



Outlook

FY26 Budget Update and Next Steps

From Ken Smith <ksmith@covingtonky.gov>

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Dear Team,

Last night, the Board of Commissioners approved the city manager's recommended budget for the upcoming fiscal year. This budget maintains a **status quo** approach, with only minor increases to account for inflation and a few essential operational needs.

What's Included — and What's Not

- All programs and staff positions are maintained, but
- The budget **does not include** many of the departmental requests submitted.
- It also **does not provide** a cost-of-living adjustment, except where required by existing collective bargaining agreements.

Financial Challenges Ahead

While the city is **not facing an immediate crisis**, we are taking a cautious approach due to two significant financial pressures:

1. Remote Work Impact

Payroll tax revenues remain below pre-COVID levels primarily due to work-from-home. Although we've recovered somewhat, we still face a projected **\$4 million shortfall** in FY26.

2. Federal Workforce Reductions

The IRS, our second-largest employer, is reducing its workforce. We now expect **750 positions** to be eliminated by the end of June, resulting in an estimated **\$1.5 million revenue loss**.

Temporary Relief from ARPA Funds

We've used **American Rescue Plan Act (ARPA)** funds to avoid service cuts in recent years. The FY26 budget includes **\$6 million** in ARPA support, which may need to increase to **\$8 million** due to the recent job losses. However, these funds must be spent by **December 2026** and will not be available for the full FY27 budget.

What We're Doing

To address these challenges, we are:

- **Monitoring payroll tax revenue** trends and the full impact of IRS reductions which may not be reflected until the second quarter.
- **Reviewing the budget regularly** and adjusting as needed. Budgets are not set in stone.
- **Exploring one-time and new ongoing funding sources.**
- **Being flexible** which might include asking employees to take on shared responsibilities or support functions outside their regular roles when positions are unfilled. We recognize this may place

added strain, and we are committed to providing the necessary support and coordination to make it work sustainably and fairly.

- **Evaluating the use of reserves** for short-term needs.
- **Pursuing efficiencies**, including potential shared services with neighboring municipalities.

Our Commitment to You

We deeply value the work you do every day. Our top priority is preserving the services we provide to our community — and that means supporting our employees.

We'll continue to keep you informed and involved as we navigate these challenges together. If you have questions or ideas, please don't hesitate to reach out.

Thank you for your continued dedication.

Sincerely,

Ken

J. Kenneth Smith

City Manager

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