

# WORK SESSION AGENDA ITEM SUMMARY

City Council



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## STAFF

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## SUBJECT FOR DISCUSSION

**2027 and 2028 Budget - Utility Rates and Revenue Assumptions**

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## EXECUTIVE SUMMARY

The purpose of this item is to discuss both utility rate forecasts and key governmental revenue forecasts for the 2027-28 Biennial Budget.

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## GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

1. Would City Council like to see any other Utility scenarios?
2. Does City Council support the governmental revenue forecast scenarios?
3. What feedback does City Council have about the budget engagement approach?

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## BACKGROUND / DISCUSSION

Funding Sources: The 2027-28 budget relies on critical revenue streams to maintain municipal operations and fulfill voter mandates. General Fund sales and use tax revenues are distributed across all city services, while dedicated taxes remain restricted by ballot language. Within the enterprise funds, forecasted utility rate increases are necessary to address inflationary costs and maintain existing service delivery.

### **Utilities Rates: 2027-28 Recommendation**

The revenues needed to support the ongoing operation and capital costs of providing each of the four utilities services to customers are primarily collected through monthly utility rates. Long-term rate planning and capital project planning are important to ensure future revenues are adequate and reserves are available to maintain and replace infrastructure to continue providing reliable services to our customers. Frequent review and updating of the cost-of-service allocation models behind the monthly utility rates maintains equity across rate classes and helps to reduce the year-to-year rate adjustment impact on customers.

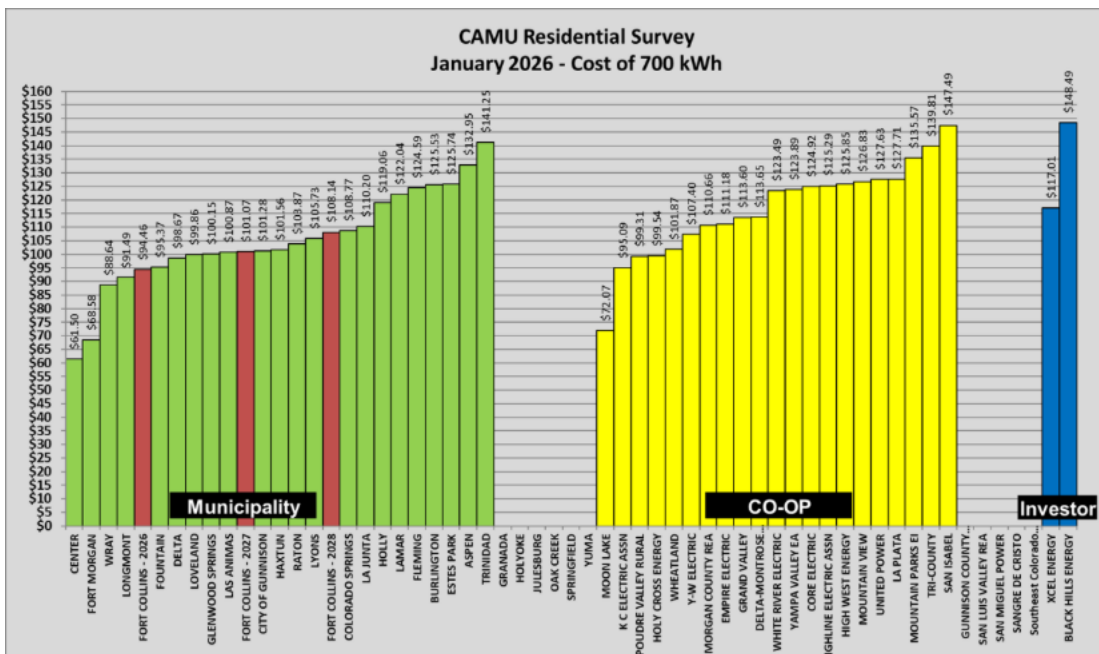
A summary of the proposed rate increases for the four utility services are shown in the table below.

	2027	2028
Light & Power	7.0%	7.0%
Water	15.0%	15.0%
Wastewater	10.0%	10.0%
Stormwater	5.0%	5.0%

### Electric

Staff are proposing a 7.0% retail rate increase for the Light & Power utility in 2027 and 2028. This increase is driven by a combination of a 7.5% increase in wholesale electric expenses in 2027 and 2028, as well as an increase to cover distribution operating costs and investments in capital projects. Roughly two-thirds of costs incurred each year to provide electric service are attributable to wholesale expenses, while the other one-third is attributable to costs related to operating and maintaining the distribution system.

Fort Collins Utilities participates in the Colorado Association of Municipal Utilities (CAMU) survey each year. Below are the residential electric rate comparisons for the electric utilities in Colorado that responded to the survey. Fort Collins is shown in the maroon-colored bar within the graph, including 2027 and 2028 rate increase outcomes. Based on the January 2026 survey, Fort Collins Utilities remains towards the lower end of average electric cost within the state, assuming 700 kWh of consumption in a month, at \$94.46, or 6<sup>th</sup> lowest overall of all responses.



## Water

Staff are proposing a 15% rate increase for the Water Fund in 2027 and 2028. Water rate increases are primarily driven by the cost of capital investment, particularly construction of the Halligan Water Supply Project and maintaining replacement of the water distribution system. Debt financing for the Halligan Water Supply Project will be the major component impacting substantial water rates over the next 3-5 years while the project progresses towards and starts construction.

## Wastewater

Staff are proposing a 10% rate increase for the Wastewater Fund in 2027 and 2028. In addition to rate increases needed for ongoing operational inflationary pressures, the Drake Water Reclamation Facility (DWRF) recently completed a comprehensive condition assessment and requires significant capital investment. The report indicates that 39% of the plant is beyond its useful life, and 7% of the plant is in poor or very poor condition. The Wastewater Fund Capital Improvement Plan (CIP) includes plans for a large revenue bond debt issuance needed for reconstruction of the DWRF Preliminary Treatment Facility, and the combined Wastewater-Water Quality Laboratory Project.

## Stormwater





Staff are proposing a 5% rate increase for the Stormwater Fund in 2027 and 2028. The Oak Street Stormwater Improvement Project revenue bond issuance of \$40M in 2023 increased debt service payments for this fund. Additional capital improvement budget capacity is being created to continue capital replacement and improvements to the stormwater infrastructure system.

## Bill Impacts and Front Range Comparisons

The table below shows the impacts of the proposed rate change to the average residential monthly bill. Under the proposed rate changes, a residential customer's total utility bill, for a customer receiving all four municipal utility services, would increase by 9.3%, or \$18.86 per month in 2027.

# RESIDENTIAL MONTHLY BILL COMPARISON

2026 to 2027

	2026 RATES	2027 RATES	% CHANGE	\$ CHANGE
 <b>ELECTRIC</b> 620 kilowatt-hours/month	\$90.22	\$96.54	7.0%	\$6.32
 <b>WATER</b> 7,000 gallons/month	\$49.46	\$56.88	15.0%	\$7.42
 <b>WASTEWATER</b> 3,300 gallons/month WQA	\$38.24	\$42.06	10.0%	\$3.82
 <b>STORMWATER</b> 8,000 sq. ft. lot, light runoff	\$25.97	\$27.27	5.0%	\$1.30
<b>AVG. Utility Bill Total</b>	<b>\$203.89</b>	<b>\$222.75</b>	<b>9.3%</b>	<b>\$18.86</b>

The table below compares typical residential electric, water, wastewater, and stormwater monthly utility bills across neighboring utilities along the Front Range, based on existing 2026 rates for each community. In total, Fort Collins Utilities comes in the second lowest at \$213.90 for all four services.

## RESIDENTIAL MONTHLY BILL COMPARISON

### 2026 UTILITY RATES

	 ELECTRIC	 WATER	 WASTEWATER	 STORMWATER	UTILITY TOTAL
	700 kWh	3 kgal/mo winter, 11 kgal/mo summer	3,300 gallons/mo WQA	8,000 sq ft lot, light runoff	
<b>LONGMONT</b>	\$93.99	\$57.91	\$37.31	\$18.85	\$208.06
<b>FORT COLLINS</b>	\$100.23	\$49.46	\$38.24	\$25.97	\$213.90
<b>LOVELAND</b>	\$106.92	\$51.40	\$39.02	\$26.13	\$223.47
<b>COLORADO SPRINGS</b>	\$110.85	\$83.00	\$32.41	\$8.00	\$234.26
<b>BOULDER</b>	\$118.19	\$61.06	\$46.44	\$29.88	\$255.57
<b>GREELEY</b>	\$118.19	\$64.26	\$36.81	\$42.44	\$261.70

### Utilities Capital Improvement Planning

Capital Improvement Plans (2027-2031) for all four utilities funds are attached. Capital improvement plans were formulated based on the proposed rate increases as presented. The first two years of the plan are recommended to move forward for consideration in the 2027-28 budget should the proposed rate increases remain supported.

Over the past year, Fort Collins staff reconstructed Utilities’ capital improvement plans by implementing a new Enterprise Project Management Office (EPMO) framework. This best-practice approach utilizes a risk-and-reward scoring methodology for multidisciplinary staff to objectively prioritize projects across all operating departments. Under this new structure, the service area established long-term plans, including draft 20-year plans for One Water funds and a 10-year plan for Light & Power.

### 2027-28 Governmental Revenue Forecast

#### Sales and Use Tax:

Sales and use tax revenue is approximately 50% of city governmental revenue and the largest governmental revenue stream. Sales and use tax revenue is generally the most flexible revenue for the delivery of city services.

Year-to-date sales and use tax collections through April are tracking very close to budget. While year-to-date figures remain noticeably above budget, driven by strong sales and use tax performance in January and March, the data also shows month-to-month volatility with a weaker February (January revenue predominantly reflects December economic activity and is accrued back to the 2025 fiscal year). Also, with

an overall uncertain economic outlook, decreasing consumer sentiment and higher energy prices staff is currently forecasting reasonably conservative 2.7% growth for sales and use tax in 2027 and 2.0% in 2028.

	2026 Budget	2027 Forecast	% Δ	\$ Amount	2028 Forecast	% Δ Budget	\$ Amount
Sales Tax	\$181.8M	\$185.4M	2.0%	\$3.6M	\$189.1M	2.0%	\$3.7M
Use Tax	\$25.0M	\$27.0M	8.0%	\$2.0M	\$27.5M	2.0%	\$500K
<b>Total</b>	<b>\$206.8M</b>	<b>\$212.4M</b>	<b>2.7%</b>	<b>\$5.6M</b>	<b>\$216.6M</b>	<b>2.0%</b>	<b>\$4.2M</b>

However, if favorable trends continue over the next few months, staff forecasts a possible upside scenario of 3.6% sales and use tax growth in 2027 and 2.9% growth in 2028.

	2026 Budget	2027 Forecast	% Δ	\$ Amount	2028 Forecast	% Δ Budget	\$ Amount
Sales Tax	\$181.8M	\$187.2M	3.0%	\$5.4M	\$192.9M	3.0%	\$5.7M
Use Tax	\$25.0M	\$27.0M	8.0%	\$2.0M	\$27.5M	2.0%	\$500K
<b>Total</b>	<b>\$206.8M</b>	<b>\$214.2M</b>	<b>3.6%</b>	<b>\$7.4M</b>	<b>\$220.4M</b>	<b>2.9%</b>	<b>\$6.2M</b>

Property Tax:

Property tax is about 10% of city governmental revenue; however, Poudre Fire Authority receives 67% of the city’s portion of property tax through an intergovernmental agreement (IGA).

Staff projects 2026 property tax revenue of \$35.5M (up \$1.4M from budget) based on the November 2025 certificate of valuation. Based on guidance from the Larimer County Assessor’s Office, staff is forecasting 4% growth in 2027 and flat growth in 2028.

Budget Outlook:

Based on these revenue projections, staff are still anticipating the budget shortfall in governmental funds in 2027 to maintain all current services would be approximately \$15M . Although this figure could be reduced with a more optimistic revenue forecast, there would still be a shortfall which requires expense reductions to balance the budget and align long-term costs with anticipated revenues. Staff are evaluating proposals for reductions to identify the most strategic approaches. The expense outlook will be the focus of the July 14th work session on the 2027-28 budget.

**NEXT STEPS**

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The next Council Work Session for the 2027-28 budget is scheduled for July 14th.

**ATTACHMENTS / LINKS**

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1. Utilities Capital Improvement Plan (2027-2031)
2. Utilities Council Finance Committee Follow-Up – May 7th, 2026
3. Utilities CFC Appendix Slides
4. Presentation