

CITY COUNCIL COMMUNICATION



MEETING DATE: September 2, 2025

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TYPE OF ITEM: General Business

PRESENTED BY:

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SUBJECT/AGENDA TITLE:

2026 Proposed Budget Presentation

EXECUTIVE SUMMARY:

The Proposed 2026 Budget presentation will focus on the following categories: Total Budget Summary by Fund, General Fund Budget Summary, Public Safety Fund Budget Summary, Employee Compensation and Benefits, and Unfunded Needs. This communication includes a brief overview of each topic and has been consecutively numbered. This information will be available on the City's website with the 2026 proposed budget documents should we need to refer back to any information from this communication as we continue to move through the weekly 2026 budget presentations.

COUNCIL OPTIONS:

RECOMMENDED OPTIONS:

FISCAL IMPACT & FUND SOURCE FOR RECOMMENDED ACTION:

Citizens wishing to view the 2026 Budget information can access this on the City's website at the following location:

<https://longmontcolorado.gov/finance/budget-office/2026-budget-documents/>

TOTAL BUDGET SUMMARY BY FUND

The 2026 proposed budget totals \$520.24 million. This is a \$46.66 million (9.85%) increase from the 2025 Adopted Budget of \$473.57 million. The 2026 proposed budget will use \$43.8 million of fund balance for capital projects and one-time needs.

Attachment A and B are summaries of the 2026 Proposed Budget by Fund vs the 2025 Adopted Budget. **Attachment A** identifies the contribution to or use of fund balance for each individual fund in the proposed budget. In **Attachment B** we have separated operating expenses from CIP expenses to make it easier to see where the increases/decreases by fund is coming from.

90.6% of the total 2026 budget is in the following 14 funds. These are the major operating funds of the city. Of the \$43.8 million of fund balance projected to be used in 2026, \$37.4 will be from these funds.

Fund	Proposed Revenues	Proposed Expenditures	Contribution to/(from) fund balance
Electric and Broadband Fund	129,252,351	136,500,803	(7,248,452)
General Fund	124,709,177	131,155,724	(6,446,547)
Water Fund	37,990,849	46,354,633	(8,363,784)
Street Fund	29,254,950	37,423,891	(8,168,941)
Sewer Fund	22,347,148	22,299,860	47,288
Fleet Fund	16,324,684	21,740,380	(5,415,696)
Public Safety Fund	20,099,309	20,784,238	(684,929)
Storm Drainage Fund	12,913,300	14,905,178	(1,991,878)
Sanitation Fund	9,939,200	11,511,764	(1,572,564)
Public Improvement Fund	9,931,510	7,948,851	1,982,659
Open Space Fund	6,612,892	6,298,550	314,342
Utility Billing CIS Fund	6,036,346	6,036,346	-
Golf Fund	4,223,000	4,263,813	(40,813)
DDA Fund	3,789,326	3,914,238	(124,912)
Total	433,424,042	471,138,269	(37,714,227)

REVENUE PROJECTIONS

Funding for several individual funds in the proposed budget is driven by three key revenue sources: Sales & Use tax; Property tax; and Building Permits. The following are projections for each of those for 2026:

Sales and Use Tax

	Sales Tax	Use Tax	Combined
Performance thru June 2025	1.90%	(21.0%)	(1.4%)
Projections to end 2025	3.8%	(20.0%)	0.9%
Projections for 2026	3.3%	(18.0%)	0.4%

Property Tax

For this proposed 2026 budget, staff has used preliminary information from the Boulder County and Weld County Assessors. In building the 2025 budget, staff included \$27.17 million of property tax revenue for ongoing expenses plus \$2.68 million of one-time property tax that was unallocated pending the uncertainty in state legislation that was still working through the process. We now know that the overall effect of these changes had less impact on us than originally thought and the \$2.68 million was available revenue in 2025. The assessment rates from SB24-233 again declined in tax year 2025 (revenue year 2026) with commercial rates decreasing from 27.9% to 27.0% and residential rates from 6.7% to 6.25%. However, 2025 was also a reassessment year and the city had enough new construction coupled with increases in actual values to more than offset these rate decreases. Staff is projecting an overall increase in property tax of \$1.97 million. Since there are appeals still working their way through the system, and we will not receive final assessed valuations until December, we are recommending that only \$1.2 million of this be used for ongoing expenses. The remaining \$770,000 is included as one time and will only become available once we know what our final 2026 property tax will be. Total increase in ongoing property tax in the proposed 2026 budget is \$3.88 million (\$2.68 million from the 2025 budget plus \$1.2 million from the new assessed values).

Building Permits

Dwelling Units	Single Family	Multi Family	Combined
2025 Adopted Budget	110	710	820
Projections for 2025	177	661	838
Projections for 2026	268	1126	1394

The city's incremental development revenue (IDR) policy set a base permit level of 200 new dwelling units with anything over that level being considered incremental development revenue that can only be used for one-time needs or ongoing needs that are subject to reduction should development activity fall below this 200-permit threshold. Development Services has been tracking historical residential permit data since 1974 and presents this data in their monthly reporting. This information is included in **Attachment C**. Reviewing this data, we can see that in 2008 through 2011 the number of new residential permits was below 200. There have only been two other periods of time since 1974 where new residential permits has been below 200; in 1981 and then from 1989 through 1991. In all

other years since 1974 the number of new residential dwelling unit have been above the 200-permit threshold with many of those year's significantly above this level.

Staff believes the 200-permit level is low given the historical number of residential permits and propose a change to the financial policy. Updated Financial Policies will be brought to Council on September 23 and this change will be included. The 2026 proposed budget includes ongoing base revenue at the 300-permit level with anything above this new threshold considered incremental development revenue.

GENERAL FUND BUDGET SUMMARY

The 2026 proposed General Fund budget totals \$131.16 million. This is a \$1.4 million (1.08%) increase from the 2025 adopted budget of \$129.76 million. The 2026 proposed budget for the General Fund will use \$6.45 million of fund balance for one-time needs.

Ongoing Revenue and Expenses

The ongoing General Fund revenue and expense in the 2025 adopted budget was \$119,008,398. The proposed budget for 2026 includes total ongoing revenues and expense of \$123,308,483, an increase of \$4,300,085 (3.6%) over 2025.

A detailed breakdown of the change in revenues and expenses is included in **Attachment D** and line-item detail can be found in the proposed budget document. Included in the budget message was a [link](#) to the funded level 1, level 2, and one-time requests that are included in the proposed budget. This list includes the funded requests for the General Fund.

General Fund Reserves

The General Fund reserve policy includes the following three reserve targets. First is the statutorily required TABOR reserve equal to 3% of "fiscal year spending" as defined in the Colorado Constitution. Second is an Emergency Reserve at 8% of General Fund operating expenditures. Third is a Stabilization Reserve at from 3% to 8% of General Fund operating expenditures.

In 2025, those Reserve Policy targets equate to the following:

TABOR reserve	6.02%	\$7,164,588
Emergency reserve	8.0%	\$9,520,672
Stabilization reserve	at 3%	\$3,570,252
Stabilization reserve	at 8%	\$9,520,672

Currently in 2025, the General Fund Reserves are funded as follows:

TABOR reserve	6.02%	\$7,164,588
Emergency reserve	8.0%	\$9,520,672
Stabilization reserve	at 6.62%	\$7,786,933



We are anticipating that as much as \$2.0 million of the stabilization reserve may be needed to bridge the underperformance in sales and use tax in 2025.

With the amount of General Fund operating expenditures in the proposed 2026 budget the 2025 Reserve Policy targets would equate to the following:

TABOR reserve	6.02%	\$7,164,588
Emergency reserve	8.0%	\$9,864,679
Stabilization reserve	at 3%	\$3,699,254
Stabilization reserve	at 8%	\$9,864,679

For 2026 \$3,500,000 of fund balance has been set aside for increases to the General Fund reserves. Pending the annual adjustment to the TABOR reserve next April, and assuming none of the stabilization reserve is needed to cover 2025 operations, the funding of the General Fund Reserves in 2025 would be as follows:

TABOR reserve	6.02%	\$7,164,588
Emergency reserve	8.0%	\$9,864,679
Stabilization reserve	at 8.0%	\$9,864,679

PUBLIC SAFETY FUND BUDGET SUMMARY

The Public Safety tax was originally approved at a rate of 0.325% in November of 2006. In November of 2017 it was increased to 0.58%.

The proposed Public Safety budget for 2026 is \$20,784,238, which is a 1.09% decrease from the 2025 adopted budget. In the 2025 budget there was over \$1.5 million in one-time funds, however the 2026 budget only includes \$762,885.

Public Safety staff covered by collective bargaining agreements are currently under two-year agreements. The prior three-year agreements were during a period of high inflation and market level increases leading to the positions covered by collective bargaining agreements being behind the market. The 2025 wages under the new contract were significant increases and the 2026 wages are also increasing to maintain these positions at market. These increases, however, are greater than the projected 2026 revenue increases. In order to balance this fund for 2026 we had to shift a number of higher paid positions from this fund to the General Fund and lower paid positions from the General Fund to this fund.

As with the General Fund, the approach to the Public Safety Fund has been to balance ongoing revenues with ongoing expenses for this fund. The Public Safety Fund proforma has been updated with 2026 budget amounts and is included as **Attachment E**. The available fund balance for the Public Safety Fund at the end of 2024 was \$12.77 million. This includes \$6.25 million of carryover into 2025 and \$1.55 million for the required 8% emergency reserve. The proposed 2026 budget for the Public Safety Fund uses \$762,885 of fund balance for one-time expenses.

We project this fund to finish with a fund balance of about \$4.3 million by the end of 2026. Extending the pro forma through 2035 indicates that a 3% annual increase in estimated sales & use tax revenue will only be enough to cover the estimated ongoing expense if those expenses increase by no more than 3%. Additional staffing needs cannot be accommodated with the existing sales & use tax rate.

EMPLOYEE COMPENSATION ISSUES

Compensation Plan

Human Resources staff will present the pay plan which is included in the proposed 2026 information that is available on the City's website at the following [link](#). Below is the overview which is included in the pay plan.

Providing City services is inherently labor-intensive, with nearly three-quarters of General Fund expenditures tied directly to employees. Because the quality of services we deliver is only as strong as the people who provide them, it is critical that the City offer competitive wages and benefits to attract and retain highly skilled, motivated staff. Like many of our peer cities, we have conducted a compensation study to help guide this effort. Compensation adjustments resulting from this study were completed in 2025 and continue to be reflected in the 2026 pay plan.

The City's Pay Plan is based primarily on open range, individualized salary bands. Open ranges exist for all employees except sworn Public Safety positions and designated electric line positions in Longmont Power & Communications. Open ranges allow for employees to move through the range based on market position and job performance. Step pay systems are only for Public Safety and the noted LPC positions because the step system is the prevailing method for establishing pay for these jobs throughout the region to which we compare. Step employees typically receive annual pay increases when market adjustments are made to the steps.

In 2025, the city continued to align with the recommendations of the Mercer compensation study as noted above. For the 2026 pay plan, all positions were updated. Positions not benchmarked through custom internal surveys were instead benchmarked against external market surveys. The surveys utilized included: Mercer Benchmark Database (General Industry & High-Tech Industry), Mercer IHN Healthcare Survey, Willis Towers Watson (General Industry & High-Tech), and Pay Factors Peer and Market data. Positions were aligned to the market 50th percentile, maintaining consistency with the City's compensation philosophy. For surveys that relied on national data, a 10% geographic adjustment was applied to account for cost-of-labor differentials.

The City's Financial Policy on compensation states: "The City will strive to establish prevailing market ranges of pay for City positions." A key guideline within this policy is that the City's

financial capacity to pay remains a primary consideration. Thanks to the significant progress made over the past two years, most City positions are now aligned with market levels. Any positions that fall below the 2026 market will be adjusted upward to meet the market.

Since 2015, the City has consistently maintained a goal of benchmarking positions at 102% of market range. This goal was based on our high expectations and accountability levels for our employees. As an organization we continue to ask our employees to do more with less. Our staffing is similar to that of similar-sized cities, but as a full-service city, Longmont employees are spread across more service departments. As our expectations are higher than normal or average, our employees should be compensated for meeting those expectations at an amount higher than midpoint or average. This proposed 2026 budget has pay budgeted at 101% of market. We are still targeting 102% of market, however we will not reach that in 2026.

In order to align actual salaries with the City's compensation philosophy to strive to pay employees meeting or exceeding expectations at 100% of market-level pay this proposed 2025 budget includes all non-collectively bargained open range salaries budgeted at 101% and allows for performance-based movement within the open range for open range employees who are below the 2026 position pay range midpoint. Performance-based movement through the range will be reviewed and is allowed, as long as the movement does not take the employee's salary beyond 101% of the 2026 position midpoint.

This proposed 2026 budget also includes funding of a maximum of 1.5% of pay in each department budget to allow for employees who meet certain criteria in delivering extraordinary performance to be compensated between 101% and 110% of the range midpoint. This is a component of our compensation program that is designed to both reward exceptional performance and provide an opportunity for employees to be compensated beyond the range midpoint.

In 2024, two-year contracts for both the Police and the Fire collective bargaining units were negotiated and approved for 2025 and 2026. This proposed 2026 budget includes the increases that were negotiated in those contracts.

The 2026 budget includes \$274,611 to continue the bilingual pay compensation program. This program recognizes regular, temporary, and part time non-benefitted employees who can provide translation and interpretation services in Spanish and American Sign Language, which enhances our capacity to deliver services to our diverse customers.

Defined Benefit Pension Plans

The City sponsors three defined benefit (DB) pension plans. Two of those plans are closed plans that covered fire and police employees hired before April 8, 1978. The third defined

benefit plan is for non-uniformed general employees. Each of these DB plans have their actuarial status measured annually based on actuarial assumptions along with actual membership, contribution and investment performance data. Each are governed by a retirement board and the City Council ultimately approves any plan amendments by ordinance as well as city contributions through the annual budget.

Old Hire Fire Pension Plan and Old Hire Police Pension Plan

Actuarial reviews are performed on the old hire plans every year and the most recent was as of January 1, 2025. The Old Hire Fire plan is 136.2% funded and the Old Hire Police plan is 106.3% funded. For 2026, no contribution is required to be made to either plan. With both these plans fully funded, we are recommending a 2% benefit increase to the members of these plans. The increases will not require any city contributions in 2025. **Attachment F** is the presentation made to the retirement boards on the 2025 actuarial reports for these two defined benefit plans and is included for your information.

General Employees Retirement Plan

The City sponsors a defined contribution retirement plan and a defined benefit pension plan for each of its non-uniformed general employees. The defined contribution plan is provided to regular employees in lieu of Social Security. The defined benefit plan, called the General Employees Retirement Plan (GERP), is funded through contributions by the City and employees. Historically the City contributed 6% of compensation to the GERP while employees contributed 4.5% of compensation.

In 2001 the City created a Retirement Health Savings (RHS) plan for employees and the City annually contributes \$400 for each regular full time employee to this defined contribution plan. The City reduced its funding to the GERP from 6% to 5% to create funding for the RHS plan.

The economic downturn in the fall of 2008 had a significant impact on the investment returns of the GERP. When the actuary study was performed in 2009 the full contribution requirement rose from 8.3% to 13.4% of pay. Despite the actuarial approach of smoothing investment returns over five years the funded ratio of the plan dropped from fully funded at 105.9% to unfunded at 86.7%.

In 2017 the city began to be more aggressive with contribution rates to make some progress on the unfunded liability. Further adjustments have been made since this time as the contribution requirement has continued to increase. In addition to the required city and employee contributions, the City made an additional lump sum contribution of \$400,000 during 2019 and 2020 and a \$200,000 contribution in 2021. These additional contributions came from transfers from the Health Benefits Fund.

In 2021 the GERP Board updated the mortality assumption and lowered the discount rate from 7.5% to 7.0%. Another lump sum contribution was made from the Health Benefits Fund in 2023 in the amount of the projected contribution deficit of \$700,000 with a similar contribution in the amount of \$200,000 in 2024.

Investment performance in 2023 was strong with a market value gain of 14.45%. While there was an actuarial gain in 2023 on investment returns, contributions and retirement experience, there was an actuarial loss on pay projections and city and employee contributions were increased.

In 2024 investment performance saw a market value gain of 11.4% however, there was again an actuarial loss on pay projections and city and employee contributions were again increased. The 2026 budget continues with the same employee/city contributions from 2025. With the plan assumptions and contribution levels, it is projected that the GERP plan could reach a fully funded status in approximately 2044.

Below are employee and city contributions going back to 2012.

Year	Employee Contribution	City Contribution
2012	5.00%	6.00%
2013	5.00%	6.00%
2014	5.70%	6.70%
2015	5.70%	6.70%
2016	5.70%	6.70%
2017	5.80%	7.20%
2018	5.80%	7.70%
2019	5.80%	7.70%
2020	6.00%	8.00%
2021	6.00%	8.40%
2022	6.60%	9.00%
2023	6.60%	9.00%
2024	7.00%	9.40%
2025	7.00%	9.40%

Attachment G is the presentation made to the GERP Board on the most recent actuarial report for the plan and is included for your information.

Staff and the GERP retirement board believe that bringing the plan to a funded status needs to continue to be a goal. As long as the plan remains unfunded there can be no cost-of-living

adjustment to the benefits of the retirees as TABOR requires that any such adjustment cannot be made unless the plan is fully funded. The last adjustment was made in 2009.

Police & Fire Retirement Benefits

In July of 2021 the City Council approved collective bargaining agreements for Police & Fire personnel. As part of those agreements the City agreed to allow the sworn Police & Fire who were covered by the City New Hire Police & New Hire Fire retirement plans to make a one-time irrevocable choice to enter the Colorado Fire and Police Pension Association (FPPA) system. As of November of 2021, all sworn Police & Fire *new hires* become members of the FPPA defined benefit plan. Employees hired before November of 2021 made a choice in the 4th quarter of 2021 to either enter the FPPA system or remain in the existing City New Hire retirement plans. Those that chose to enter the FPPA retirement system also had a choice to enter the FPPA defined benefit plan or the FPPA hybrid plan which offers both a defined benefit as well as a money purchase benefit. Among the Police employees, 109 chose to stay in the city defined contribution plan, 19 entered the FPPA defined benefit plan, and 19 entered the FPPA hybrid plan. Among the Fire employees, 36 chose to stay in the city defined contribution plan, 18 entered the FPPA defined benefit plan, and 37 entered the FPPA hybrid plan.

For 2026, the FPPA defined benefit plan requires an employer contribution of 11.00% for new hires since November of 2021. For employees prior to November 2021 the employer contribution for the FPPA defined benefit plan will be 11.10%. Employees prior to November 2021 in the FPPA hybrid plan require an employer contribution of 12.10%. Finally for employees prior to November 2021 that remained in the city defined contribution plans the employer contribution for 2024 is 12.10%.

Health Benefits Fund

During the budget process staff estimates the annual City cost for all employee health and dental benefit expenditures and converts that cost into a percentage of budgeted salaries for the next budget year. These City contributions to the Health Benefits Fund are transferred monthly from each of the respective funds. Employee contributions for these benefits are withheld from each paycheck and transferred into the Health Benefits Fund on a biweekly basis. Retiree contributions are withheld monthly from pension benefit checks. These three sources comprise the majority of the revenues to the Health Benefits Fund. All employee benefit-related expenditures are made from the Health Benefits Fund. ***Attachment H*** is an operating statement for the Health Benefits Fund, and it provides a detailed summary of the revenues and expenditures for the fund.

The Health Benefits Fund experienced expenses in excess of annual revenues from 2009 through 2012. City contributions to the Fund were increased from 14.5% of pay in 2012 to 15.7% in 2013 and then to 17% for 2014. Since that time, it hovered between 17% and 16%

until reaching 16% in 2022. In 2023, with significant growth in compensation for 2023 and no increase in the Kaiser premium we were able to reduce the city contribution percentage to 15.0%. Even still the fund balance grew in 2023. For 2024, there was a 5% increase in the Kaiser health premium but also a market pay adjustment of 4.64% or higher increasing city contributions as well. Thus, the level of contributions to the Health Benefit Fund was lowered to 14.5% for 2024. While there was an increase in the Kaiser cost again for 2025 there are also increases of 3% and greater in employee pay so the 2025 budget maintained the 14.5%.

Besides the provision of health benefits, the Health Benefit Fund is also used to pay premiums for dental, vision, long term disability and life insurance coverage as well as EAP services for our employees. In addition, the fund is used to provide Public Safety wellness exams, Public Safety counseling expenses, and wellness incentives in the form of health benefit premium discounts or rebates. Starting in 2026 this fund will cover the cost of employee rec passes that had previously been covered by the General Fund in the form of reductions to recreation revenues.

The Health Benefits Fund fund balance to begin 2024 was \$9.4 million and 2024 operations reduced this to \$8.7 million. Projections for 2025 show this fund increasing to \$9.8 million at the end of 2025 and \$10.5 million by the end of 2026. While the Health Benefit Fund has been very strong in the last few years, unpredictable changes could quickly destabilize it, and fiscal prudence calls for a minimum fund balance level for optimal future management. As recommended in past years, staff believes three months of expenses from this fund, currently about \$4.6 million, should always be maintained to serve as an emergency reserve to guard against a drop in revenues.

Self-Insurance Funds

The City maintains two self-insurance funds, one for general & property claims and another for workers compensation claims. In each instance the City is self-insured but secures insurance coverage for claims above a certain limit. Essentially the City is using these self-insurance funds to pay deductibles or amounts that do not rise to our level of insurance coverage. These two funds are internal service funds which are not budgeted. The revenues to these funds are primarily from transfers from the major operating funds of the City. The transfers to the Liability Insurance Fund are budgeted as a liability expense line item throughout the operating budgets while the transfers to the Workers Compensation Fund are budgeted as a workers compensation expense line item throughout the operating budgets. Transfer amounts are based on claims experience and claims exposure.

The fund balances in these two funds at the end of 2024 were \$5.0 million in the Self Insurance Fund and \$7.0 million in the Workers Compensation Fund. Transfers from the

operating funds in the proposed 2026 budget are budgeted at \$1.8 million to the Liability Insurance Fund and \$1.3 million to the Workers Compensation Fund.

UNFUNDED NEEDS

Given the amount of level 1, collective bargaining increases, and fleet lease increases that had to be funded in the General Fund and the Public Safety Fund there was simply not sufficient revenue to cover level 2 needs. **Attachment I** is a list of the unfunded level 2 requests in these two Funds. The most pressing unfunded needs are in Public Safety, Human Services and Parks and Natural Resources. Staff will highlight the most urgent unfunded needs during the council meeting.

ATTACHMENTS:

Attachment A - 2026 Budget by Fund vs 2025 Budget
Attachment B - 2026 Budget by Fund vs 2025 Budget with CIP Separate
Attachment C - Historical Residential Buildings Permit Data
Attachment D - General Fund Changes in Ongoing
Attachment E - Public Safety Fund Proforma
Attachment F - Longmont Old Hire Fire and Police Pension Presentation
Attachment G - Longmont General Employee Pension Presentation
Attachment H - Health Benefits Fund Operating Statement
Attachment I - Unfunded Level 2 Requests