluate alternatives before reserves are materially reduced or major service cuts become necessary.

Should the City first complete the financial cleanup and clearly establish its true revenue streams, actual expenses, and long-term financial position?

Yes — and that work has been completed. There will continue to be updated budget reviews, operational analysis, and multi-year forecasting. Current projections indicate that even after financial normalization efforts, ongoing expenditures are expected to outpace ongoing revenues over time.

What are the City's reserve levels?

The City's most recent projections presented on May 5, 2026, estimated General Fund reserves of approximately \$6.19 million at the end of FY2025-26 and \$5.86 million at the end of FY2026-27. These amounts remain above the City's adopted reserve policy minimums of approximately \$2.28 million and \$2.36 million, respectively. While reserve levels remain positive, the City has noted that reserves are gradually being used to absorb ongoing structural deficits and one-time operational and capital costs.

What expenses have been reduced in the City's FY2026 and FY2027 budgets?

The FY2026 and FY2027 budgets include expenditure reductions, organizational restructuring savings, and reduced service and supply costs. FY2026 included approximately \$133,500 in salary and benefit savings and roughly \$87,000 in service and supply reductions. FY2027 included over \$200,000 in personnel-related savings and approximately \$150,000 in reduced services and supplies compared to the FY26 budget. The revised FY2027 budget reduced the projected operating deficit from roughly \$667,000 to approximately \$324,000 before reserve-funded projects.

What new revenues are coming into the City?

The City is not currently projecting any major new ongoing General Fund revenues in FY2026 or FY2027. The City recently lost Redevelopment Property Tax Trust Fund (RPTTF) revenues, which had provided a temporary source of funding tied to the former Redevelopment Agency. The primary new revenue option under consideration by the City Council is a proposed 1% local sales tax measure that could generate approximately \$1 million annually if approved by voters.

What liabilities remain unresolved for the City?

The City continues to manage several long-term liabilities and fiscal pressures, including unfunded CalPERS pension obligations, retiree health liabilities, deferred infrastructure maintenance, aging facilities, and future capital replacement needs. The City is also continuing broader financial reconciliation and long-range fiscal planning efforts to address ongoing structural imbalances between revenues and expenditures.

Where do the City's finances stand today?

The City has improved financial reporting, reduced expenditures, strengthened forecasting practices, and maintained reserves above policy minimums. However, Clayton continues to face a long-term structural deficit, meaning ongoing expenditures are projected to grow faster than ongoing revenues. Because the City's General Fund is relatively small, approximately \$5.8 million annually. It is particularly sensitive to inflation, pension cost increases, infrastructure needs, and revenue fluctuations.

What investment income is generated from City reserve accounts?

The City generates investment earnings from reserve balances through pooled cash and permitted public fund investments.

Investment income fluctuates annually based on reserve levels, cash flow timing, and market interest rates. Recent higher interest rate environments have improved earnings compared to prior years, helping partially offset operating pressures, although investment income alone is not sufficient to resolve long-term structural budget gaps.

Why do reserve balances remain strong while deficit warnings continue?

Reserve balances and operating deficits measure different things. Reserve balances reflect accumulated prior-year resources and one-time funding, while structural deficits reflect whether ongoing annual revenues are sufficient to support ongoing annual expenditures. The City currently maintains reserves above policy minimums, but projections still show recurring operating gaps driven by rising costs, permanent revenue losses, pension obligations, infrastructure needs, and inflationary pressures. Municipal reserves are intended for emergencies, economic uncertainty, and one-time costs, not to support routine services.

What does the long-range Sources vs. Uses chart show?

The chart shows expenditures growing faster than revenues over time, resulting in a widening long-term structural deficit. While revenues and expenditures remained relatively aligned through much of FY2015–FY2024, projected expenditures increasingly outpace projected revenues beginning in FY2025 and beyond. By FY2037, the projected annual gap approaches approximately \$1.18 million. The chart does not indicate immediate insolvency, but it does demonstrate the importance of long-term financial planning, expenditure management, reserve preservation, and responsible consideration of future revenue options.

Why consider an added 1% sales tax in FY2027?

A 1% local sales tax would generate approximately \$1 million annually in ongoing unrestricted revenue. Based on the City's long-range forecasts, this additional revenue would substantially reduce projected structural deficits, slow reserve drawdowns, improve long-term fiscal sustainability, and provide greater flexibility to maintain core services and infrastructure investments. Even with additional revenue, however, ongoing expenditure management and long-range financial planning would still remain necessary.

What would happen if no additional revenue were to occur?

Without additional ongoing revenue or further expenditure reductions, the City would likely need to continue drawing on reserves in the short term while evaluating service reductions, deferred maintenance, staffing impacts, and other cost containment measures. The timing and extent of any actions would depend on future economic conditions, revenues, and City Council policy decisions.