

WORK SESSION AGENDA ITEM SUMMARY

City Council



STAFF

Caleb Weitz, Chief Financial Officer
Kelly DiMartino, City Manager
Joe Wimmer, Utilities Finance Director
Randy Reuscher, Utilities Rates Manager

SUBJECT FOR DISCUSSION

2026 Budget Revision Discussion Follow-Up and Utilities 2026 Budget Revisions & Review

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 1st Reading on November 3.

This item includes follow-up from the first work session on the 2026 Budget Revisions, as well as review of two 2026 Utilities revisions proposed for inclusion in the 2026 Budget. There will also be a review of the utility rates for Council consideration planned for adoption on November 3.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

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

BACKGROUND / DISCUSSION

OVERVIEW: The 2026 Budget Revisions include both reductions to 2026 ongoing expenses within the Governmental Funds and additional budget revisions for consideration.

The first Council work session on September 23 covered the economic conditions being experienced by the City. The uncertainty at all levels of government has resulted in lower forecasted growth in ongoing Sales Tax collections. Additional revenue challenges impacting the General Fund were also reviewed.

On the expense side, although the rate of inflation has decreased closer to the long-term goals of the Federal Reserve, the increasing prices over the last few years have not subsided. The City also has expense challenges in personnel costs, primarily from lower than expected turnover than had been planned in the budget. This is very good from a staff and service delivery perspective, but previous financial assumptions need to be revised to keep expenditures within the Council approved spending limits. Although there have been some positive indicators, now the City will need to use the 2026 revision process to address these revenue and expense challenges.

2026 Utilities Budget Revisions #1 - Halligan Environmental Mitigation Credits

City's Water Utility requests an additional appropriation of \$10,357,500 in the Water Utility Fund to purchase needed stream credits and wetland credits (collectively referred to as environmental mitigation credits) in support of City's Water Utility receiving a finalized mitigation plan by the United States Army Corp of Engineers (USACE).

The Halligan Water Supply Project will result in impacts to both wetlands and streams. Pursuant to requirements of the Clean Water Act, City's Water Utility is required to undertake mitigation. Among the project mitigation measures that were proposed, USACE directed the City to purchase environmental mitigation credits from an accredited bank. Required wetlands and stream credit amounts will be part of the finalized mitigation plan that City's Water Utility is currently working on with USACE. The finalized mitigation plan is required to be approved by USACE for commencement of construction of the Halligan Water Supply Project.

The USACE prefers mitigation through bank credits as these credits are backed by legal instruments that ensure long-term protection and monitoring. City's Water Utility entered into a mitigation credit reservation and purchase agreement in June 2024 associated with the North Fork Poudre Mitigation Bank. The 2024 agreement secured 19.37 acres of wetland credits and 1,220 stream credits and will be revised up to include a total of 19.9 wetland credits and 1,514 stream credits. The City has spent \$1,471,340 to date, with an additional \$6,931,660 to be spent from December 2025 through 2027 dependent on timing of credit releases for the North Fork Bank. While City's Water Utility anticipated environmental mitigation credits as part of the finalized mitigation plan approved by USACE, the proposed quantity has increased substantially due to recent determinations by USACE that the original preservation/conservation stream mitigation plans are no longer sufficient to meet current federal requirements.

In response to the additional stream credit requirements, discussions are underway with the Moraine Bank in Rocky Mountain National Park, and other potential banks on the North Fork, to purchase additional stream credits. The Water Utility is intending to be under contract prior to 2025 year-end, securing upwards of 6,834 in stream credits, totaling an estimated \$14,020,350.

To keep the dam design work and environmental mitigation projects on schedule, the Water Utility plans to spend the project's remaining \$7.4 million unencumbered balance by the end of Q2 2026. An additional \$10,357,500 is needed to meet 2026 obligations in purchasing environmental mitigation credits.

In July 2025, the City submitted a request for \$100 million under Colorado Water Conservation Board's Water Project Loan Program in support of funding the Halligan Water Supply Project. Provided City Water Utility is successful in the pursuit of \$100 million under the Water Project Loan Program, the earliest funds would be available for appropriation by City Council is August 2026. The Water Fund 2025 reserves are available for the \$10,357,500 appropriation in advance of loan acceptance.

Customer Information System Operational Costs

Utilities requests a 2026 budget revision of \$702,480 to support 2026 operational costs for the existing Utilities Customer Information System (CIS) and billing software. The new CIS continues to be developed with a new go-live date of May 22, 2026. Due to the project extension, the existing CIS and billing software needs to be extended through 2026. The \$702,480 provides funding for unanticipated operational costs of the legacy CIS and associated billing software into 2026. The software system supports billing of Utility customers and tracking of customer payments and amounts due.

2026 Utilities Budget Revisions #2 - Halligan Environmental Mitigation Credits

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The individual Utilities enterprise funds will cover their respective shares of the software costs through a transfer to the internal Customer Service & Administration Fund.

2026 Utility Rates

The revenues needed to support the ongoing operation and maintenance costs of providing each of the four utilities services to customers are collected through monthly utility rates. As costs change over time, it is necessary to adjust rates to reflect those changes. Long-term financial planning is important to ensure revenues are adequate and reserves are available to maintain and replace infrastructure in a timely fashion to continue providing high quality and reliable services for 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 impact of higher utility rates on customers by providing gradual, modest rate adjustments over time rather than less frequent and larger rate adjustments. These actions help ensure the delivery of current and future utility services occurs in a fiscally responsible manner, balancing both costs and levels of service with affordability and prudent planning and investments.

There are no proposed changes from what was previously planned and adopted in the 2026 fiscal plan and included in the 2025-26 Budget. A summary of the proposed rate increases for the four utility services are shown in the table below.

UTILITY	2026 RATE INCREASE
 ELECTRIC	6%
 WATER	9%
 WASTEWATER	8%
 STORMWATER	6%

Electric

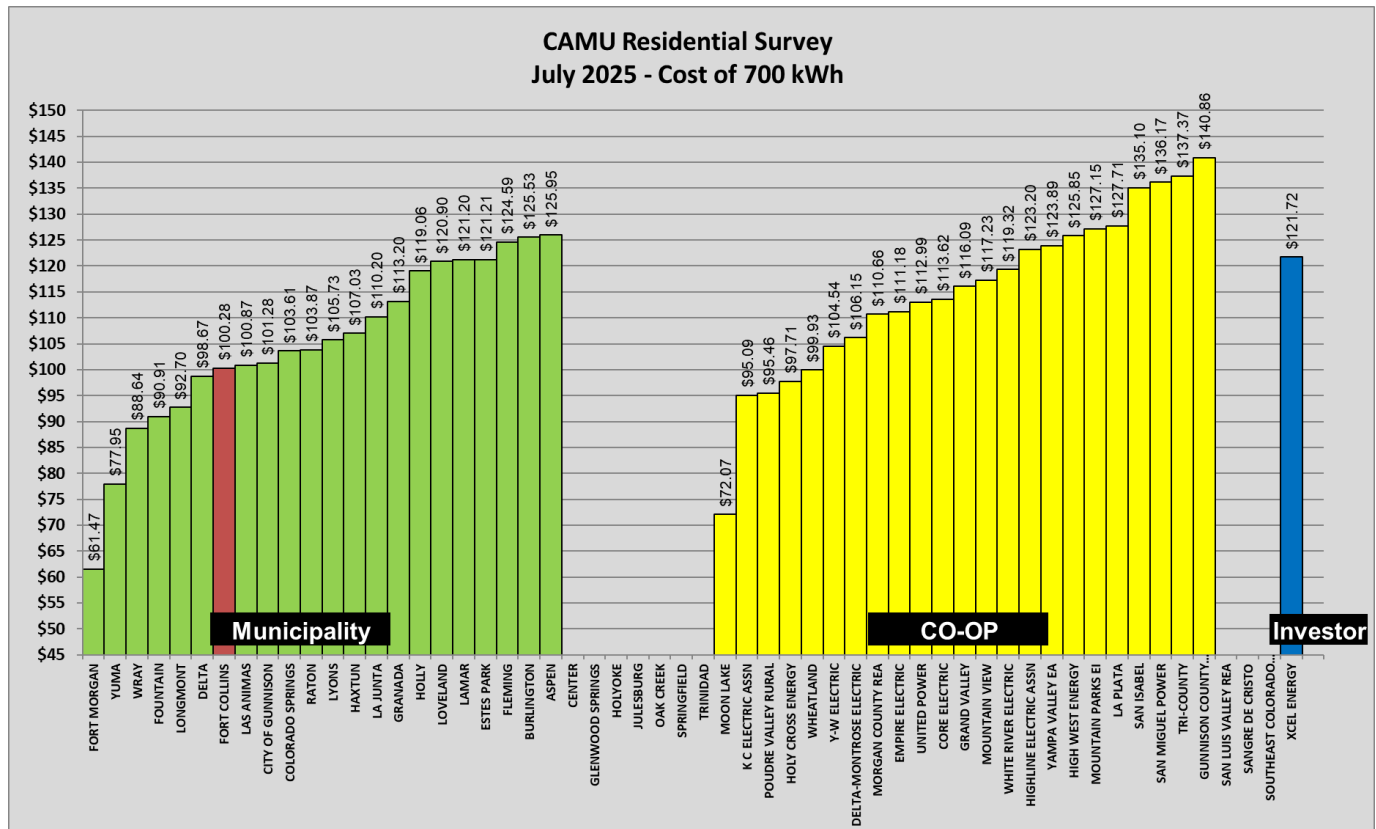
Staff are proposing a 6% retail rate increase for the Electric Fund in 2026. This increase is driven by a combination of an increase in wholesale electric expenses in 2026, as well as an increase to cover distribution operating and maintenance costs and investments in capital projects. Roughly two-thirds 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.

The portion of the proposed 6% increase that is not applied to wholesale cost increases will be used to help fund distribution system needs. There are multiple capital projects necessary to meet future needs, some of which include feeder cable and transformer replacements, streetlighting upgrades, distribution automation, and demand response technology upgrades.

The largest expense for the electric fund is wholesale power costs. Platte River Power Authority (PRPA) is planning to increase their wholesale blended rate (\$/MWh) by 6.3% in 2026 and is forecasting 7.5% wholesale rate increases for 2027-28. There is variability in how the increase is applied to individual component charges.

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. Based on the July 2025

survey, Fort Collins Utilities came in towards the lower end of average electric cost within the state, assuming 700 kWh of consumption in a month, at \$100.28, or 12th lowest overall of all responses.



Water

Staff are proposing a 9% retail rate increase for the Water Fund in 2026. 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.

In the 2026 budget, capital projects account for 38% of the total Water Fund expenditures. This percentage is expected to increase in the coming years and is a significant driver for future rate increases in the Water Fund. 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. Development of the Water Fund’s comprehensive Capital Improvement Plan is underway and will inform a long-term rate forecast in advance of the 2027-28 budget process.

Wastewater

Staff are proposing an 8% retail rate increase for the Wastewater Fund in 2026. In addition to rate increases needed for ongoing operational inflationary pressures, the Drake Water Reclamation Facility (DWRf) recently completed a comprehensive condition assessment and is in need of significant capital investment. The report indicates that 39% of the plant is beyond it’s useful life, and 45% of the plant is in fair condition

The upcoming 10-year Capital Improvement Plan may include 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 6% retail rate increase for the Stormwater Fund in 2026. 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 7.1%, or \$13.49 per month.

RESIDENTIAL MONTHLY BILL COMPARISON





2025 to 2026

	2025 RATES	2026 RATES	% CHANGE	\$ CHANGE
 ELECTRIC 620 kilowatt-hours/month	\$85.05	\$90.15	6.0%	\$5.10
 WATER 7,000 gallons/month	\$45.37	\$49.45	9.0%	\$4.08
 WASTEWATER 3,300 gallons/month WQA	\$35.40	\$38.23	8.0%	\$2.83
 STORMWATER 8,000 sq.ft. lot, light runoff	\$24.48	\$25.95	6.0%	\$1.47
AVG. Utility Bill Total	\$190.30	\$203.79	7.1%	\$13.49

The table below compares typical residential electric, water, wastewater, and stormwater monthly utility bills across neighboring utilities along the Front Range, based on proposed 2026 rate adjustments and charges. In total, Fort Collins Utilities comes in the lowest at \$230.26 for all four services. With proposed increases for 2026, Fort Collins will remain the lowest overall, as there are known increases proposed amongst the other bordering utilities for 2026, with some of them being substantially higher than the percentage increases proposed for customers within our community. Note that community comparisons use different usage thresholds than the Fort Collins customer averages shown in the bill impact table above.

RESIDENTIAL MONTHLY BILL COMPARISON

2026 UTILITY RATES

	 ELECTRIC	 WATER	 WASTEWATER	 STORMWATER	UTILITY TOTAL
FORT COLLINS	\$100.15	\$61.86	\$42.31	\$25.95	\$230.26
LONGMONT	\$94.09	\$83.40	\$44.34	\$18.85	\$240.69
LOVELAND	\$106.75	\$64.25	\$44.61	\$26.25	\$241.86
COLORADO SPRINGS	\$110.35	\$110.11	\$36.26	N/A	\$256.72
BOULDER	\$108.38	\$78.00	\$54.42	\$29.88	\$270.68
GREELEY	\$108.38	\$82.71	\$40.50	\$42.44	\$274.03

CITY FINANCIAL IMPACTS

The 2026 City Manager’s Recommended Budget includes these proposed increases in revenues available for the budget. The electric increase would offset increased wholesale costs for 2026, as well as contribute to increasing distribution system operating and maintenance and capital costs. The water, wastewater, and stormwater increases would contribute to operating and maintenance costs, as well as assisting with future debt issuances for large capital projects.

BOARD / COMMISSION / COMMITTEE RECOMMENDATION

Review of the proposed changes to the Utilities electric rates are planned for discussion with the Energy Board on October 9, 2025. Review of the proposed changes to the Utility water, wastewater, and stormwater rates are planned for the Water Commission on October 16, 2025.

PUBLIC OUTREACH

The required electric outside city limit postcard will be mailed in early October and a notice was posted in the Coloradoan. Rates and fee presentations will be shared at the Business Accounts meeting for all commercial customer accounts on November 18, 2025. An annual rate brochure will go out to customers in late November or early December, along with updated information posted to the utility website.

NEXT STEPS

First reading of the 2026 Annual Appropriations is scheduled for Monday, November 3 (due to elections on November 4). Second reading is then scheduled for November 18.

ATTACHMENTS

1. Presentation