

WORK SESSION AGENDA ITEM SUMMARY

City Council



STAFF

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SUBJECT FOR DISCUSSION

2025 Budget Update / 2026 Revision Process Preview

EXECUTIVE SUMMARY

The purpose of this item is to discuss 2025 year-to-date governmental revenue and expenses, along with trends and forecasts for 2025 and 2026.

GENERAL DIRECTION SOUGHT AND SPECIFIC QUESTIONS TO BE ANSWERED

This item is informational only.

BACKGROUND / DISCUSSION

Economic conditions have changed since the 2025-2026 recommend budget. Given economic uncertainty at the national, state and local level, Fort Collins is anticipating budget shortfalls in revenue due to economic activity and expense overages through the first quarter in 2025.

Sales & Use Tax

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

2024 Results

In 2024, sales tax was 2.1% under budget (\$3.7M) and use tax was over budget by 13.2% (\$3.0M). Combined, sales and use tax was 0.3% (\$700k) under budget. In 2025, the use tax budget was rightsized to be in line with prior year actuals. For the 2025 budget, sales tax growth from the 2024 budget is 3% and flat growth for use tax.

April Year-to-Date 2025 Results

For a direct comparison of year-to-date results (the 2050 tax was effective January 2024 with collections starting in February 2024), taxable sales are up 0.5%. As sales tax came in under budget in 2024, 4.2%

instead of 3% growth is needed to hit the 2025 budget. Year-to date through April, growth is softening across the majority of sales tax categories except for categories with a majority of online retailers.

Year-to-date through April, sales tax is \$600k under budget and use tax is \$3.1M over budget. Sales and use tax combined is \$2.5M over budget. The favorability is largely driven by a strong start to the year with volatile one-time revenue for audits, voluntary disclosure agreements and building permit use tax.

The April year-to-date sales tax budget is down 1%, excluding one-time revenue the sales tax budget would be down 4%. The April year-to-date use tax budget is up 37%, excluding one-time revenue the use tax budget would be up 25%.

Sales Tax Trends

In 2024, taxable sales in Fort Collins were up 2.4%. The 2025 budget was based on 3% growth off the 2024 budget. However, based on 2024 actuals, 4.2% growth is needed in to hit the 2025 budget.

According to the Colorado Business Economic Outlook 2025, Colorado retail sales growth is projected to be 1.9%. In the State's March 2025 Economic & Revenue Forecast, Colorado sales tax revenue is expected to grow by 2.7% in 2025, down from expected growth of 3.4% from the December 2024 Forecast.

Across the Front Range and in Norther Colorado, many cities are realizing budget shortfalls.

2025 and 2026 Sales and Use Tax Projections

For 2025, staff are currently projecting 2% growth based on 2024 actuals. This is a 2% budget shortfall for 2025. The total anticipated revenue shortfall is \$3.8M with the General Fund shortfall portion at \$2.5M. The 2025 forecast is driven by significant year-to-date one-time revenue in 2025. Without one-time revenue April year-to-date sales tax would be down 4% instead of 1% under budget.

Staff are currently forecasting 2% growth in 2026 from the 2025 forecast. The 2026 Forecast of 2% growth is negative 3% growth compared to the original 2026 budget, a \$5.7M shortfall. If economic conditions deteriorate, the impact in 2026 could be larger. Therefore, staff is anticipating a reductions budget for the 2026 Budget Revision process.

Other Revenues

Speed Corridors:

Transportable units to support Vision Zero goals have been delayed in deployment, with a total budget of \$2 million. Red light speed citations are down 50% from December 2024 levels, with reductions in citations a revenue shortfall of \$1.0M to \$1.5M is expected.

Expenditure Pressures

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 is necessary.

Since personnel costs are a large portion of the City's budget, total compensation costs are budgeted at less than 100% so as to not lock up budget that will go unused, like for position vacancies. This year the City has experienced a sharp decrease in turnover, driven by the City's employee engagement strategies and economic concerns and uncertainty. These realities are the main drivers of the personnel overspend being experienced so far this year.

Actions to Date

- A hiring 'pause' has been implemented to directly address personnel costs.
- Expense reductions are planned for the 2nd half of 2025, primarily focused on more discretionary spending like training, travel, food and supplies.
- Rolling forecasts for both revenue and expense are being implemented for better, real-time understanding of the City's financial position; especially within the governmental funds.
- Executive management is fully expecting the 2026 Budget Revision process to be one of reductions and contraction.

NEXT STEPS

Staff will continue to monitor revenue and expenses ahead of the 2026 Budget Revision process that begins in early fall of 2025. Based on the current 2025 revenue and expenditure outlook, it's anticipated that the Budget Revision process will be a reduction process to align expenditures with anticipated revenues.

ATTACHMENTS

1. Presentation