November 18, 2025

AGENDA ITEM SUMMARY

City Council

STAFF

Kelly DiMartino, City Manager
Caleb Weitz, Chief Financial Officer
Lawrence Pollack, Budget Director

SUBJECT

Second Reading of Ordinance No. 186, 2025, Being the Annual Appropriations Ordinance Relating to the Annual Appropriations, and Amending the Budget, for the Fiscal Year Beginning January 1, 2026, and Ending December 31, 2026; and Fixing the Mill Levy for Property Taxes Payable in 2026.

EXECUTIVE SUMMARY

This Ordinance, unanimously adopted on First Reading on November 3, 2025, amends the adopted 2026 Budget. This Ordinance sets the amount of $843,306,077 to be appropriated for fiscal year 2026. This appropriated amount does not include what is also being separately appropriated pursuant to Council/Board of Director actions to adopt the 2026 budgets for the General Improvement District (GID) No. 1 of $381,296, the 2026 budget for GID No. 15 (Skyview) of $1,000, the Urban Renewal Authority (URA) 2026 budget of $7,166,316 and the Downtown Development Authority 2026 budget of $38,261,137. The sum of all of these Ordinances results in City-related total appropriations of $889,115,826 for 2026. This Ordinance also sets the property tax year 2025 City mill levy, to be collected in 2026, at 9.797 mills; this mill levy rate has not changed since 1991.

STAFF RECOMMENDATION

Staff recommends adoption of the Ordinance on Second Reading.

FIRST READING BACKGROUND / DISCUSSION

On November 19, 2024, by adoption of Ordinance No. 163, 2024, Council approved the 2025-2026 Biennial Budget and appropriated monies for expenditure in fiscal year 2025. State statutes and the City Charter both require an annual appropriation to cover expenses for the ensuing year (2026) based upon the adopted budget. Per City Charter, Second Reading must occur before the last day of November and is currently scheduled for November 18, 2025.

This Ordinance also sets the 2026 City mill levy at 9.797 mills, unchanged since 1991.

OVERVIEW: The mid-cycle budget revision process (the "Revision Process") is different from the biennial budgeting process in that the revisions do not reflect general procedures to solicit and submit new budget requests. This is because the City is operating within the approved 2025-2026 Biennial Budget, and these revisions should be exceptions based on information not known at the time the budget was adopted in November 2024. The City Manager and the executive team conducted a comprehensive review to determine which changes should be forwarded for Council's considerations, which were discussed during Council Work Sessions on September 23 and October 14, 2025.

The budget revisions for the 2026 fiscal year (the “2026 Budget Revision(s)”) include both of the following: (1) reductions to 2026 ongoing expenses to align them with a decreased 2026 Sales Tax forecast, unexpectedly low turnover and other inflationary expenses; and (2) additional offers for consideration.

ECONOMIC CONSIDERATIONS: Through most of 2025 there has been significant economic uncertainty, which continues today. At the national level, impacts from the tariffs will still not be known for many months, while unemployment has continued to climb since the low in mid-2023. Inflationary rate increases were 2.9% as of the end of August, but the increased costs experienced in many commodities over the past few years have not subsided.

REVENUE: Overall, most City revenue sources are coming in at, or above, the amounts budgeted for the 2025 fiscal year. Based on 2025 year-to-date actual collections and other information, however, there are four areas of continued revenue concern within the Governmental Funds: Ongoing Sales Tax revenue (not 1-Time sources like audits), Camera Radar Red Light revenue, Interest on Investments in the General Fund revenue, and revenues from State’s marijuana share back. All of these revenue sources are recommended to be decreased for 2026 in the Budget Revision as follows:

> *1) Sales Tax:* Overall, staff anticipates sales tax collections to be under budget and use tax collections to be over budget, with combined sales and use tax collections to end the year at or near the 2025 budget.
>
> Cumulatively, sales and use tax collections through September are 0.9% over budget. Sales tax is \$2.1M under budget and use tax is \$3.4M over budget. Sales and use tax combined is \$1.3M over budget. The favorability is largely driven by volatile one-time revenue for audits, voluntary disclosure agreements and building permit use tax.
>
> For 2026, staff is currently forecasting 2% sales tax growth on 2025 sales tax collections (adjusted for one-time revenue), which is a 4% reduction (\$7.1M) from the current 2026 budget. For use tax, staff is forecasting flat growth from the 2025 budget and recommends keeping the current 2026 budget for use tax.
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> *2) Camera Radar Red Light:* Delays were experienced with the deployment of the newly, State allowed transportable speed cameras intended to support Net Vision Zero. This delay along with potentially higher than expected modifications to driving behavior is anticipated to have up to a \$1.5M shortfall compared to 2026 Budget.
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> *3) Interest on Investments in the General Fund:* Due to increased use of reserves over the past few years and the lack of reserve generation in 2024 to backfill those reserves, forecasted interest is estimated to be about \$800k less than the \$2.8M included in the 2026 Budget.
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> *4) State of Colorado Marijuana Share Back:* The State of Colorado is reducing the forecasted share-back by 50%, which is a revenue reduction of \$450k for 2026.

EXPENSES: Increased budget accuracy since COVID, along with inflationary pressures, has significantly reduced the amount of unspent appropriations each year. Although this results in the efficient use of City funds by applying these amounts rather than allowing them to sit idle, it directly impacts the availability of reserves. As such, the City has implemented increased focus on financial monitoring to manage fund balances and cash flow.

Since personnel costs are a large portion of the City’s budget, total compensation costs are budgeted in 2026 for less than 100% due to anticipated position vacancies; this policy decision is also intended to make budget capacity available that would otherwise go unused. So far in 2025, the City has experienced a sharp decrease in turnover, driven by the City's employee engagement strategies, as well as economic concerns and uncertainty. These employment and economic realities are the main drivers of the personnel overspend being experienced in 2025, and thus, it is financially prudent to adjust the 2026 Budget to assume a lower level of turnover.

Police Services is also experiencing additional budgetary pressures. The most recent collective bargaining agreement (CBA) increased ongoing personnel expenses by nearly $1.0M for sworn positions in 2025. Those increased costs were addressed in 2025 via the use of General Fund reserves, but no such reserves are anticipated to be available for 2026. Beyond those increased expenses, it has also been determined that some personnel cost line items were not budgeted accurately and are projected to exceed amounts budgeted in this Service Area for compensation. These unavoidable expenses also need to be adjusted in the 2026 Budget.

Financial analysis has also identified other areas of expense pressures, where expenditures are expected to exceed appropriations. For example, there will likely be a need for a supplemental appropriation for snow removal. In a warmer year, with lower snowfalls, such a contingency may not be necessary. Historically, when increased snow removal costs are necessary, those were covered with General Fund reserves. However, given the lack of General Fund reserves available for nearly any purpose, it would also be financially prudent to make an adjustment in the 2026 Budget with anticipated contingency needs.

2026 BUDGET REVISIONS: The combination of decreased revenue and expense challenges forecasted for 2026 have been addressed through a combination of Citywide adjustments and Service Area operational and programmatic reductions, as follows:

Citywide

- Decrease in 2026 merit adjustments from 3.0% down to 2.0%
- Benefit cost changes, including use of healthy reserve balances to help offset medical and dental rate increases
- Hiring freeze through Q1 2026 with phased hiring approvals based on the financial conditions in Q2
- Increased budgeted personnel costs to better align with lower forecasted turnover rates

Service Area Reductions

- Each Service Area submitted reduction proposals of 6% of non-restricted operational costs.
- Although there are 27 employment positions proposed for elimination in 2026, all of them are vacant with no classified City staff losing employment
- In lieu of adjustments to the legal defense funds, General Fund Digital Equity reserves of $22k were used to help balance the budget

The 2026 Revisions also include a few Enhancement requests, primarily within City Utilities:

- **1.0 FTE Sales Tax Auditor ($114k):** This budget request brings the City closer in line with, and still below, audit staffing levels in comparable Front Range cities. This budget request is self-funded through forecasted audit revenue.
- **Grocery Tax Rebate Program growth ($415k):** Residential utilization of this program has experienced significant growth with the implementation of GetFoCo. The additional funding need for 2025 is expected to continue to increase in 2026.
- **Transfort operational expenses ($5.2M):** Proposed funding comes from $2.5M in 2050 Tax Parks Rec Transit OCF Revenue, $535k in 2050 Tax Parks Rec Transit OCF Reserves, and $2.1M in federal grants. The post-pandemic Transit industry has experienced unprecedented levels of operating cost increases of 50%-70% across the industry for 2025 and Transfort is similarly experiencing significant cost pressures. These ongoing cost increases carry into 2026 placing ever more importance on the results of the Transit Optimization Study and implementation of key findings.

- **Halligan Environmental Mitigation Credits ($10.4M):** This will enable the City to purchase needed stream credits and wetland credits (collectively referred to as environmental mitigation credits) in support of City's Water Utility receiving an approved Mitigation Plan and Record of Decision from the United States Army Corp of Engineers (USACE) for the Halligan Water Supply Project.
- **Customer Information System Operational Costs ($700k):** This provides funding for unanticipated operational costs of the legacy CIS and associated billing software through the revised go-live date of Q2 2026 for the new Customer Information System (CIS) billing system.

In addition to the recommended budget revisions, there are a few other administrative changes for the 2026 Budget, as follows:

1) Modification to 2025-26 Offer 40.7 - Timberline Recycling Center (TRC): With the move of TRC operations from the Environmental Services Department to the Streets Department now complete, this revision authorizes transfer of the $1.0M budget in the General Fund to be expended in the Transportation Fund. There is no change in expenses for the Timberline Recycling Center or the City.
2) As with all other dedicated ¼ cent Sales and Use Taxes, the Open Space Yes! tax will now be received directly into the Natural Areas Fund, where that revenue is spent. This change eliminates the need for the transfer from the Sales Tax Fund to the Natural Areas Fund. Although the total appropriation goes down, there is no actual change in City expenses.

NET CITY BUDGET: The Net City Budget, as amended, is broken down as follows:

TOTAL BUDGET (in Millions)

	Original 2026	Revised 2026	% Change
Operating	$757.0	$766.2	1.2%
Debt	55.6	59.8	7.6%
Capital*	63.7	63.2	-0.8%
Total City Appropriations**	**$876.2**	**$889.1**	**1.5%**
Less			
Internal Service Funds	($109.5)	($109.5)	0.0%
Transfers to Other Funds	(72.1)	(57.5)	-20.2%
GIDs	(0.3)	(0.4)	22.7%
URAs	(4.8)	(7.2)	49.8%
DDA	(31.6)	(38.3)	21.0%
Total	($218.4)	($212.9)	-2.5%
Net City Budget	**$657.9**	**$676.2**	**2.8%**

* Capital in this table includes all capital related items, which will be significantly greater than the sum of Capital Project offers
** This includes the GID #1, GID #15, URA and DDA all of which are appropriated in separate ordinances

CITY FINANCIAL IMPACTS

This Ordinance amends the City Budget for fiscal year 2026 and represents the annual appropriation for fiscal year 2026 in the amount of $843,306,077, excluding the GID's, URA's and DDA. The Ordinance also sets the City mill levy at 9.797 mills, unchanged since 1991.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

Following the Council Finance Committee meeting on September 4, 2025, the full City Council discussed the 2026 Budget Revisions at their work sessions on September 23, 2025, and October 14, 2025.

PUBLIC OUTREACH

The various methods of public outreach conducted as part of the 2025-26 Biennial Budget are not applicable to the 2026 Revision Process. This process is only intended to revise the previously adopted budget to address items not known at the time it was adopted, including necessary changes to align with updated financial forecasts and economic conditions.

ATTACHMENTS

First Reading attachments available in November 3, 2025, agenda materials at the following link: https://fortcollins-co.municodemeetings.com/.

1. Ordinance No. 186, 2025