

WORK SESSION AGENDA ITEM SUMMARY

City Council



STAFF

Caleb Weitz, Chief Financial Officer
Kelly DiMartino, City Manager
Lawrence Pollack, Budget Director
Jennifer Poznanovic, Sales Tax and Revenue Director

SUBJECT FOR DISCUSSION

2026 Budget Revision Recommendations

EXECUTIVE SUMMARY

The purpose of this item is to familiarize, and seek feedback from, Council on the City Manager's recommended revisions to the 2026 Budget. Based on direction from Council, the 2026 Budget Revisions will be combined with the previously adopted 2025-2026 Biennial Budget. The 2026 Annual Appropriation Ordinance is scheduled for First Reading on November 3, 2025.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

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

BACKGROUND / DISCUSSION

OVERVIEW:

The mid-cycle Revision Process is different from the biennial budgeting process in that there is no broad request for new budget offers. 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 consideration. Revised revenue projections and available fund reserves were carefully considered when making these recommendations.

The 2026 Budget Revisions include both 1) reductions to 2026 ongoing expenses to align them with a decreased 2026 Sales Tax forecast and unexpectedly low turnover; and 2) additional offers for consideration. The following are key objectives which the 2026 Budget Revision recommendations are intended to address:

- Matching appropriations for ongoing expenditures to current ongoing revenue estimates, if declining
- Council priorities, high-priority projects, and other needs not known at the time of the adoption of the 2025-2026 Budget
- Fiduciary responsibilities & fund balance requirements

ECONOMIC CONSIDERATIONS:

Through most of 2025 there has been significant economic uncertainty, which continues today. At the national level, impacts from the tariffs will not be known for many months, while unemployment continues to climb. 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 has not subsided. There is also anticipation of potential additional federal reserve rate cuts.

At the state level, unemployment also continues to rise as the State has attempted to address a \$750M budget shortfall, but with unknown local implications. Coloradoans also continue to hold some of the highest amounts of debt of any state in the nation.

These economic conditions and uncertainty have resulted in lower than forecasted growth in ongoing Sales Tax collections. Although there are some more recent positive indicators, at this point in time the City will need to use the 2026 Revision process to right-size the budget from both revenue and expense adjustments.

REVENUE:

Overall, most significant City revenue sources are coming in at, or above, the 2025 budget. Based on year-to-date actual collections and other information, however, there are 4 areas of revenue concern: Ongoing Sales Tax (not 1-Time sources like audits), Camera Radar Red Light revenue, Interest on Investments in the General Fund and the State's marijuana share back. All of these revenue sources are recommended to be decreased for 2026.

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 August are 1.9% over budget driven by strong use tax collections in the first half of the year. Sales tax is \$1.7M under budget and use tax is \$4.3M over budget. Sales and use tax combined is \$2.6M 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) or 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.

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.

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 to backfill those reserves, forecasted interest is estimated to be about \$800k less than the \$2.8M included in the 2026 Budget.

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 budget each year. Although this is good at not letting City funds sit idle, it does directly impact the availability of reserves. As such, an increased focus on financial monitoring has been implemented.

Since personnel costs are a large portion of the City's budget, total compensation costs are budgeted at less than 100% due to anticipated position vacancies, so as to not lock up budget that would otherwise go unused. So far this year 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 realities are the main drivers of the personnel overspend being experienced so far this year, and thus, it is financially prudent to adjust the 2026 Budget to assume a lower level of turnover.

There are also additional budgetary pressures being experienced within Police Services. The most recent collective bargaining agreement (CBA) increased personnel expenses by nearly \$1.0M for sworn positions. 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. Additional adjustments to personnel budgets are included to refine those line items to the most updated expected costs for 2026.

Financial analysis has also identified other areas of expense pressures, where budgets are expected to experience overages. 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.

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.

FINANCIAL IMPACTS:

Adjustments to the 2026 Budget are needed due to both revenue and expense pressures being experienced in 2025 and expected to continue into the following year. Revenue shortfalls are anticipated at about \$8.7M, the bulk of which are being driven by lower than anticipated ongoing growth in Sales Tax. On the expense side, 2026 is currently expected to be about \$6.7M over budget. Most of this is being driven by personnel expenses, with the remainder coming from contingent expenses, for which General Fund reserves are not available to be authorized to cover those expenses.

NEXT STEPS

A second work session is currently scheduled for October 14, 2025, if desired by Council. First Reading of the 2026 Annual Appropriations is scheduled for Monday, November 3, 2025 (due to elections on November 4). Second Reading is then scheduled for November 18, 2025.

ATTACHMENTS

1. 2026 Budget Revisions
2. Presentation