



STUDY SESSION MEMORANDUM

TO: Mayor and Members of City Council

FROM: Nuria Rivera-Vandermyde, City Manager
Chris Meschuk, Deputy City Manager
Krista Morrison, Chief Financial Officer
Joel Wagner, Deputy Director of Finance
Charlotte Huskey, Budget Officer

DATE: May 8, 2025

SUBJECT: Financial Forecast

EXECUTIVE SUMMARY

The purpose of this item is for council to receive an update on the city's financial forecast, an overview of economic conditions, and an update on key assumptions and considerations for the development of the 2026 budget.

The city's major revenue sources are sales & use tax (approx. 40% of total revenues) and property tax (approx. 12% of total revenues). Beginning in 2023, the city's sales and use tax projections forecasted a slowdown in economic growth, leading to an overall flattening of the city's primary revenue source from an average growth rate of 9.2% between 2020 to 2023, to flat year-over-year growth between 2023 and 2024. Since 2020, the city's annual property tax revenue growth has been limited by state legislation, including recent downward adjustments of assessment rates from SB24-233 and HB24B-1001 passed during the 2024 regular and special legislative session.

Since January 2025, elevated uncertainty in federal policies and decision-making has impacted staff assumptions for the city's revenue forecasting and budgeting due to heightened economic risk. Primary drivers of economic uncertainty that may impact sales & use taxes include tariff policies and subsequent supply chain risk, potential rising inflation, and likely impacts to consumer confidence and spending. Due to this elevated uncertainty, staff adopted a more conservative 2025 revenue forecast for sales & use taxes, revising projections down to mitigate potential risk.

In addition to economic conditions, staff continue to monitor federal decisions that may have direct and indirect impacts on the city's budget. Namely, these include three main items: 1) Tariffs and the potential impact on the cost of city capital infrastructure, 2) Federal funds supporting existing projects and programs and future federal grant awards, and 3) Tax policy changes and potential

removal of the tax-exempt status for municipal debt, which would result in a higher cost of financing capital infrastructure.

City staff continue to focus on mitigating risk and supporting organizational resiliency at this time of uncertainty by adopting a more conservative revenue forecast in addition focusing the 2026 budget direction on limited enhancements for new, additive programs and services, realignment of existing dollars toward top priorities, and continuing to utilize a data-driven budgeting approach through program outcomes and performance measures as aligned to the citywide [Sustainability, Equity, and Resilience Framework](#).

Finally, the city's [Long-Term Financial Strategy](#) continues to advance the development of a comprehensive financial strategy to help guide fiscal decision-making and long-term financial health of the city. Staff provided an update of LTFS phase I and II efforts to City Council at the [April 3, 2025](#) council meeting, with particular focus on the engagement planning of *Fund Our Future* community conversations on service level prioritization and the multi-year ballot measure strategy for 2025 and 2026. LTFS Phase II will continue through Spring 2026 and will help to inform the 2026 budget development as well as future budget cycles.

The 2026 budget will focus on the following key assumptions, as described in further detail below.

Summary of Key Assumptions for the 2026 Budget

1. The city will continue to monitor potential impacts of federal uncertainty, including changing economic conditions and potential implications of tariffs, federal funds, and tax policy changes.
2. Economic uncertainty and flattening sales & use tax revenues will limit budget flexibility for new, additional ongoing programs and services in 2026.
3. Budget realignments of existing dollars toward prioritized program outcomes will continue to be emphasized to support key community priorities. Outcomes and performance measures will continue to be key to understand the performance of our city programs and services.
4. The city's unfunded and underfunded needs are great. The 2026 budget and six-year Capital Improvement Program will continue to focus on taking care of the city's existing assets.
5. *Fund Our Future* and the Long-Term Financial Strategy will position the city toward long-term fiscal health, including uplifting the guiding principles of fiscal sustainability and sufficiency, equity, and financial resiliency supported by stability and predictability of service levels, diversification of revenues, and flexibility of funding.

COUNCIL QUESTIONS

1. Does council have any questions regarding the 2024 preliminary, unaudited year-end financial results?
2. Does council have any questions regarding the 2026 Budget economic outlook and key budget assumptions?

BACKGROUND

Budget Overview and Background: 2023-2025 Approved Budgets

Since 2022, with the development of the 2023 budget, the City of Boulder has shifted from a traditional, increment-based budgeting approach to citywide alignment of programs, services and resources through the overarching [Sustainability, Equity, and Resilience Framework](#) and outcome-based budgeting, which focuses on understanding the performance of programs and services provided across the organization and utilizing an enhanced data-driven approach to budget decision-making.

The city completed this three-year implementation effort of outcome-based budgeting during the 2023 budget through 2025 budget processes, which included the following key implementation efforts:

Year 1, for the [2023 budget](#), staff implemented a new budgeting software, [OpenGov](#), and aligned city programs and budgets to the city's Sustainability, Equity, and Resilience Framework. This effort supported greater transparency of the city's budget by demonstrating how our investments aligned to community goal areas. The city's 2023 Approved Budget of \$515.4M, with an operating budget of \$354.6M and capital budget of \$160.8M, made significant ongoing investments in wildfire resilience, public space management, behavioral and mental health programming and services, and homelessness solutions, and one-time investments in programs such as the Safe and Managed Spaces Program and Community Assistance Response and Engagement (CARE) Program.

In year 2, with the development of the [2024 budget](#), the city added specificity by developing intended outcomes for each program area in the city and added data measurements to be able to measure the impact of our investments. This was also the first year the city worked directly with Community Connectors-in-Residence (CC-in-Rs) and their communities to incorporate their input and priorities into the budget development process. This engagement generated significant input that was then used during key decision-making of the 2024 budget. Key changes within the total 2024 Approved Budget of \$515.4M, with an operating budget of \$374.2M and capital budget of \$141.2M, comprised the elimination of library operating costs with the voter creation of a Boulder Library District and subsequent programming toward the city's workforce and permanent investments such as behavioral health programs, day services center operations, wildfire resilience, and housing support.

Finally, year 3 and the [2025 budget](#) focused on refinement of outcomes and performance measures, the development of a public-facing outcomes dashboard, continued engagement with CC-in-Rs and a citywide 2025 budget questionnaire, and boards and commissions engagement. The 2025 budget direction focused on realignments of existing dollars and utilizing refined performance measures to guide budget decisions and allocate dollars toward prioritized outcomes. The 2025 Approved Budget of \$589.3M, with an operating budget of \$399.3M and capital budget of \$189.9M, represented a balanced yet responsive approach to supporting community priorities while maintaining investments in core services. Key investments supported affordable housing development, human services-related community programs and rental assistance, urban rangers staffing, and critical fleet replacement and facilities maintenance needs.

With the development of the 2026 budget, the city has now integrated Budgeting for Resilience & Equity into the city's decision-making framework and will continue to refine, iterate and improve upon this foundation to utilize program outcomes and performance measures as one of the key pillars to budget decision-making. Key assumptions to the 2026 budget will continue to focus on realignments of existing dollars toward prioritized program outcomes, advancing the Citywide Strategic Plan, flexibility of funding across all city funds, and supporting organizational resiliency through limited enhancements and strategic prioritization of dollars to take care of existing programs, service levels, and assets that uplift community priorities.

ANALYSIS

City of Boulder 2024 Year-End Results and Economic Outlook

The following section provides an overview of the 2024 unaudited year-end results as well as the economic outlook of the city's two primary revenue sources, sales & use tax and property tax. Since 2020, the city has partnered with the University of Colorado Boulder (CU Boulder), Leeds School of Business to forecast revenues based upon an econometric model. These forecasted revenues are utilized to guide budget projections, annual budget development and monitoring. As mentioned above, city staff will continue to partner with CU Boulder throughout the budget process to monitor and forecast economic conditions given heightened uncertainty.

Major Revenue Sources

Sales and Use Tax

Sales and use tax comprises approximately 40% of the city's revenues and over 50% of revenues when excluding utility revenues. In 2023, the city's sales and use tax revenues experienced slowing growth from an average rate of 9.2% between 2020 to 2023, to flat year-over-year growth between 2023 and 2024.

In 2023 and 2024, total sales and use tax revenues came within 1.5% of the revised forecast, or within \$2.5M of anticipated total revenues. As shown in the table below, in 2024, sales and use taxes came in at 98.9% of revised projections, with retail sales tax and business use tax revenues slightly below revised projections, which were offset by higher-than-anticipated construction use tax and audit revenues. Construction use tax and tax audit revenues are more volatile than retail sales and business use taxes, and therefore are generally considered one-time revenues.

The Recreational Marijuana Sales Tax, which is an additional 3.5% sales and use tax on recreational marijuana funding general purposes, continues to experience an annual decrease in revenues since the pandemic period, with a 42.3% decline since 2020. Staff anticipates this downward trend to continue into 2026.

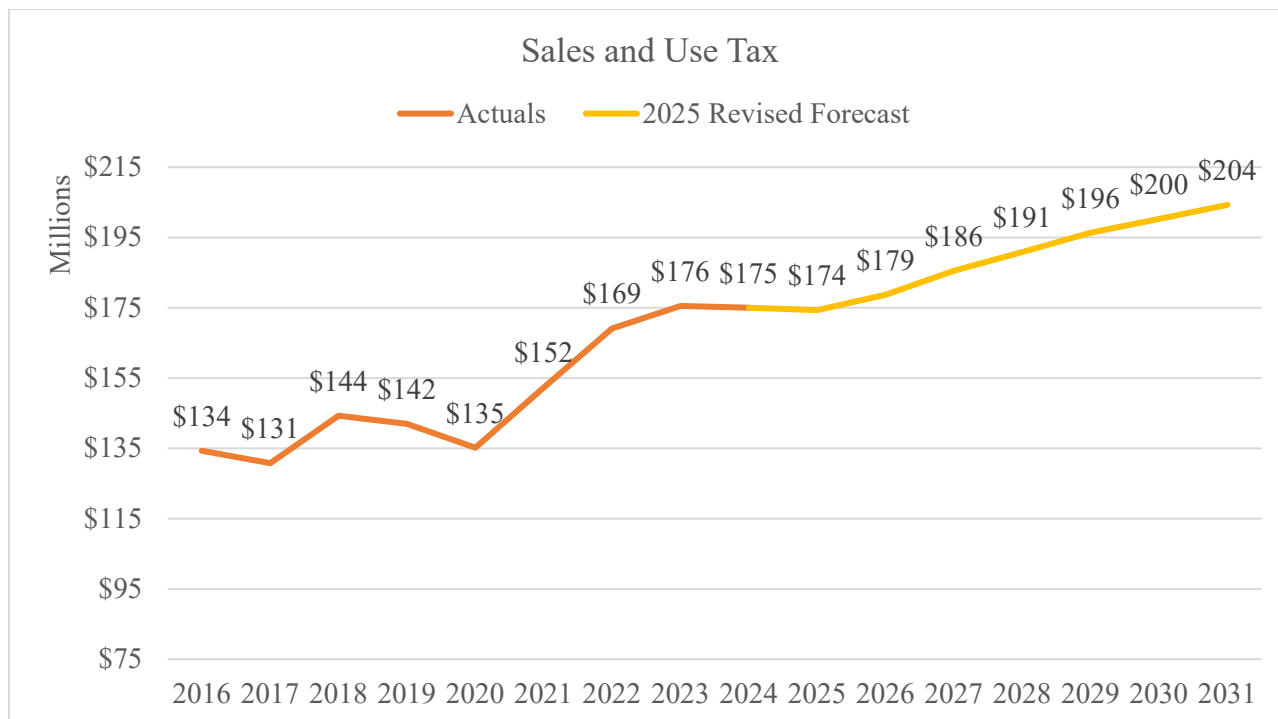
Sales & Use Tax 2024 Year-End Unaudited Revenues (in millions)					
Category	2024 Approved Budget	2024 Revised Projections	2024 Year-End Actuals	Actuals as % of Approved	Actuals as % of Revised
Retail Sales	\$144.65	\$141.68	\$139.24	96.26%	98.28%
Recreational Marijuana	\$1.32	\$1.17	\$1.18	89.39%	100.85%
Consumer/Business Use	\$10.15	\$11.65	\$9.84	96.95%	84.46%
Construction Use	\$13.30	\$13.59	\$14.92	112.18%	109.79%
Motor Vehicle Use	\$6.19	\$6.48	\$5.97	96.45%	92.13%
Sales Tax Audits	\$1.25	\$1.25	\$2.12	169.60%	169.60%
Business Use Tax Audits	Not budgeted	Not budgeted	\$0.64	N/A	N/A
Total	\$176.86	\$175.82	\$173.90	98.33%	98.91%

Elevated federal uncertainty has influenced forecasting assumptions for the city's sales and use tax revenues due to heightened economic risk. Primary drivers of economic uncertainty that may impact sales & use taxes include tariff policies and subsequent supply chain risk, potential rising inflation, and likely impacts to consumer confidence and spending.

Based on the most recent economic data from Moody's Analytics economic scenario forecasts and modeling provided by CU Boulder, staff has adopted a more conservative 2025 revenue forecast for sales & use taxes, revising revenue projects down to mitigate potential risk. As shown in the graph below, the revised forecast assumes -0.4% year-over-year growth between 2024 actuals and 2025 projections, with 2.6% growth between 2025-2031. The forecast assumes near-term revenue declines in 2025 and 2026, with moderate economic recovery between 2027-2031.

It is important to note that given the uncertainty, staff will continue to monitor sales and use tax revenues and economic conditions, in partnership with CU Boulder, throughout this year's budget development cycle to ensure that the sales and use tax forecasts support the budgeting process.

At the May 8 Financial Forecast, staff and CU Boulder will present and provide further detail on current and forecasted economic conditions and forecasted sales & use revenues.



Property Tax

Property tax is the second largest source of ongoing revenue supporting general purposes, comprising approximately 12% of annual city revenues.

Property values are reassessed by the county assessor's office every two years, on every odd-numbered year. Biannual property value reassessments are based on time-adjusted home sales data from two years prior to the assessment date.

In September of 2024, the state legislature passed HB24B-1001, which impacted city property tax revenues. The 2025 revised projection is based on the final assessed value certifications provided by the county in December 2024, the final certifications capture the full impact of HB24B-1001. Staff budgeted based on legislation that had passed in May 2024, SB24-233.

The city received 2025 Preliminary Assessed Values (AVs) from Boulder County on April 24. Preliminary assessments and initial estimates of projected growth for 2026 anticipates a 1.0% year-over-year increase in property tax revenues, as shown in the table below.

Initial staff review of assessment values indicates slowing growth in property values, notably residential values, during this reassessment cycle. The flattening is also attributed to the compounding effect of the September 2024 legislation HB24B-1001, which further reduced assessment rates for residential, commercial, and agricultural properties. Staff continues to review this data with Boulder County Assessors Office to provide updated revisions to the property tax forecast.

Property Taxes – City of Boulder (in millions)					
Description	2022 Actual	2023 Actual	2024 Actual	2025 Revised Projection (HB24B-1001)	2026 Preliminary Projection
Tax Revenue	\$50.81	\$48.74	\$60.63	\$58.12	\$58.7
<i>Changes in Revenue</i>		-4.1%	24.4%	-4.1%	1.0%
Assessment Values (AV)	\$4,281	\$4,227	\$5,095	\$5,092	\$5,143
<i>Change in AV</i>		-1.3%	20.5%	-0.1%	1.0%

2026 Budget – Key Assumptions

The key budget assumptions, as outlined below, are major factors that will inform the 2026 Budget. While staff carefully considers and reviews a comprehensive set of assumptions during the annual budget development cycle, the following major assumptions and policy issues will be of significant consideration during this year’s budget development.

1. Potential Impacts of Federal Uncertainty

Staff continue to monitor federal decisions that may have direct and indirect impacts on the city’s budget. As mentioned above, the city is adopting a more conservative sales and use tax forecast to mitigate risk against potential economic changes and fluctuations to the city’s major revenue source.

In addition, city staff continue to monitor three key items that may impact the city’s budget:

- 1) Tariffs and the potential impact on the cost of city capital infrastructure
- 2) Federal funds supporting existing projects and programs and future federal grant awards, and,
- 3) Tax policy changes and potential removal of the tax-exempt status for municipal debt, which would result in a higher cost of financing capital infrastructure.

Federal uncertainty of potential tariff policy changes and subsequent effects on supply chains may impact the stability of the city’s sales and use tax revenues as well as the cost of capital infrastructure and other products, which would be driven by a drop in consumer and business confidence, slowing consumption growth, and heightened inflationary pressures. Most specifically, the city continues to monitor potential impacts to items such as fleet and computer replacements, technology investments, and other imported products and materials supporting city construction projects. To date, the city has not seen an increase of the cost of products and materials due to tariffs and will continue to remain vigilant of potential budgetary impacts. In addition, some grant-funded city capital projects, such as transportation projects, are more protected from potential tariff impacts due to Buy America provisions required per federal grant agreements.

The city receives federal grant awards on an annual and one-time basis supporting areas such as transportation, housing, public safety, and economic and COVID-19 recovery efforts. The city’s total amount of active federal awards is \$96.8M. Of this total, \$54.3M is the remaining amount, most of which is received on a reimbursement basis once applicable grant expenditures are incurred. The majority of active federal awards support transportation infrastructure projects, such as upgrades to

traffic signals, sidewalk and underpass construction, and other transportation safety improvements, and affordable housing projects and programs. City staff continue to monitor the progress of active, pending, and future federal awards and are in regular communication with lobbyists to understand risk level and potential exposure. To date, no city federal award has been impacted.

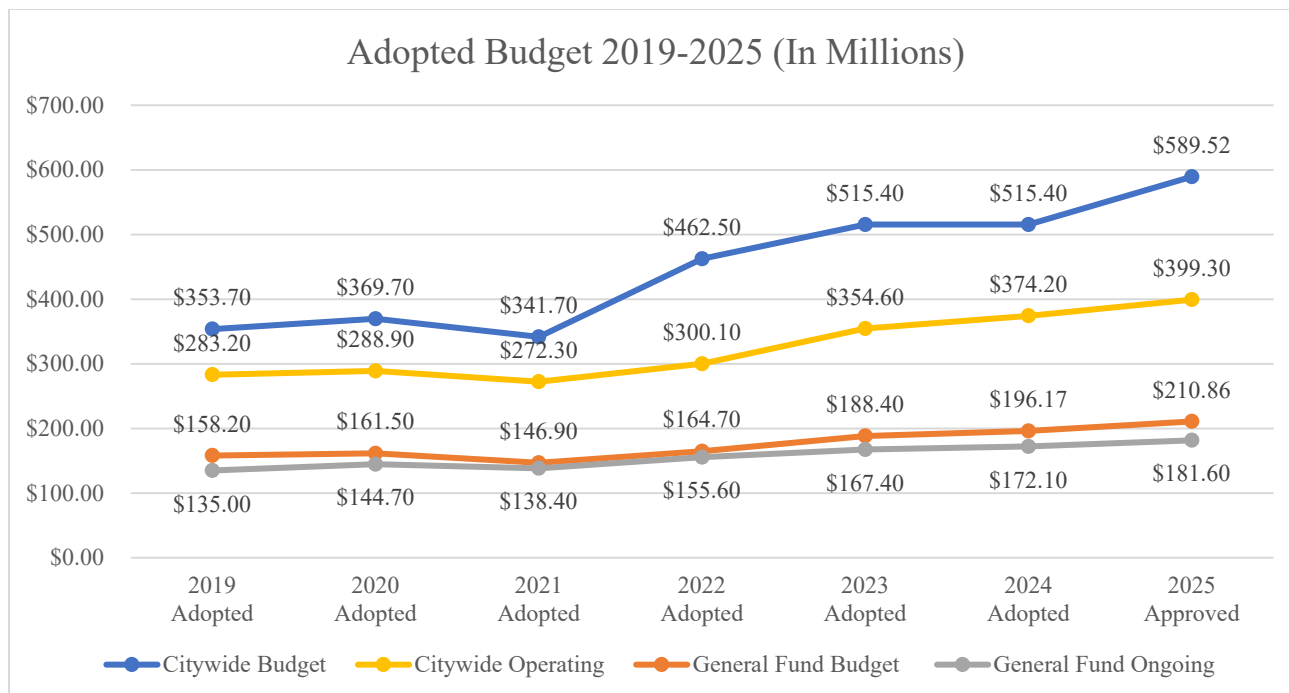
Finally, the third item that city staff continue to monitor is the potential threat to the federal tax exemption on municipal debt with expiring and potential changes in the Tax Cuts and Jobs Act. The City of Boulder, along with other localities, can issue tax-exempt debt, which results in lower interest rates for debt issuances compared to taxable debt issuances, and therefore, a lower total cost of borrowing for capital infrastructure projects compared to the private sector. Removal of the city's tax-exempt status for municipal debt would result in a higher cost of borrowing and financing of the city's capital infrastructure projects. For example, on a \$100.0M capital project, the estimated difference between a tax-exempt debt issuance and a taxable issuance is approximately \$18.0M (estimated interest rate difference of 0.624%). Currently, the city's debt issuance plans are limited within the 2025-2030 Capital Improvement Program, with a potential issuance using voter-approved debt authority from the Community, Culture, Resilience, and Safety (CCRS) Tax in 2026.

2. Limited Budget Flexibility for New, Additional Ongoing Programs and Services

Elevated federal uncertainty and the flattening of the city's major revenue source, sales & use tax, continues to constrain investments in new, additional ongoing programs and enhanced services.

During the post-pandemic period between 2020 and 2023, city sales and use tax revenues saw a 9.2% average increase in revenues due to high inflation, and staff also shifted the sales and use tax modeling approach to utilize a less conservative forecast. This adjustment enabled the city to maximize ongoing sales and use tax revenues toward investments in community priorities such as behavioral health programming, homelessness solutions, case management, public safety, and alternative emergency response, as reflected in the city's budget growth between 2021 and 2023 in graph below.

Staff began to see a flattening of sales and use taxes in 2023 and again with 2024 year-end unaudited actuals, limiting additional growth of ongoing revenues to support new ongoing programs and services. The graph below demonstrates this widening between the General Fund ongoing budget, and the General Fund total budget (including both one-time and ongoing expenses), representing an increase in the investment of one-time revenues toward one-time budgeted expenses during the past three fiscal years.



The 2026 budget, therefore, will emphasize limited enhancements for new, additive programs and services above existing program and service levels. The city will continue, where feasible, to utilize one-time revenues to support one-time strategic investments.

As part of the Long-Term Financial Strategy and *Fund Our Future* community conversations planned for June through October 2025, community members will have the opportunity to share desired levels of service, prioritization, and feedback on trade-offs of unfunded and underfunded priorities, including alternative streams of revenue. These conversations will not only support and inform potential decisions on 2026 tax ballot items, but will also help to provide a framework for the city's financial future and budget priorities.

3. Budget Realignments of Existing Dollars toward Prioritized Program Outcomes and Key Community Priorities

With limited ongoing revenues to support additional ongoing programs above current service levels, the 2026 budget direction will continue to focus on budget realignments of existing dollars and funding flexibility across all city funds to invest in prioritized program outcomes and key community priorities. In the 2025 budget, staff performed realignments of \$3.0M of existing dollars toward areas of the greatest demand or need, including the urban rangers program (\$91,000), the Family Services Program (\$26,500), and transportation streetlight maintenance (\$755,400). With the 2026 budget, the city's outcomes-based budgeting approach and pillars of decision-making within Budgeting for Resilience & Equity will continue to



support prioritization of realignments, which includes reviewing the performance of intended outcomes by program area and shifting existing dollars toward their highest and best use in support of community and citywide goals.

As shared above, the city will continue to refine, iterate, and improve upon program outcomes and performance measure data as aligned to department program areas, the Citywide Strategic Plan, and greater Sustainability, Equity, and Resilience Framework. With Budgeting for Resilience & Equity now serving as a foundational tool and incorporated into annual budgeting practices, the city aims to continue to measure the impact of investments and utilize this framework to prioritize funding toward those measurable impacts.

4. Continued Emphasis on Taking Care of Existing Assets in the Capital Improvement Program

The 2026-31 Capital Improvement Program will emphasize taking care of the city's existing assets, while supporting the goals and objectives within the city's Sustainability, Equity, and Resilience Framework, the Boulder Valley Comprehensive Plan, and subcommunity and area plans. As shared during the 2025 Budget council meetings in October 2024, and further during the update on the Long-Term Financial Strategy in April 2025, the city's unfunded and underfunded needs are great, which includes a backlog of capital infrastructure, renovation, replacement, and maintenance projects in addition to operating programs and services.

The city's most flexible revenue source supporting citywide capital improvement projects, the 15-year 0.30% Community, Culture, Resilience and Safety Tax, has been fully leveraged to support over 20 key capital projects, including the renovation of the East Boulder Community Center (\$51.8M), completion of Fire Station 3 (\$14.8M), replacements of Fire Stations 2 and 4 (\$46.0M), Civic Area Phase II (\$17.6M), Pearl Street Mall improvements (\$1.15M), and critical bridge replacements (\$11.9M).

In addition to these ongoing and planned capital infrastructure investments, the city continues to experience emergency maintenance needs resulting in unplanned costs to support aging infrastructure and city facilities, which represents an inefficient use of funds and does not align with the city's climate, social, or financial goals. The six-year Capital Improvement Program will continue to prioritize funding for future capital infrastructure and maintenance projects, including city building adaptations and modernizations, that will ultimately result in savings in operations and maintenance budgets.

5. Long-Term Financial Strategy and *Fund Our Future*

Staff provided a recent update on the Long-Term Financial Strategy (LTFS) at the April 3 council meeting. The LTFS was first indicated as a City Council priority during the 2024 council retreat, which focuses on the development of a comprehensive citywide strategy to help guide fiscal decision-making and long-term financial health of the city. The LTFS builds upon prior policy recommendations of the Blue Ribbon Commission Reports of 2008 and 2010 and the Budgeting for Resilience Report of 2019, which:

- Called for a **comprehensive financial plan**,
- Cautioned the city's **overreliance on sales tax** and **dedication of funding sources**,
- Recommended the identification of core city services and **service level prioritization**, and
- Encouraged the development of an **outcomes-based** system for budgeting

With policy guidance from the Financial Strategy Committee, City Council, and an internal executive steering committee, staff completed Phase I of the LTFS, with 2025 potential tax ballot measure recommendations for additional council consideration. Staff is now focused on Phase II efforts (Q1 2025-Q2 2026), which prioritize benchmarking analysis of service levels, additional revenue analysis and research, the development of a five-year comprehensive financial plan, and community conversations on service level prioritization through *Fund Our Future*.

Fund Our Future will begin in June 2025 and serve as a holistic engagement strategy to receive input from diverse stakeholders on trade-off of service level priorities, educate the public on the city's budget and financial constraints, and inform potential 2026 tax ballot measures for council consideration.

Ultimately, the LTFS two-year initiative aims will help guide the city forward as the city seeks to establish an equitable, resilient and stable fiscal strategy to meet the greatest needs of the community.

At this time of elevated uncertainty and slowing growth of major revenues, the 2026 key budget assumptions will focus on mitigating risk and supporting organizational resiliency through continued efforts on Budgeting for Resilience and Equity and the Long-Term Financial Strategy. The 2026 budget will focus on adopting a more conservative revenue forecast, limiting enhancements for new ongoing programs and services, realigning existing dollars toward top priorities, and utilizing a data-driven outcomes-based budgeting approach to uplift citywide goals within the Sustainability, Equity, and Resilience Framework, Citywide Strategic Plan, and council and community priorities.