

Council Work Session

2026 Budget Revisions

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- **Overview**
- **Revenue and Expense Update**
- **2025 Actions Implemented & Next Steps**
- **2026 Budget Revisions**

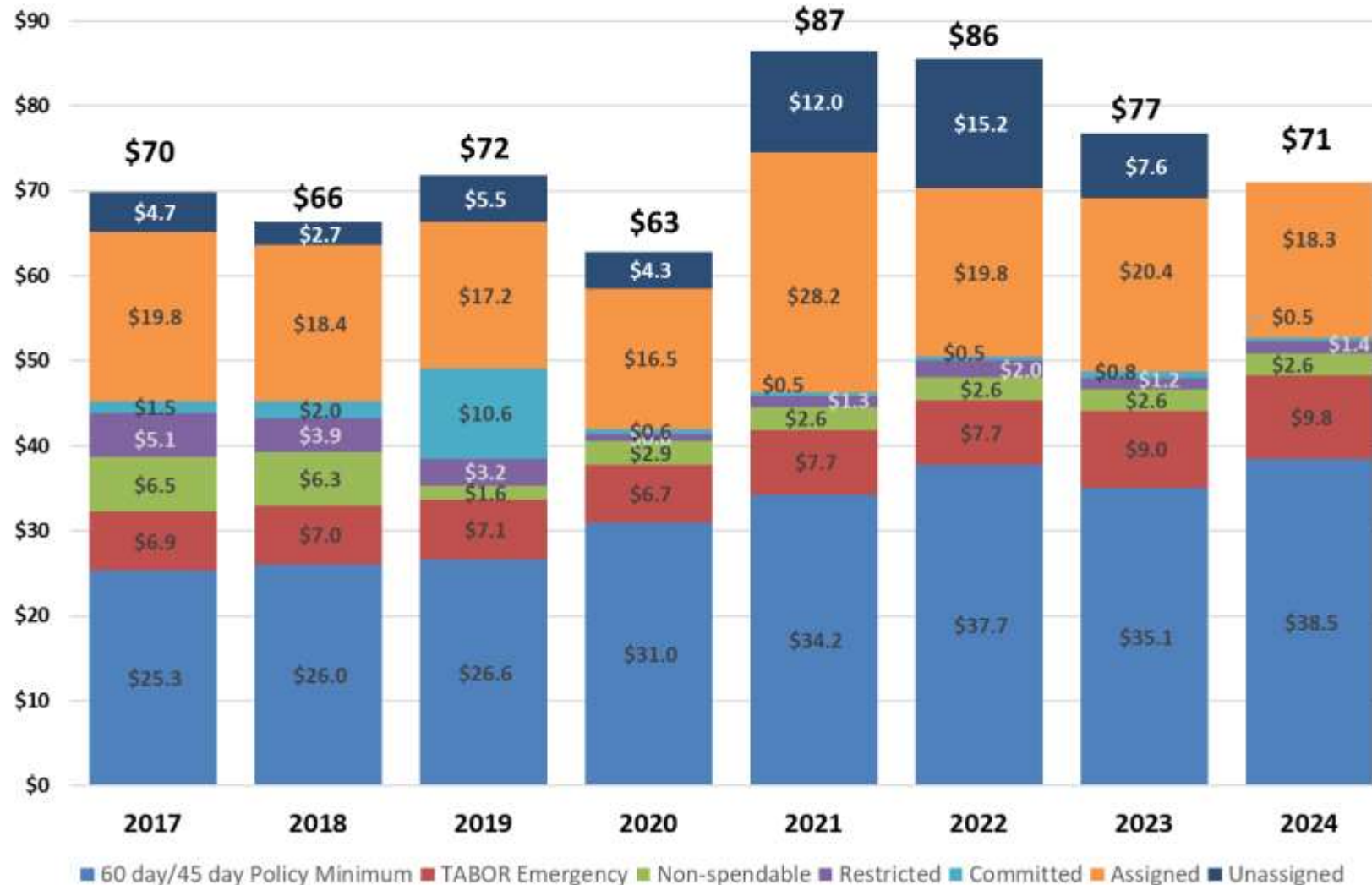
Significant Budgetary Challenges

- **One-time reserves have been key budgetary funding sources**
 - No General Fund reserves generated in 2024
- **Inflationary Pressures**
 - Inflationary rate increases have slowed to 2.7%, but the increased costs over the past few years has not subsided.
- **Talent Costs**
 - Higher than budgeted due to strong rates of employee retention
- **Higher Program Costs**
- **Continued Economic Uncertainty**



General Fund Reserves by Year

General Fund / Reserves by Year
(in millions)



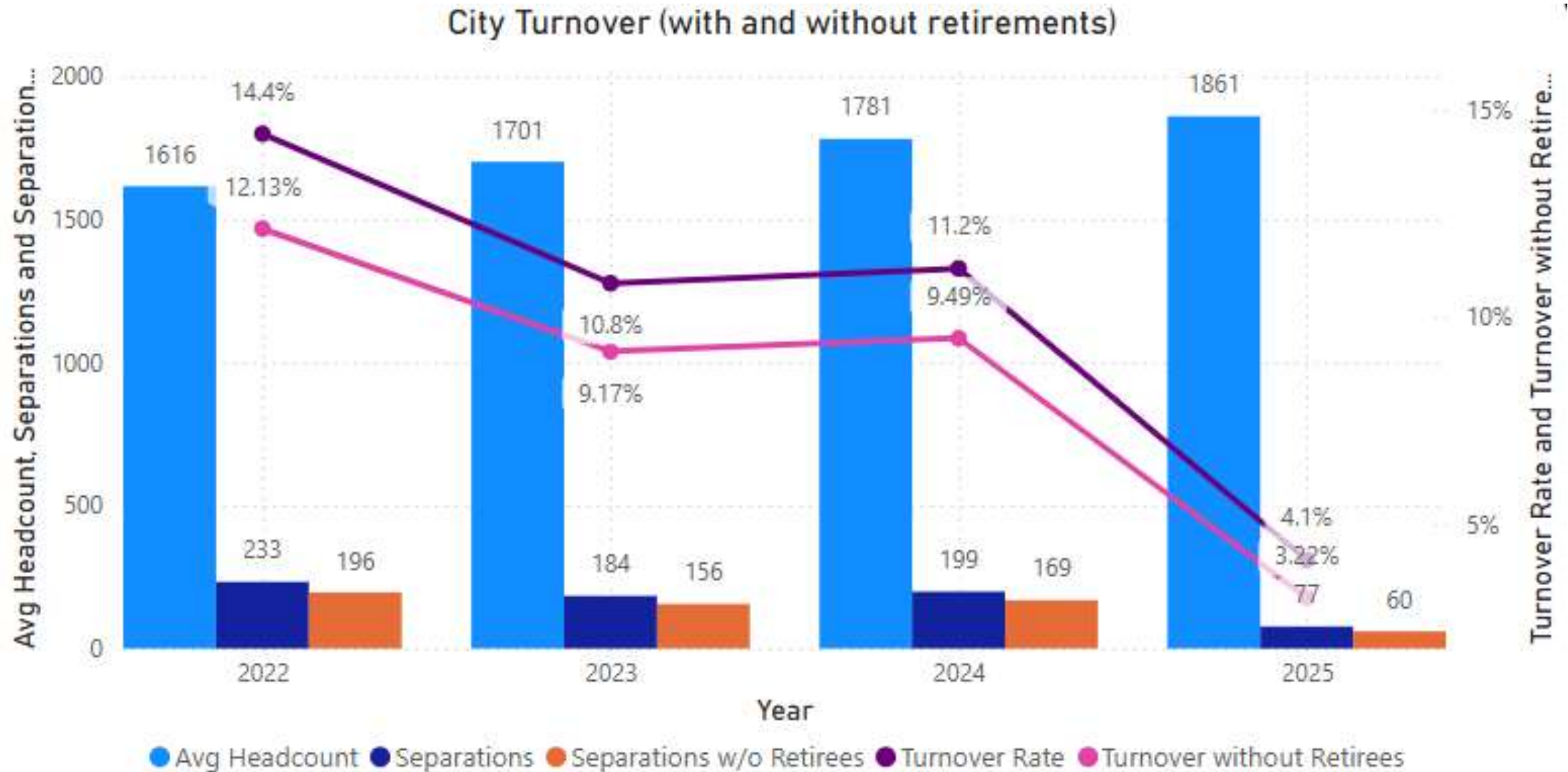
General Fund Reserve Investment Examples

2023-2024

- 1.6M - Fleet Vehicle And New Equipment Replacement
- 500k - Immigration Legal Fund
- 580k - ELC Flow Restoration
- 1M - Aging Facility Maintenance

2025-2026

- 880k - Immigration and Eviction Funds
- 1M - Parks Infrastructure Replacement Program
- 1.3M - IT infrastructure Replacement Program
- 2.5M - Police HVAC
- 0.75M – Police CBA



*Data through Q2 2025

Budget to Actual

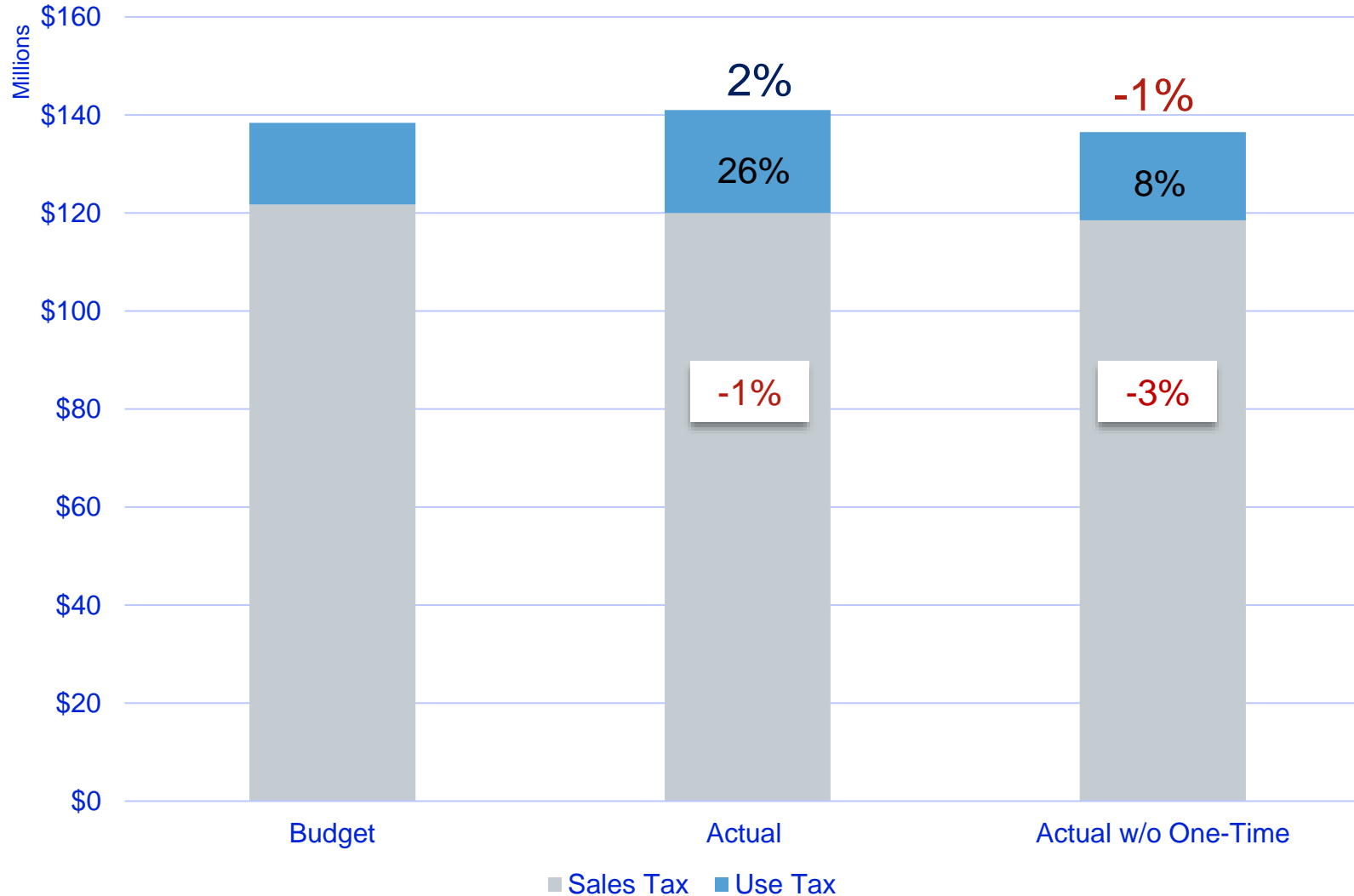
Sales Tax	\$1.7M under budget (\$3.2M under without one-time revenue)
Use Tax	\$4.3M over budget (\$1.3M over without one-time revenue)
Combined	\$2.6M over budget (\$1.9M under without one-time revenue)

- Strong year for audits, voluntary disclosure agreements (VDAs) and building permit use tax
 - Volatile revenue streams
- Taxable sales are up 1.2%. Growth of 4.2% needed to hit 2025 budget
- Softening across majority of sales tax categories except for online retailers



YTD August 2025 Results

August YTD Budget to Actual



Sales Tax

- YTD July sales tax budget is down 1%
- Excluding one-time revenue, the sales tax budget would be down 3%

Use Tax

- YTD July use tax budget is up 26%
- Excluding one-time revenue, the use tax budget would be up 8%

Trends & Projections: Front Range Cities Sales Tax Growth

City	2025 Budget	2025 YTD***
Windsor	5.0%	6.2%
Aurora	4.5%	4.9%
Westminster	5.4%	4.5%
Commerce City	6.2%**	3.2%
Fort Collins*	4.2%*	1.2%
Lakewood	3.4%	1.0%
Englewood	0.0%	1.0%
Longmont	4.5%	0.7%
Thornton	2.5%	0.6%
Colorado Springs		0.1%
Boulder	0.0%**	-0.4%
Greeley	5.5%	-1.0%
Centennial	3.0%	-1.2%
Loveland	3.5%	-2.4%

- Most Front Range cities are realizing budget shortfalls
- Some cities like Windsor, Westminster and Aurora are seeing growth
- Some cities have one-time revenue affecting YTD growth
- Denver's 2025 revised forecast is 0.3% revenue growth and 0.0% in 2026

* Fort Collins budgeted growth was 3.0%. Due to 2024 sales tax shortfall, 4.2% growth is needed to hit budget

** 2025 budget figure is for both sales and use tax

*** 2025 July YTD or most recent data available

2025 and 2026 Forecasts

2025 Budget & Forecast

	2025 Budget	2025 Forecast	% Δ	\$ Difference
Sales Tax	183,392,523	179,724,673	-2%	(3,667,850)
Use Tax	25,000,000	28,000,000	12%	3,000,000
Total	208,392,523	207,724,673	0%	(667,850)

2026 Budget & Forecast

	2026 Budget	2026 Revision	% Δ	\$ Difference
Sales Tax	188,894,296	181,789,166	-4%	(7,105,130)
Use Tax	25,000,000	25,000,000	0%	0
Total	213,894,296	206,789,166	-3%	(7,105,130)

2025

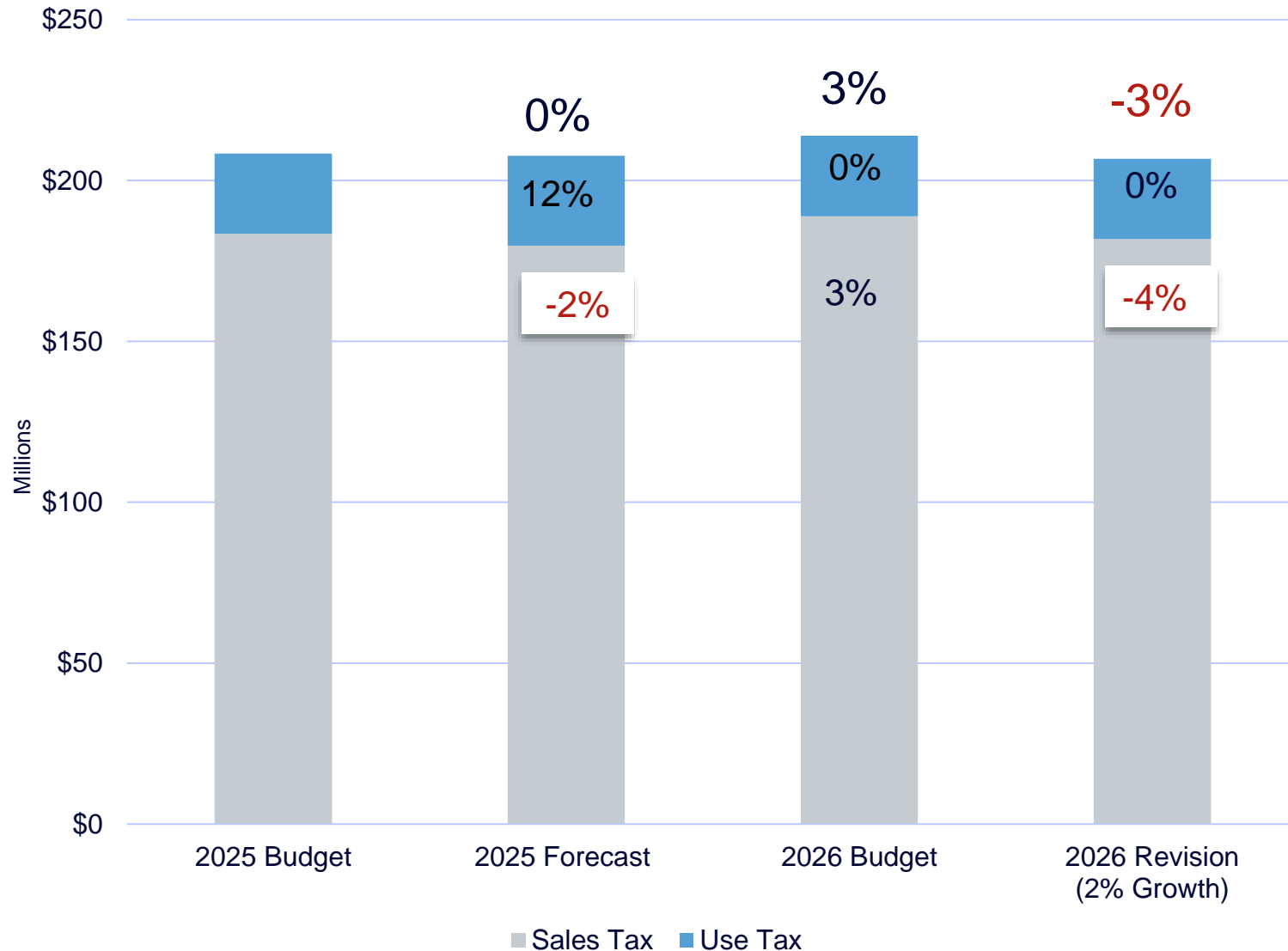
- To hit the 2025 budget 4.2% sales tax growth needed.
- Combined flat growth anticipated for sales & use tax in 2025.
- 2025 Forecast driven by significant YTD one-time revenue in 2025.

2026

- 2% growth forecast for sales tax (adjusted for one-time revenue) and flat growth for use tax.
- Anticipated \$7.1M shortfall for 2026 revised budget.

2025 and 2026 Forecasts

2025 & 2026 Forecasts



- Combined flat growth anticipated for sales & use tax in 2025.
- 2025 Forecast driven by significant YTD one-time revenue in 2025.
- 2026 Revision is a \$7.1M shortfall (-3%) compared with the 2026 Budget.

Photo Traffic Enforcement

- Transportable units to support Vision Zero goals were delayed in deployment – Total budget of \$2 million.
- \$1.5 million revenue shortfall expected in 2025; potentially a similar amount in 2026.
- Only \$200k of offsetting expenditure savings

Other Revenues

- Less investment revenue due to lower fund balance
- Reduction in the state's Marijuana tax share back





2025 Budget Update

- **Projected current year General Fund deficit without corrective action**
- **Reacted quickly to evolving economic conditions and expenditure patterns with corrective action:**
 - Governmental fund one-time expenditure reductions
 - Hiring 'pause' shifted to 'freeze' as of Aug. 4 to help address budgeted personnel costs
 - Tighter management of expenditures
- **Known additional needs to address:**
 - Transfort – recommend 2050 tax appropriation
 - Grocery Tax Rebate – recommend digital inclusion reserve funding
- **Continuing budget monitoring**
- **Potential for additional actions based on forecast year-end position**



2026 Budget Revisions

The recommended Budget Revisions are intended to address:

- ✓ Reduction of expenditures to match current revenue forecast
- ✓ Fiduciary responsibilities & fund balance
- ✓ High-priority projects and needs not known during last budget cycle

- **Approximately \$15.4 million (6.1%) General Fund budget deficit***
 - **\$8.7 million lower revenue projections**
 - Lower sales/use tax forecast
 - Photo traffic enforcement trend uncertainty
 - Other areas
 - **\$6.7 million in higher expense projections**
 - Adjusting personnel budgets and assumed vacancy factor
 - Contingency due to lack of available reserves
- **Other Adjustments**
 - **Grocery Tax Rebate Program (see next slide)**
 - **Additional funding for Transfort funded by 2050 Tax portion for transit**

- **As discussed with the Council Finance Committee on Sept 4, the roll-out of GetFoCo has helped increase the number of community members able to get financial help via the Grocery Rebate Program**
- **At this time and volume, there is no interest in capping the total annual amount paid out to qualifying families**
- **The anticipated additional funding for 2026 is estimated at \$415k**
- **Staff is recommending a one-time funding solution of digital inclusion program underspend (reserves) to cover this projected budget gap in 2026**
- **This recommended action to fund the 2026 Grocery Tax Program is a 1-time solution and will be an issue that needs long-term resolution in the 2027-28 Budget**

2026 Budget Recommended Budget Revision Highlights:

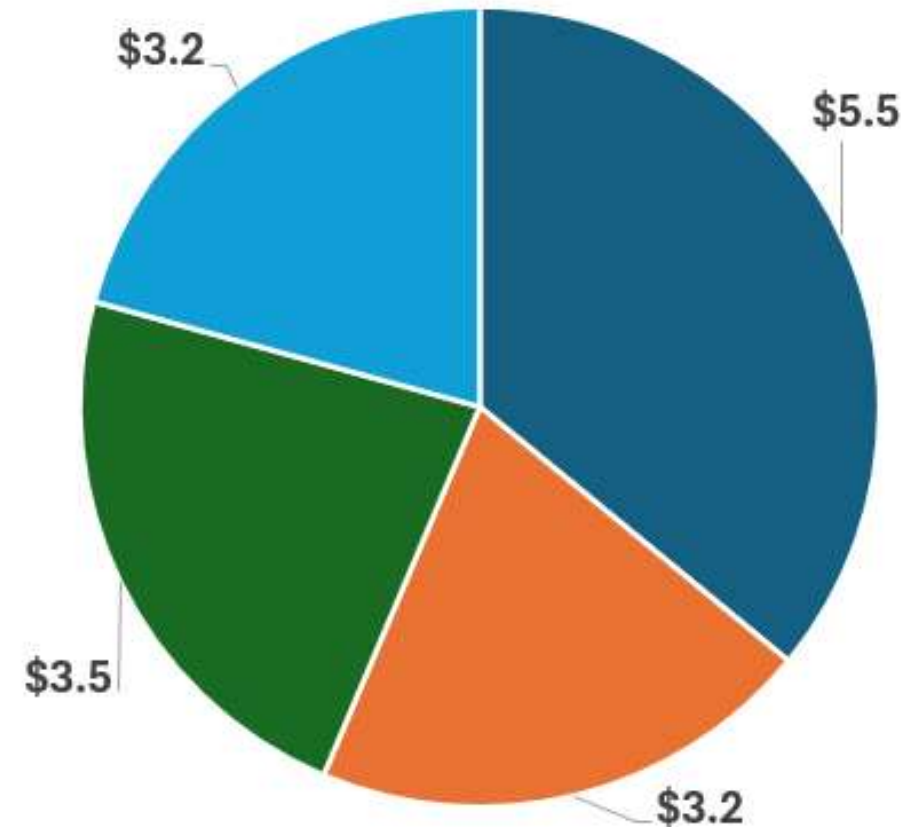
- ✓ Avoids involuntary separations for classified and unclassified management positions
- ✓ Preserves a 2% pay increase pool

Key strategies to address the 2026 budget gap:

- Leveraging strong benefits fund performance
- Strategic use of fund balances
- One-time savings opportunities
- Shifting funding sources where possible
- Department reduction recommendations, including:
 - Eliminating vacant positions
 - Efficiency savings
 - Service level adjustments

2026 City Manager Proposed Reductions by Category

Reduction Strategy	Amount (in \$M)	Highlights
Personnel Savings	\$5.5	<ul style="list-style-type: none"> - Phased hiring freeze release - 1% reduction to the merit increase - Benefits fund savings opportunities
Vacant Position Elimination	\$3.2	<ul style="list-style-type: none"> - 25 positions, but management will have the opportunity to reassess eliminated positions as additional vacancies occur
Program and Service Reductions	\$3.5	<ul style="list-style-type: none"> - Street and alley maintenance / Medians - Forestry - Internal Services - Various non-personnel programmatic reductions
Funding Shifts and Revenue Enhancements	\$3.2	<ul style="list-style-type: none"> - Use of Equipment Fund reserves - Parks/Recreation earned revenue - Sales tax auditor - Early retirement of legacy technology systems
\$15.4		



Recommended Actions to Balance 2026 General Fund		Savings (in \$M)
Citywide actions	Service Area Reductions See next slide for detail by Service Area	\$ 10.4
	Extend Hiring Freeze through Q1 2026; partial thereafter *	2.6
	Reduce merit increase to 2.0%	1.2
	Benefits Holiday (one pay period of no premium for Employer/Employee)	0.5
	Lower insurance premium increase for 2026 (no impact to benefit offerings)	0.5
	Organizational restructuring of yet to be determined positions	0.2
Total		\$ 15.4

* Phased release of the hiring freeze in 2026 to generate planned budget savings and to appropriately sequence onboarding work for Human Resources

Of the total \$15.4M of reductions, 71% is ongoing 29% is 1-time savings

Service Area Reductions (organizational detail of the \$10.4M)

Service Area	Total Reductions in \$M (excluding Citywide actions)	2026 Reductions as a % of Unrestricted Budgets *	2026 Service Area % of all Governmental Budgets
PDT	\$3.2	5.3%	24.0%
IES	3.1	10.2%	20.7%
Comm Svcs	1.5	6.7%	22.6%
Police	1.1	1.7%	20.7%
Sustainability	0.7	6.8%	5.5%
Fin Svcs	0.4	5.3%	1.9%
Exec Svcs	0.2	5.3%	2.1%
Legal Services	0.1	2.8%	1.5%
Judicial Svcs	30k	1.1%	0.9%
Grand Total	\$10.4	5.0%	100%

* These amounts are the total 2026 Budgets by Service Area after subtracting restricted funding. For example, the Community Capital Improvement Program (CCIP) 1/4 cent tax is backed out because delaying those projects does not help address budgetary challenges in the Governmental Funds

Vacant Positions to be Eliminated

Department	# of Positions	Name of Position
City Attorney's Office	1	Defer hiring Office Management Supervisor
City Manager's Office	1	Administration Supervisor
Community Development	1	Business Support III
	1	Code Compliance
Human Resources	1	Recruiter
Information Technology	1	Administrator I
	1	Analyst II
	1	Engineer I
Parks	1	Worker I, Parks
	1	Park Ranger
Police Services	1	Records Supervisor
	1	Criminalist
	1	Property Evidence Tech
	1	Police Officer
	1	Police Officer

- Of these 27 positions, the one in CAO would be frozen for 2026 instead of eliminated

Vacant Positions to be Eliminated (continued)

Department	# of Positions	Name of Position
Sustainability Services	1	Data Analyst, Environmental Sustainability
	1	Sr. Specialist, Economic Sustainability
	1	Lead Specialist, Environmental Sustainability
Finance	1	Director, FP&A
Streets	1	Operator I
	1	Operator I
	1	Traffic Control Technician
	1	Traffic Control Technician
Traffic	1	Coordinator
	1	Network Engineer
Transfort	1	Data Analyst
	1	Transit Planner
27		

- Management can propose to swap eliminated positions as new vacancies occur in 2026

Enhancements

- **2024 voter-approved renewal of the ¼-cent tax for the Street Maintenance Program (SMP) beginning in 2026**
 - \$11.3M in the Transportation Fund
- **Utility Customer Info System (CIS) Operational Costs**
 - \$700k across the L&P Fund / 3 OneWater Funds
- **Additional staffing for a Sales Tax Auditor**
 - \$120k in the General Fund
- **Transfort Operations and Capital funded by 2050 Tax & new grants**
 - \$5.2M in the Transit Fund

Administrative Change Example

- **Shifting Timberline Recycling Center (TRC) expenses from General Fund to Transportation Fund**
 - No increase in appropriations
 - Aligning expenses with org change to move TRC from Enviro Services to Streets

Date	Process
Sept. 4	Council Finance Committee meeting
Sept. 23	Council Work Session #1
Oct. 14	Council Work Session #2 (if needed)
Nov. 3	1st Reading of the 2026 Annual Appropriation
Nov. 18	2nd Reading

- **What questions or feedback does Council have on the City Manager's recommended revisions to the 2026 Budget?**