2026 Budget Kickoff

Justin Sykes, Budget Director

Department of Finance

Tuesday, April 28, 2025

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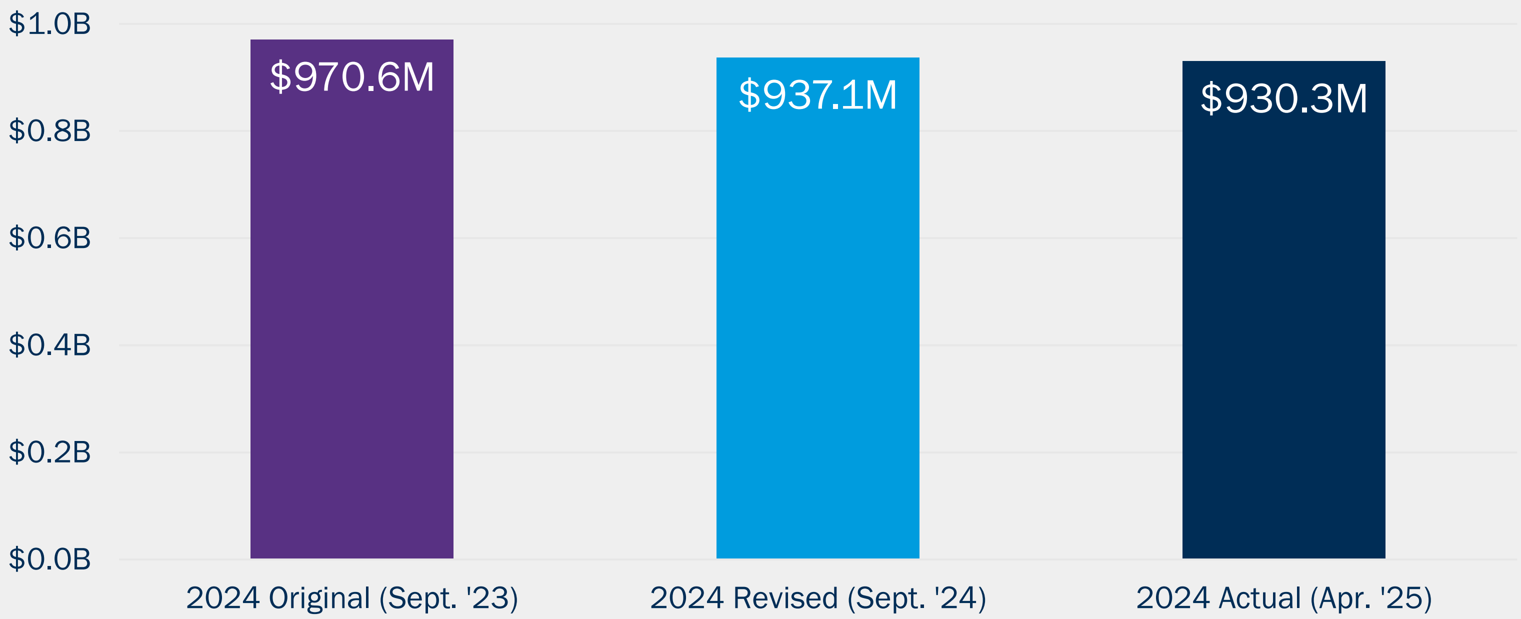
Agenda

- Final 2024 Revenues and Expenditures
- Current Economic Outlook
- Preliminary 2026 Guidance
    - Operating Budget
    - Equity in the Budget Process
    - Capital Budget

2024 Year-end Results

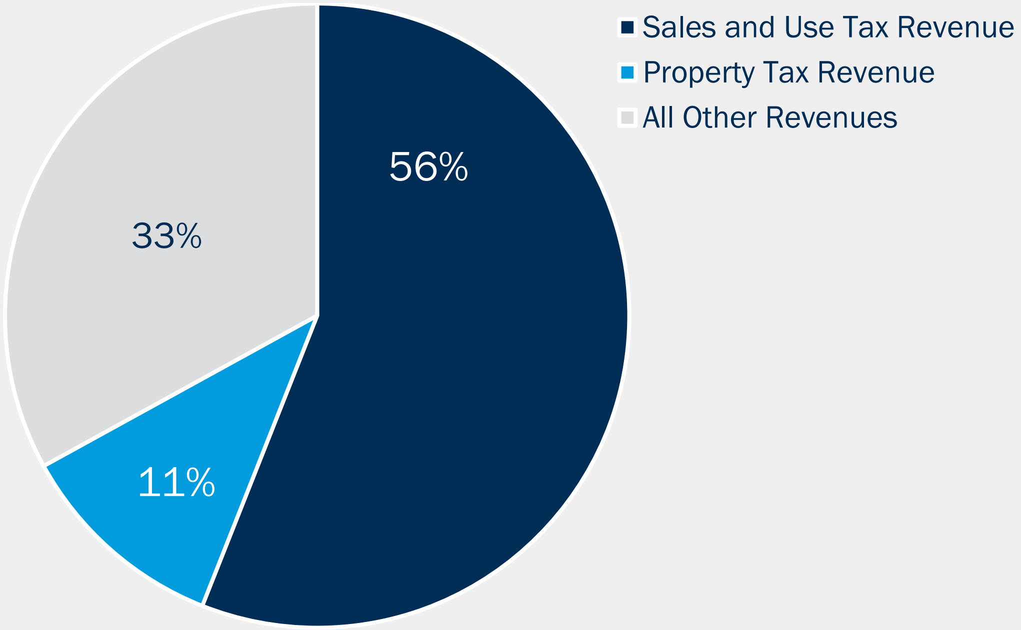
Justin Sykes, Budget Director

2024 Sales and Use Tax Revenue

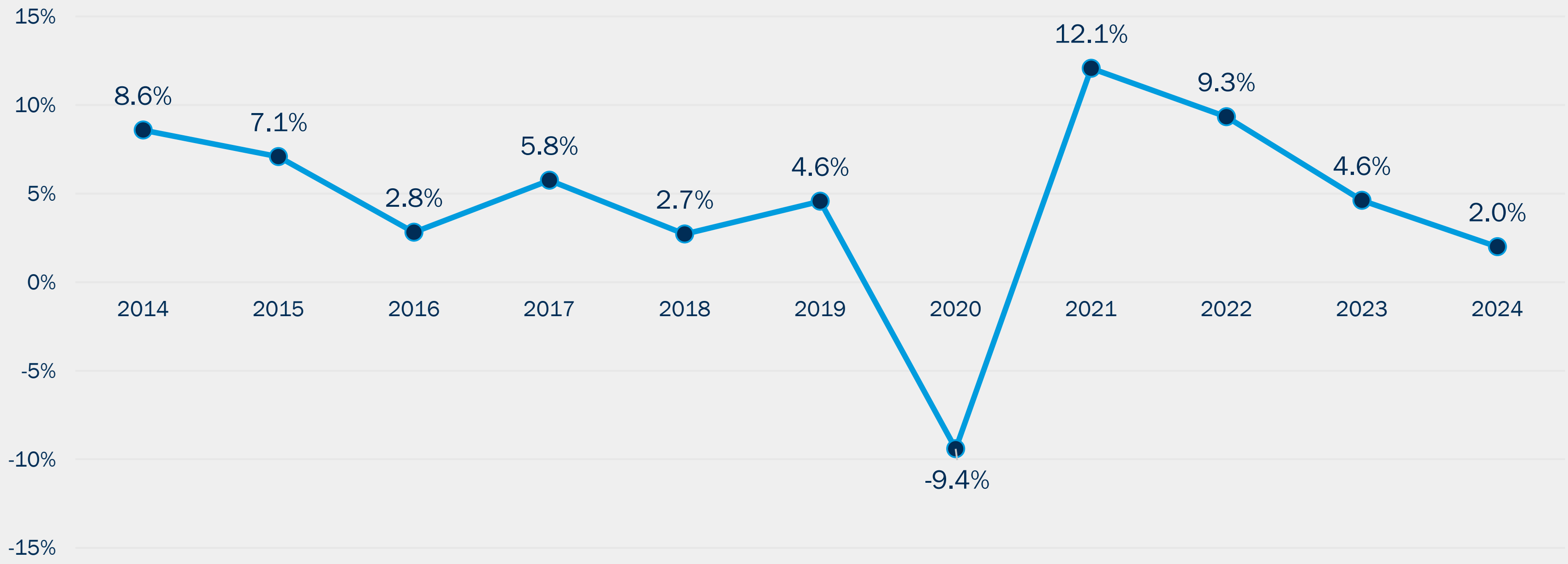


2024 General Fund Revenue Profile

Sales and use taxes accounted for over <u>half</u> of all General Fund revenues



General Fund Revenue Growth Rate



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2024 General Fund Year-End Recap

	Planned	Actual
Revenues	**$1.671B**	**$1.666B**
Expenditures	**$1.752B**	**$1.774B***
Ending Fund Balance	$257M	$239M
Ending Fund Balance %	14.7%	13.5%

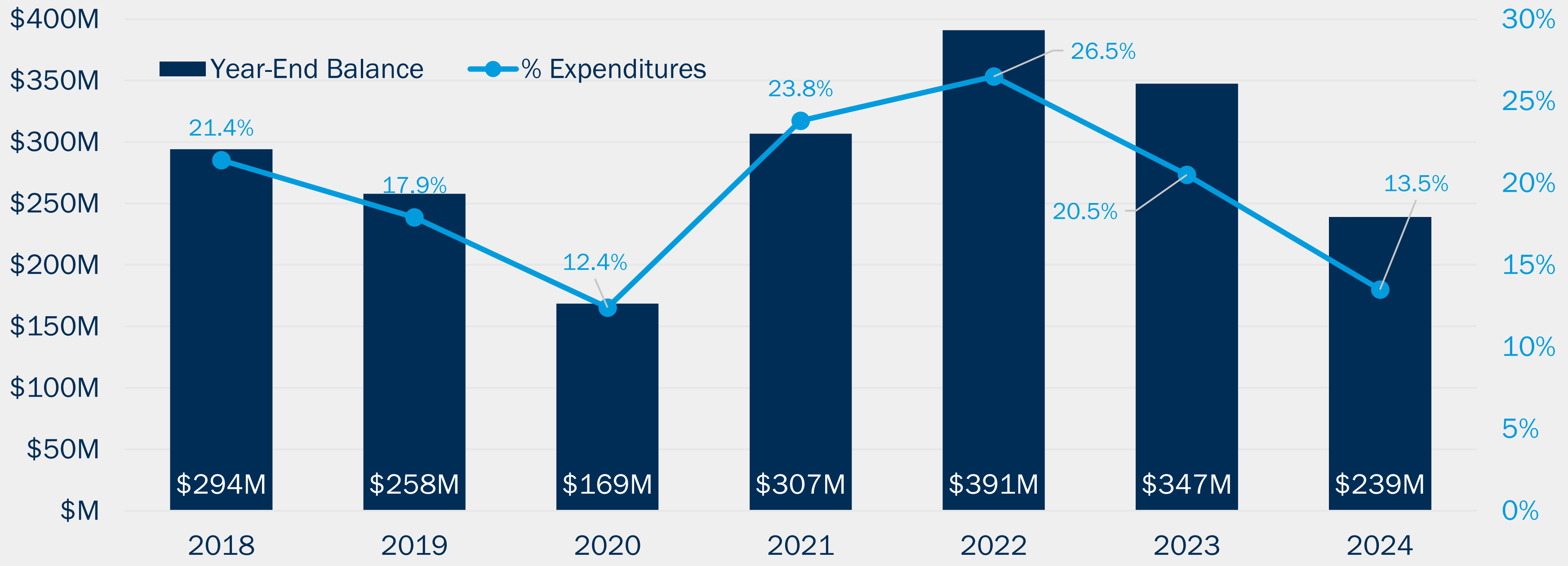
$27M more spent from fund balance
(including $9M from assigned fund balance)

* This increase was due to less “underspend” than projected and several supplemental appropriations.

What is Fund Balance?

__Fund balance__ is like the city's piggy bank – it's the difference over time in money coming in minus money going out. The City tries to keep 15% of annual spending in fund balance to guard against economic downturns and revenue shortfalls.

General Fund Reserves



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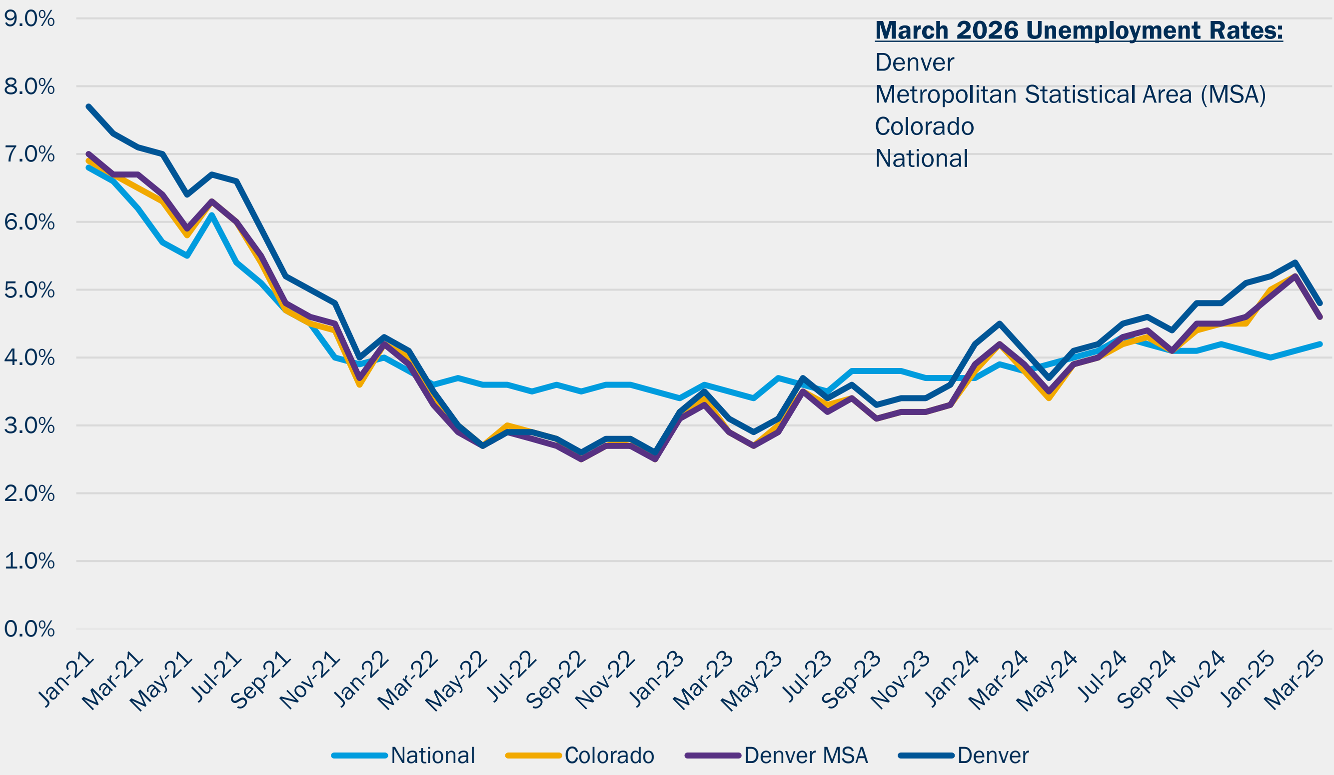
Key Takeaways

- Lower fund balance than anticipated
- Lower revenue base from which to grow

Economic Outlook

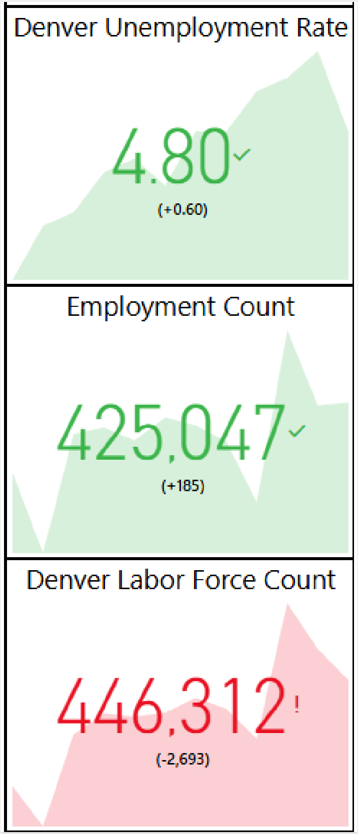
Lisa Martinez-Templeton, City Economist

Labor Market (not seasonally adjusted)

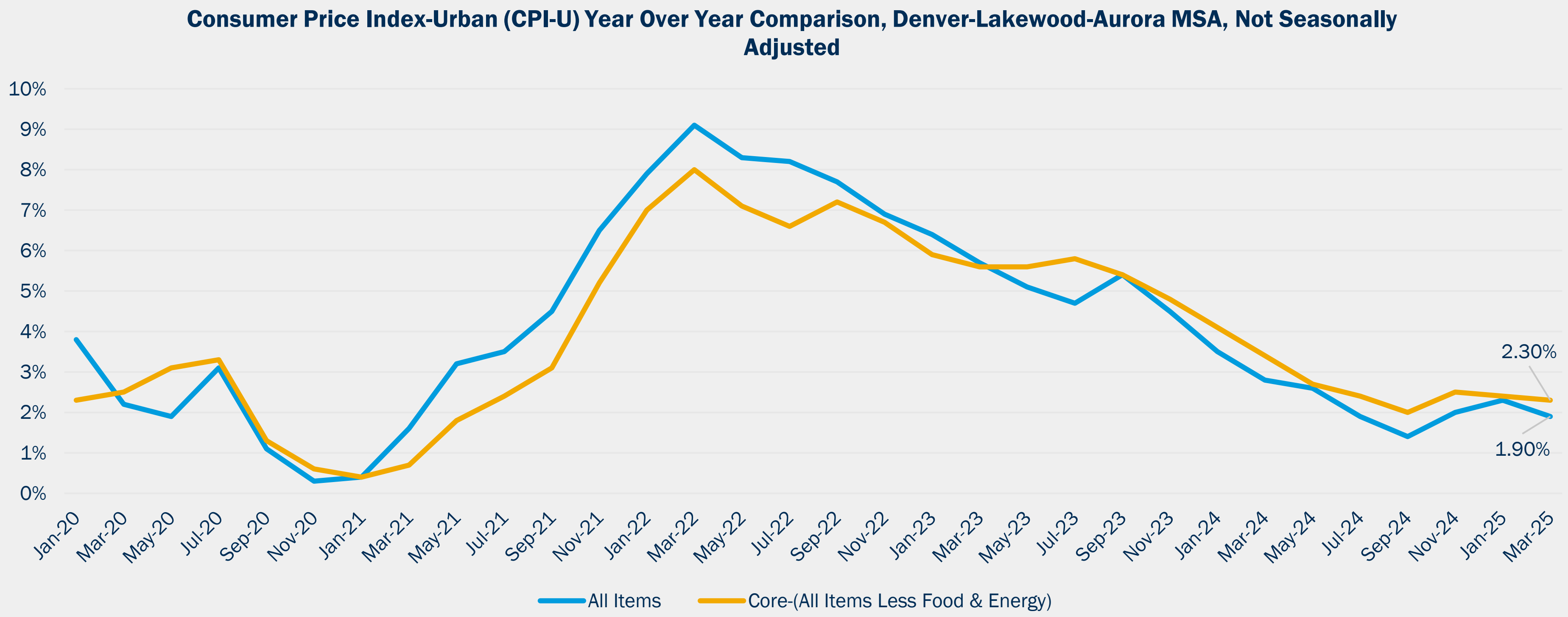


March 2026 Unemployment Rates:

Denver	4.8%
Metropolitan Statistical Area (MSA)	4.6%
Colorado	4.6%
National	4.2%



Inflation



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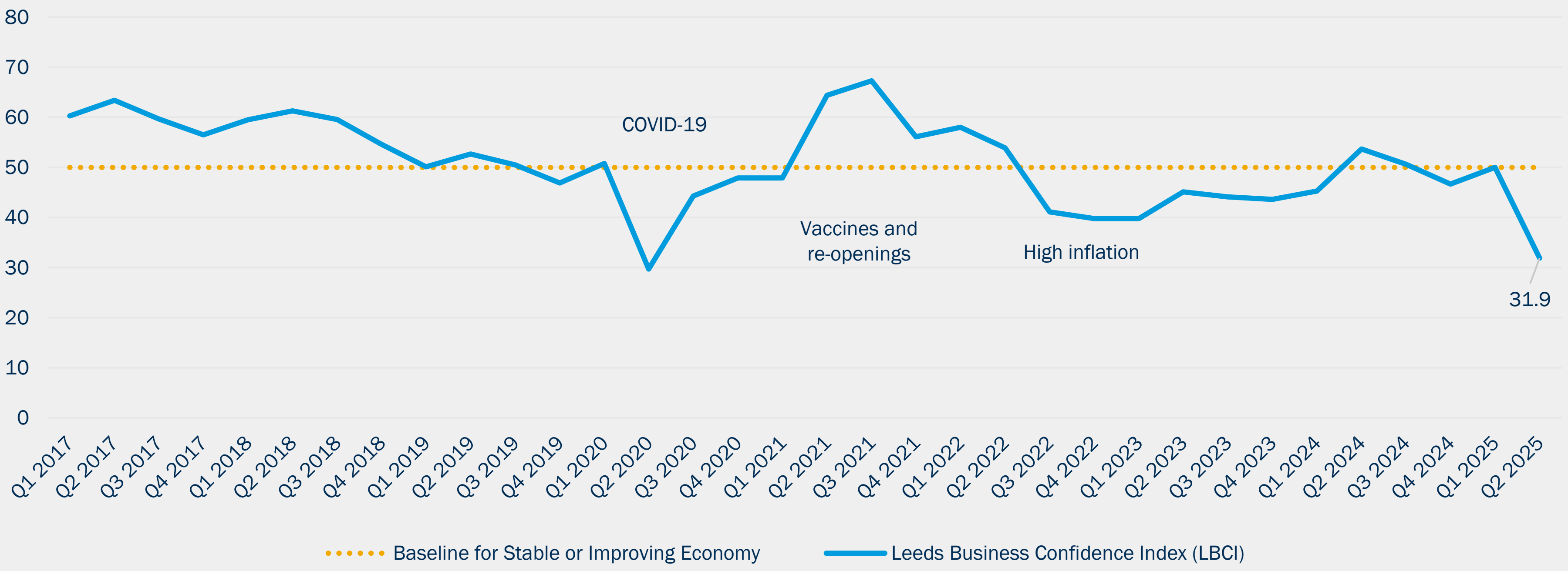
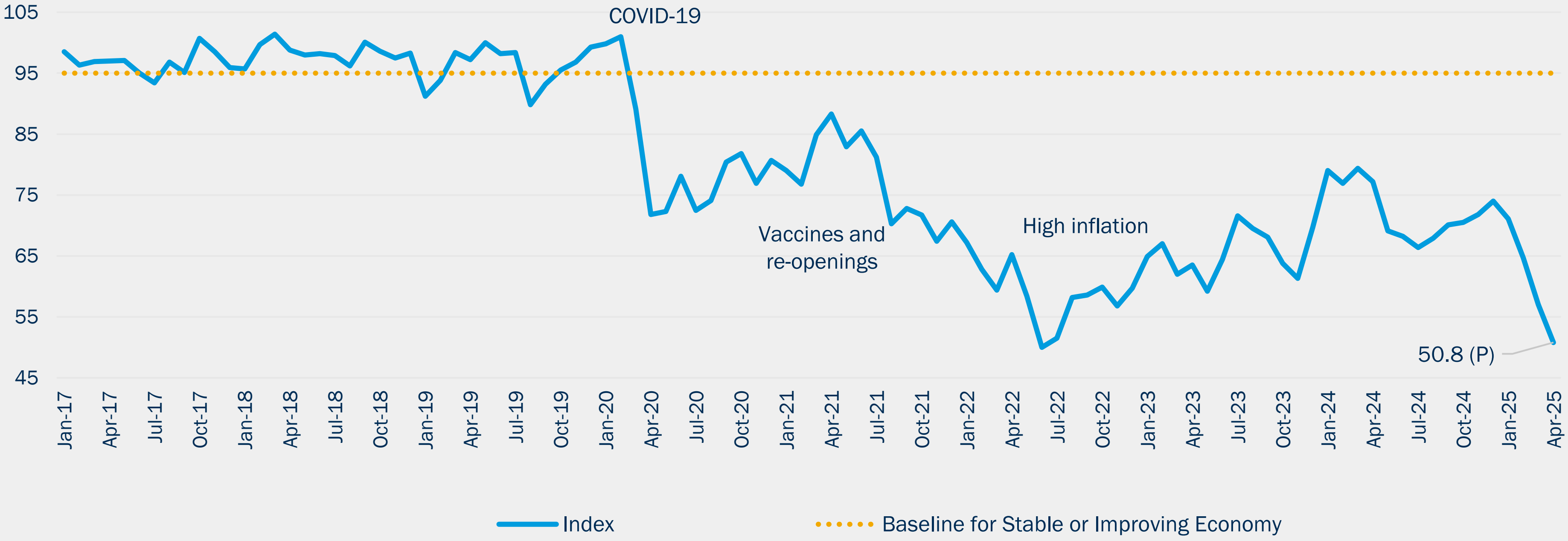
CU's Leeds School – Business Confidence Index



Univ. of Michigan Consumer Sentiment Index

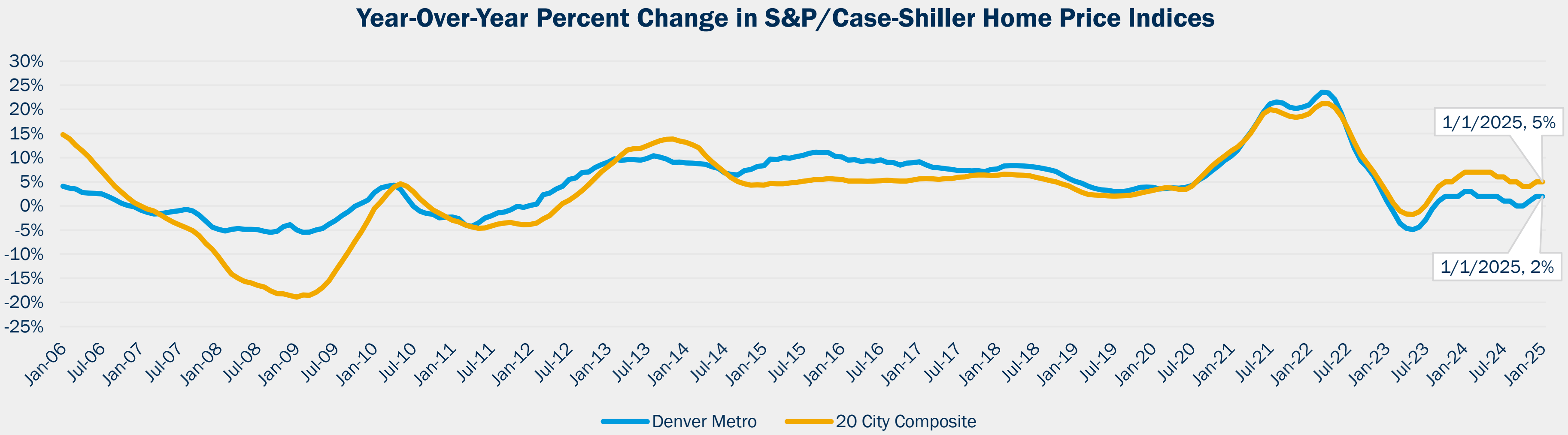


Housing Prices

Assessor's Office Valuation Statistics

June 2023

- ✓ Median Single-Family Change: 33%
- ✓ Median Multi-Family Change: 45%
- ✓ Median General Commercial Change: 17%



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Economic Outlook for Baseline Forecast

First Shock: Real Disposable Income Shock (due to tariffs)

Second Shock: Supply Chain Disruptions

Third Shock: Tightening in Financial Market Conditions

Fourth Shock: Enormous Increase in Uncertainty

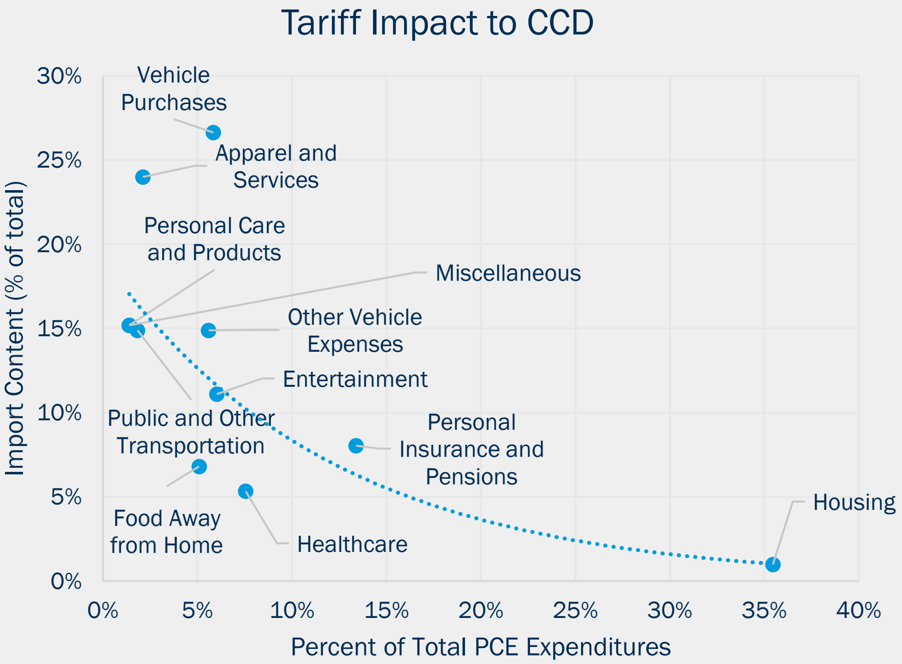
The Economy is Being Tested

- The economy was doing well before the escalation in trade tensions, providing us some buffer
- Though the economy isn't in a recession, its very vulnerable as its being tested by **four shocks**.

Shock #1: Tariffs Shock

Tariff Shock of ~22% effective tariff rate

- Tariffs are inflationary, will REDUCE **Real Disposable Income** impacting consumer spending
- Anticipate Core inflation getting back up to 4 – 4.5% by end of year
- Cause consumers to cut back on both goods AND services
- Direct impact on consumer prices for goods we buy
- Indirect impact from what *service providers* have to pay for *their* inputs



Shock #2: Supply-Chain Stress

Imports

- Surge in nominal imports
- Businesses trying to get ahead of tariffs

Port Activity

- Significantly increased on both east/west coasts
- Due to front-loading of inventories

Inflation

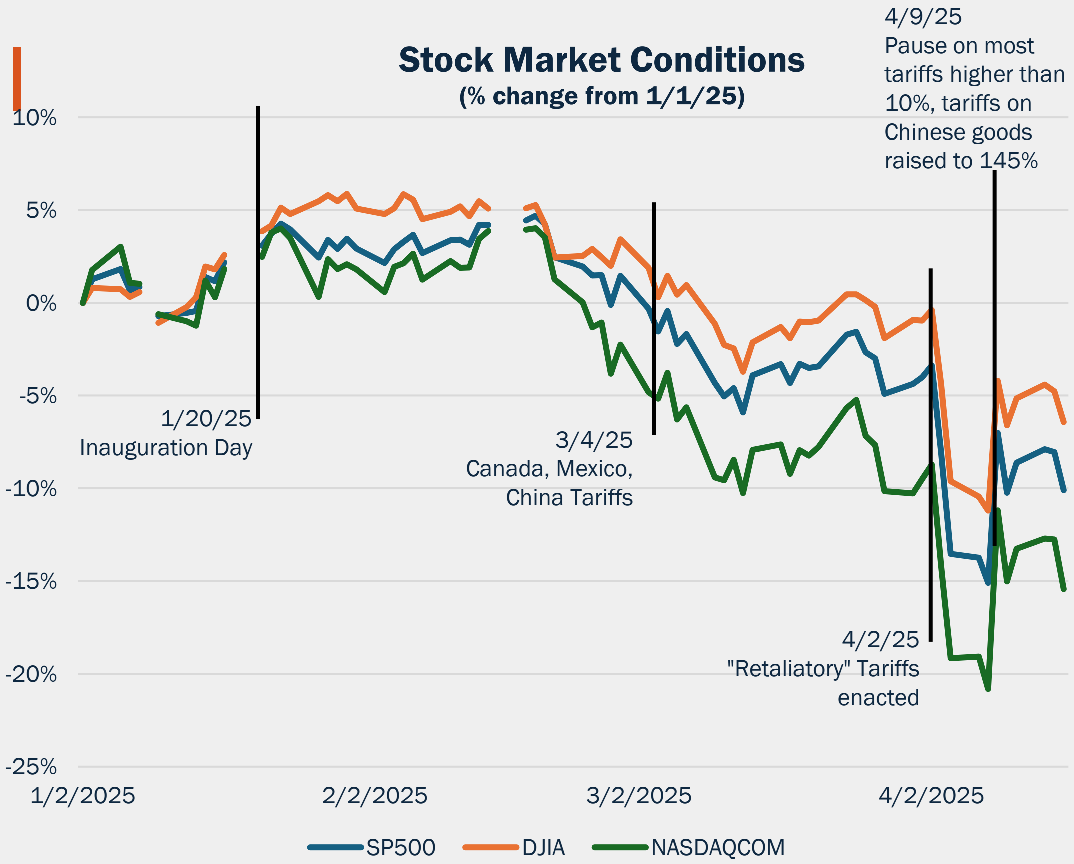
- Supply-chain stress can lead to "sticky inflation"
- Fed will likely have to tackle before interest rate cuts

Shock #3: Financial Market Turbulence

Wealth effect elasticities – how sensitive consumers are to spending when they lose/gain 1% of financial/housing wealth

A good econometrically based rule of thumb: for every $1 decrease in net worth, consumer spending ultimately decreases by $0.02.

Biggest impacts are to *discretionary spending*: travel, home furnishings & electronics, motor vehicles, and **restaurants**



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Shock #4: Uncertainty

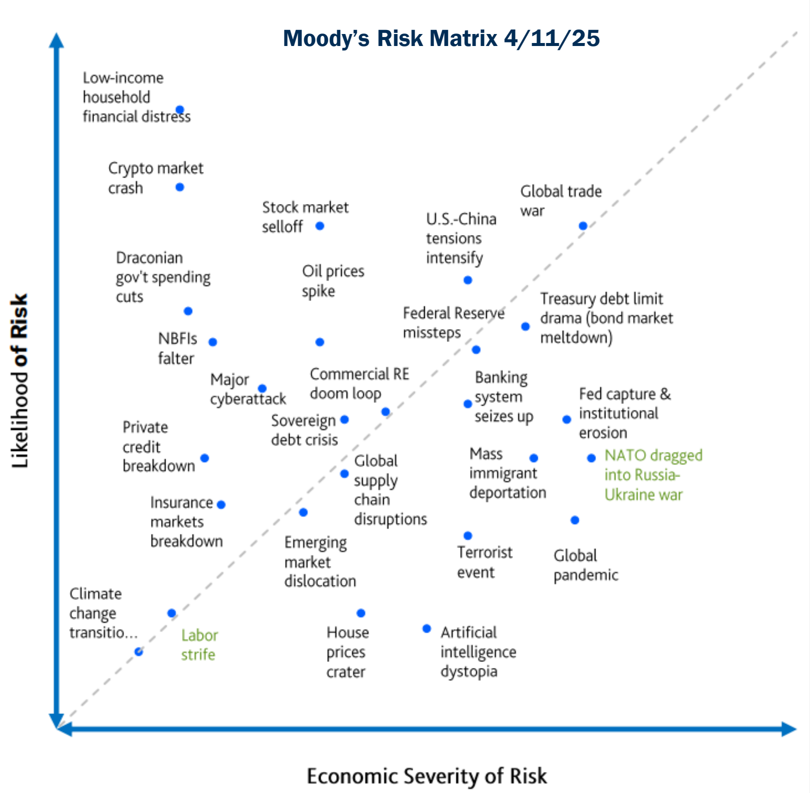
Uncertainty is biggest concern for forecast

Progression of economy to recession:

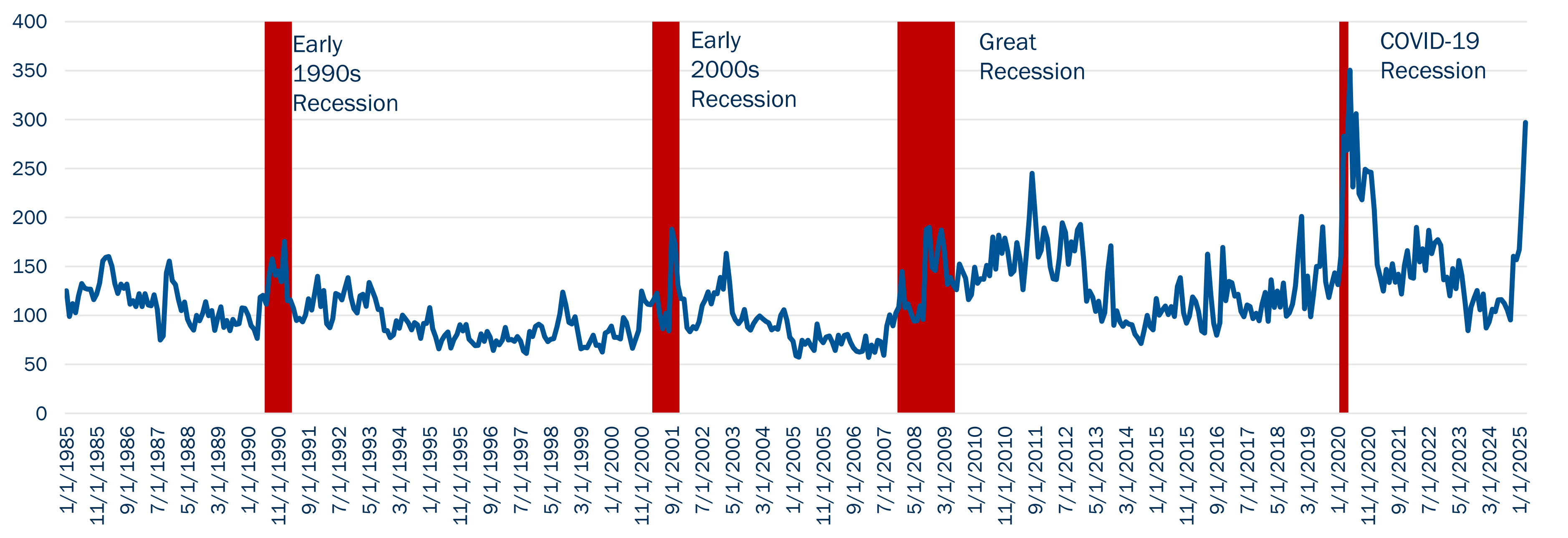
1. Businesses cut back on investment in equipment and structures
2. Businesses start to lay off workers
3. Layoffs start to happen on a sustained basis: kicks off a cycle where people cut back on spending which leads to more layoffs…

But uncertainty is a "known unknown"

- We can model out multiple scenarios



Economic Policy Uncertainty index



Source: ['Measuring Economic Policy Uncertainty' by Scott R. Baker, Nicholas Bloom and Steven J. Davis]

Longer Term Outlook

Still positive, but next several months will be very uncomfortable.

- Some industries/individuals will feel like a recession
- Any additional strain on economy could be tipping point

Begin to find footing through 2026 as uncertainty declines and recovery occurs:

- Fading effects of tariffs
- Deregulation
- Changes in fiscal policy

Worsening Economic Forecasts

Brokerage	Recession Probability Before Tariffs	Recession Probability After Tariffs
JP Morgan	40%	60%
Goldman Sachs	20%	35%
S&P Global	25%	30-35%
HSBC	--	40%
Moody's	--	60%

Source: https://www.reuters.com/markets/jpmorgan-lifts-global-recession-odds-60-us-tariffs-stoke-fears-2025-04-04/.

Guidance for 2026 Operating Budget

Justin Sykes, Budget Director

Economic Headwinds

52% **of U.S. households think the economy will be worse this time next year, according to recent polling.**

- Colorado State Budget: $1.2 billion budget gap
- Los Angeles, CA: $1 billion shortfall
- Chicago, IL: $1 billion to $3 billion shortfall
- Aurora, CO: $11.5 million shortfall
- Loveland, CO: Sales tax collections for 2024 down 13.5%.
- Colorado Springs, CO: Sales tax revenues off to slow start in 2025

What We Know

- High economic volatility makes specific revenue projections uncertain
  - Desire for more data before giving specific guidance
  - Some concerning trends, but continuing to monitor data
- We are likely to see essentially flat revenue in 2026
- Even with no expansions, city's natural budget growth would outpace revenue and we will need reductions to balance
- We will not have the cushion of reserves that we used to have when the economy was growing

Starting Point for 2026 Budget

- At a minimum, 2026 base budget or starting point must be as flat as possible or less than 2025
- Reductions taken in 2025 will be re-applied to 2026:
  - Positions unbudgeted in the General Fund for the 2025 budget will not be budgeted in 2026 either
  - Services and Supplies reductions in 2025 will be extended to 2026

Budgeting for Personnel

- **Current State:** In 2025, the city required a higher level of budgeted vacancy savings, which meant agencies could not fill all budgeted positions.

- **Future State:** In 2026, we will go back to the standard vacancy savings applied in 2024. Instead, we will ask agencies to un-budget the positions they have been holding vacant. The costs of the positions un-budgeted must match the higher level of budgeted vacancy savings from 2025.

Budgeting for Personnel – DOF Example

Department of Finance's 2025 Budgeted Vacancy Savings:

- *$3.9 million total*
  - $1.9 million (3.75% standard vacancy savings)
  - $2 million (additional 4% vacancy savings applied in 2025)

Department of Finance's 2026 Starting Point:

- Re-apply $1.9 million (3.75% standard vacancy savings)
- Identify vacant positions to un-budget that have a total combined compensation of $2 million (the amount of 2025 additional budgeted vacancy savings)

A More Sustainable Approach

- Given ongoing trends, budget changes in 2026 should be sustainable for multiple years and should not be viewed as temporary.

2026 Budget Calendar

- April 22: **CHARTER:** Budget kickoff
- April 28: LEGISLATIVE: Budget kickoff at City Council's Budget & Policy Committee
- By September 15: **CHARTER:** Release of Mayor's Proposed 2026 Budget
- Late September: **LEGISLATIVE:** City Council budget hearings
- Early October LEGISLATIVE: City Council requests modifications to budget
- October 20: CHARTER: Deadline to submit October draft to City Council
- October 27: CHARTER: Deadline for Council to hold public hearing on budget
- November 3: CHARTER: Deadline for Council to propose amendments to budget
- November 7: CHARTER: Deadline for Mayor to respond to Council amendments
- November 10: CHARTER: Deadline for Council to adopt the budget
- November 24: CHARTER: Deadline for Council to approve the 2025 Long Bill

Equity in the Budget Process

Budget Engagement with Office of Social Equity & Innovation (OSEI)

In partnership with the Budget Management Office (BMO), OSEI provides tools, guidance, and insight to help agencies embed equity into every aspect of the city's budgeting process.

OSEI's Role in the 2026 Budget Process:

- **Support Agency Planning** - Offer data, resources, and strategic recommendations to help shape your agency's budget change requests through an equity lens.

- **Coordinate with BMO Analysts** -Partner with Budget and Management Office analysts to ensure equity is considered throughout the evaluation of proposals.

- **Advise on Equity Impacts** - Provide guidance on reducing potential harm and enhancing equity outcomes as senior leaders make final budget decisions.

2026 Capital Budget Guidance

Jackson Brockway, Capital Planning and Budget Manager

Use of Capital Funds

Acquisition, repair, or rehabilitation of assets that last for 15 years or more; nonrecurring costs in excess of $10,000.

Allowable

- Construction
- Design
- Capital planning studies
- Asset condition evaluations
- Community outreach associated with capital projects
- Professional services associated with capital projects

Unallowable

- Travel and training
- Food
- Clothing
- Tools
- Marketing materials
- Dues and Subscriptions
- Vehicles
- Equipment
- Staff time

Special Considerations for Financed Capital Programs

- Temporary and/or traveling art installations
- Bonuses in construction contracts
- Studies
- Options on real property
- Building supplies to open a new facility

CIP Revenue Summary

Stable growth in major capital funding sources:

- CIF tied primarily to property tax, based on property assessments, have continued to see stable growth
- CIF revenues can “lag” with changes to assessments, 2026 CIF builds in larger contingency and fund balance reserves

2026 revenue projections for other dedicated sources related to discretionary spending (concert tickets at city venues, lottery spending, winter park) held more conservative for 2026

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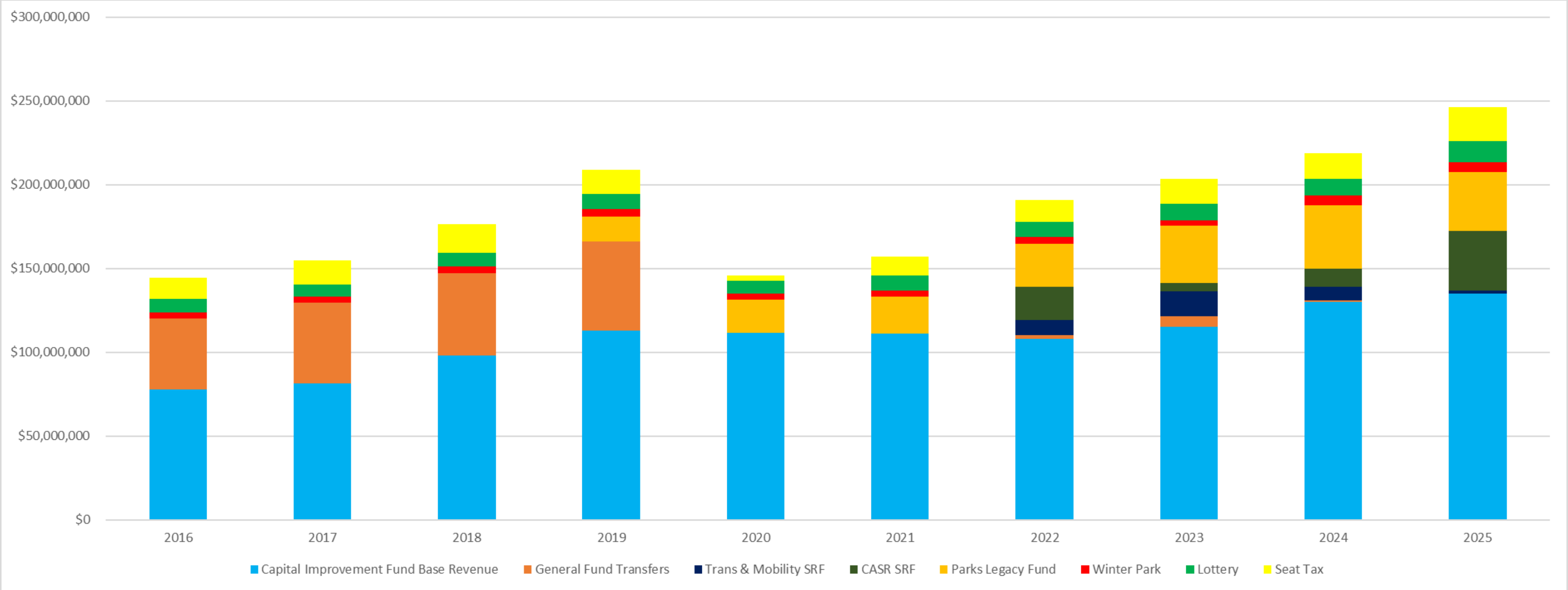
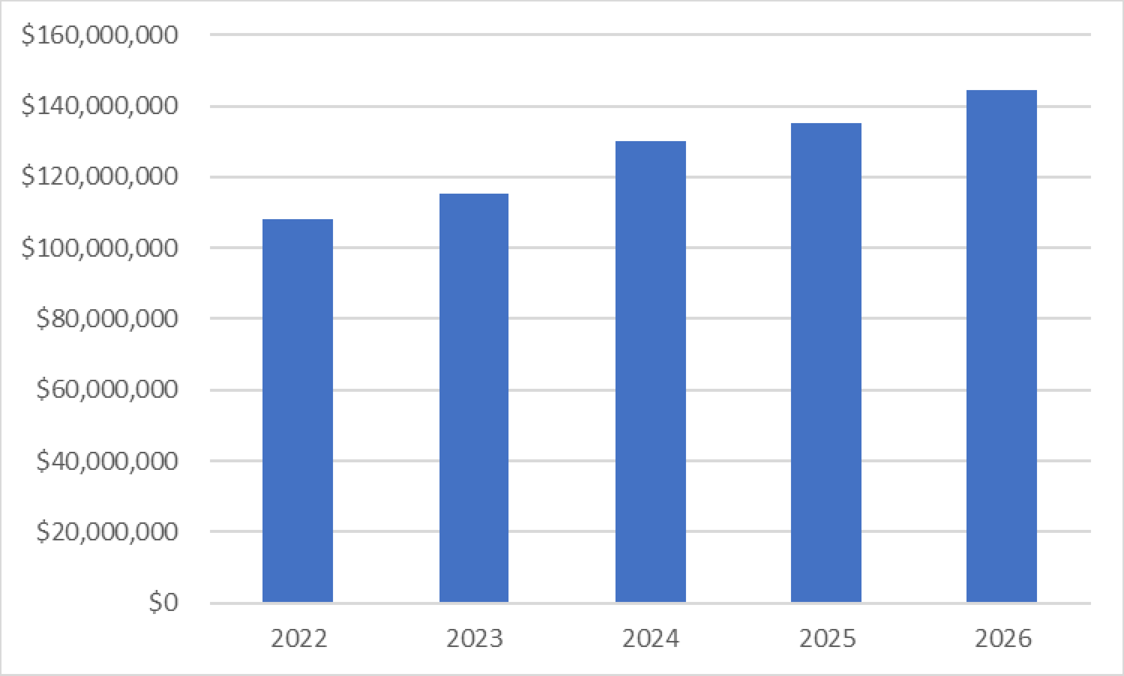
10 Year Annual Capital Improvement Fund Revenue



2026 CIF Preliminary Revenue Forecast

2026 CIF projected to be $144.3M

- 7% increase over 2025 original forecast for base revenues.
    - Increases in Property Tax and Capital Maintenance Mill Revenue
    - Economic volatility leads to challenges in projecting revenues from other sales and use taxes – held more conservative for 2026



Value of Capital Investments

- Economic development / job creation
- Building the spaces and infrastructure people and families in Denver need
- Opportunity to advance community / citywide infrastructure priorities
  - Connectivity
  - Safe & Healthy Neighborhoods
  - Parks, Climate
  - Facilities, Arts, Cultural Venues
- One-time expenditures (fully funded projects have finite start and end dates)
- Capital investments that invest back into aging infrastructure can lead to long-term savings on O&M costs

2025 – 2030 Six-Year Capital Improvement Plan

- Advance long-term priorities for capital assets as defined by citywide plans, studies, and community engagement efforts
- Identify and plan for new capital needs and coordinate investments across agencies
- Inform project lists for future funding opportunities and support scoping and planning efforts
- Protect our city assets through reinvestment and upkeep

Six-Year CIP Implementation

Six-Year CIP

↓

Funding Vehicles

- Annual Capital Budget
- Special Revenue Funds
- Grants
- Special Districts
- Bond Programs

2025 Vibrant Denver Bond

How Bonds Help Us

$7 Billion

Six-Year Capital Improvement Plan identified ~250 needed projects worth over $7B, but our annual capital budget is ~$300M

Local financing tool for public infrastructure like parks, roads, and buildings

Asks voters for input on the most important capital and infrastructure projects

Bond projects are an economic stimulus tool

No new taxes

Denver's current bond programs are nearly complete, creating capacity for new projects – **without raising taxes**

Highlights of Proposed New Vibrant Neighborhoods Bond Program

~$800M

Target investments across the city

6 years

Delivery timeframe

Shorter timeframe with fewer projects reduces risk and ensures residents see improvements in their neighborhoods sooner

Parks, playgrounds, trees, trails, and our climate

Arts and cultural venues

Recreation centers, libraries, housing, and other city facilities

Connectivity: street, bridge, bike, and pedestrian safety

Safe and healthy neighborhoods (formerly, 'Public Safety')

2026 CIP Priorities

- Advance reinvestment and support our critical infrastructure
- Advance 6 Year CIP projects and develop stronger "development pipeline" for capital projects
- Align potential Vibrant Denver bond investments (in event of voter approval) with CIP for a comprehensive investment strategy
- Additional focus on long term O&M impacts
- Advance citywide priorities:

2025 GOALS

VIBRANT	Develop a comprehensive plan to drive strategic investments across Denver's neighborhoods; Revitalize downtown and fully reopen 16th Street
AFFORDABLE	Create 3,000 affordable units; Develop innovative solutions to close the affordability gap
SAFE	Decrease shootings by 15%; Launch a coordinated strategy to address non-violent crime
ALL IN MILE HIGH	Bring 2,000 people experiencing homelessness indoors; Connect 2,000 people to permanent housing
CLIMATE RESILIENT	Cut carbon pollution by adding 2,000 heat pumps, EV chargers and solar arrays in homes, businesses and nonprofits; Prepare for a climate resilient future by planting 4,500 trees in Denver neighborhoods and reducing municipal water usage by 20 million gallons
FAMILY FRIENDLY	Connect 5,000 kids to high-quality out-of-school programming; Place 2,500 young adults in jobs

Thank you!