Long Range Planning

As a budgeting and planning best-practice, the City develops a five-year Capital Improvement Plan (see CIP section) and a five-year financial forecast for the General Fund, 2C/2C2 Road Repair and Maintenance Tax, Public Safety Sales Tax (PSST), Trails, Open Space, and Parks Tax (TOPS), Lodgers' and Auto Rental Tax (LART), and Conservation Trust Funds (CTF). Historic information is also displayed for each of these funds.

Forecasting

While forecasts are based upon historic trends, current conditions, and expectations regarding the future, the City is also dependent upon a complex local, national and world economy. Because sales tax is the largest source of City revenue, there is a consistent level of uncertainty, as sales tax revenue is very reactive to even the slightest economic downturn or change in consumer sentiment. The forecast is useful to understand what the future financial condition of the City could be based upon a set of reasonable assumptions. However, actual outcomes will differ from the assumptions - impacting financial results. The City will make strategic adjustments to changing conditions as needed. For example, if revenue is trending under budget, the City will take actions to modify expenditures mid-year.

The City uses a blended method of forecasting, to include the Box Jenkins model, Bayesian model, and a leading indicator modeling based on Consumer Sentiment levels published by the University of Michigan. These are averaged together and outlying data noted, in order to account for unusual events.

Below are the assumptions that are included in the General Fund revenue and expenditure forecast.

Forecast Assumptions
Sales and Use Tax revenue assumes a 5% growth rate in 2023 and 3% growth in subsequent years
Property Tax revenue assumes a 5% growth rate in the year following assessment years, on top of the 1.9% growth rate in other years
1.5% to 4% annual revenue growth for other revenues
Employee compensation increases at a rate of 2.25% of salary annually
Healthcare costs increase by 6.7% annually
Pension costs for sworn and civilian increase by 3.7% annually
Operating expenditures and Capital Outlay do not increase until 2026, then an increase of just under 1% each year is included
The Capital Improvements Program (CIP) projected funding is based on the 5-year plan; the CIP program is fluid and as other funding mechanisms are identified, projects may drop off, and as new priorities are determined, new projects may be added.
Actual expenditures are typically 1% under budget each year, which is factored into the projected Fund Balance
In years 2023-2025, it is likely that the eligible General Fund revenue will exceed the TABOR limit
Budget reductions will be implemented as needed to ensure that expenditures match the TABOR allowed revenue retention

Risks and Opportunities

The most significant risks to the forecasts include, but are not limited to:
- continued impact of the COVID-19 pandemic
- other sources of economic slowdown/recession
- significant changes to primary employers
- unavoidable cost increases
- unforeseen legal settlements
- increased sales outside City limits
- unexpected increases in unfunded liabilities

The most significant opportunities that could impact the forecast include, but are not limited to:
- population growth
- added venues and events that increase tourism
- continued attraction of new employers
- land annexation
- status of Space Force headquartered in Colorado Springs
- increased grant funding

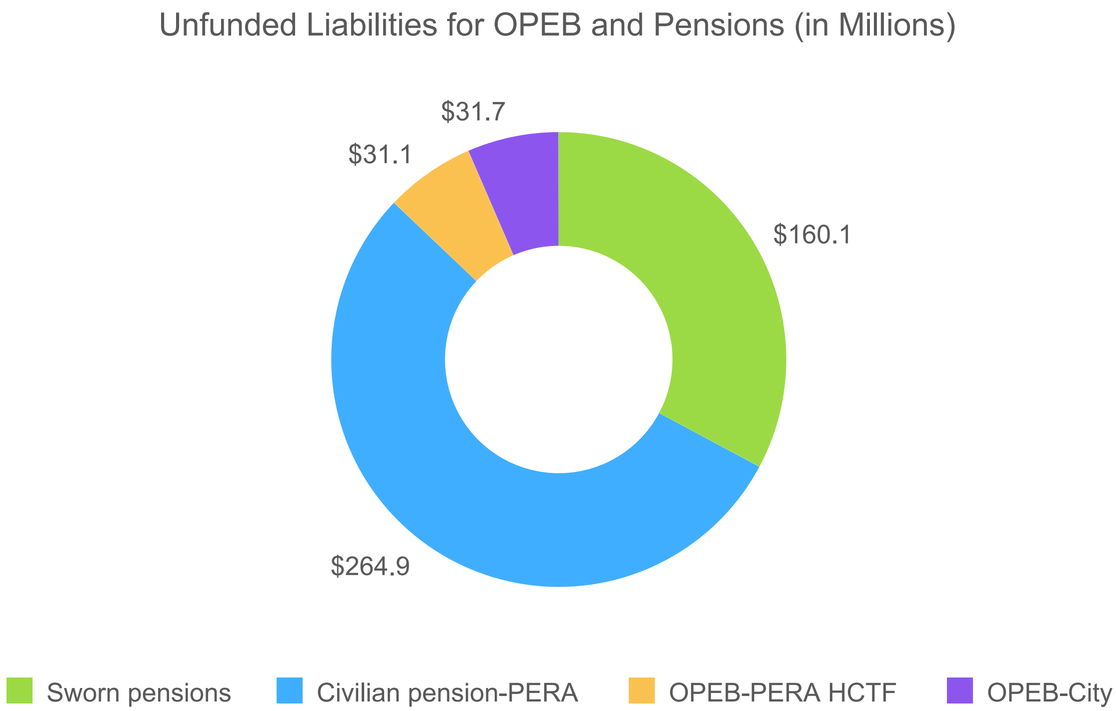
Unfunded Liabilities

The City of Colorado Springs, like most local governments, has long-term liabilities associated with retiree pension and health benefits. Both sworn (Police and Fire) and civilian pensions, along with retiree health plans, have annual costs associated with benefits distributed in that year. Most of these plans also have accrued obligations to be paid in the future, and actuaries determine the amount of assets to be set aside now to ensure that adequate resources are available in the future.

There are a number of defined benefit pension plans for former and current civilian and sworn employees. Plan participation is dependent on the type of employment and entry date.

City employees are also eligible to participate in various defined benefit post-employment benefit plans other than pensions, also known as Other Post-Employment Benefits (OPEB). Eligible retired employees of the City may receive OPEB through two different plans. First is the PERA Health Care Trust Fund (OPEB-HCTF) for former civilian employees, a cost-sharing defined benefit plan called PERACare, administered by the PERA Board. The second component of OPEB is a plan administered by the City (OPEB-CITY) for eligible retired sworn and some civilian employees to participate in the One Health private medical plan exchange until the retiree reaches the Medicare-eligible age. There are also life insurance benefits available to retirees that are administered under the OPEB-CITY plan. The net liability of both components of OPEB are determined using the economic resources measurement focus and the accrual basis of accounting.

The chart on the next page details the City's unfunded liabilities for pensions and OPEB totaling $487.8 million, for all funds, as of December 31, 2020.



For more information on other long term liabilities, please see the Debt Overview section of this document. For more information on pensions and OPEB, please see the City's Annual Comprehensive Financial Report (ACFR), located here: https://coloradosprings.gov/acfr

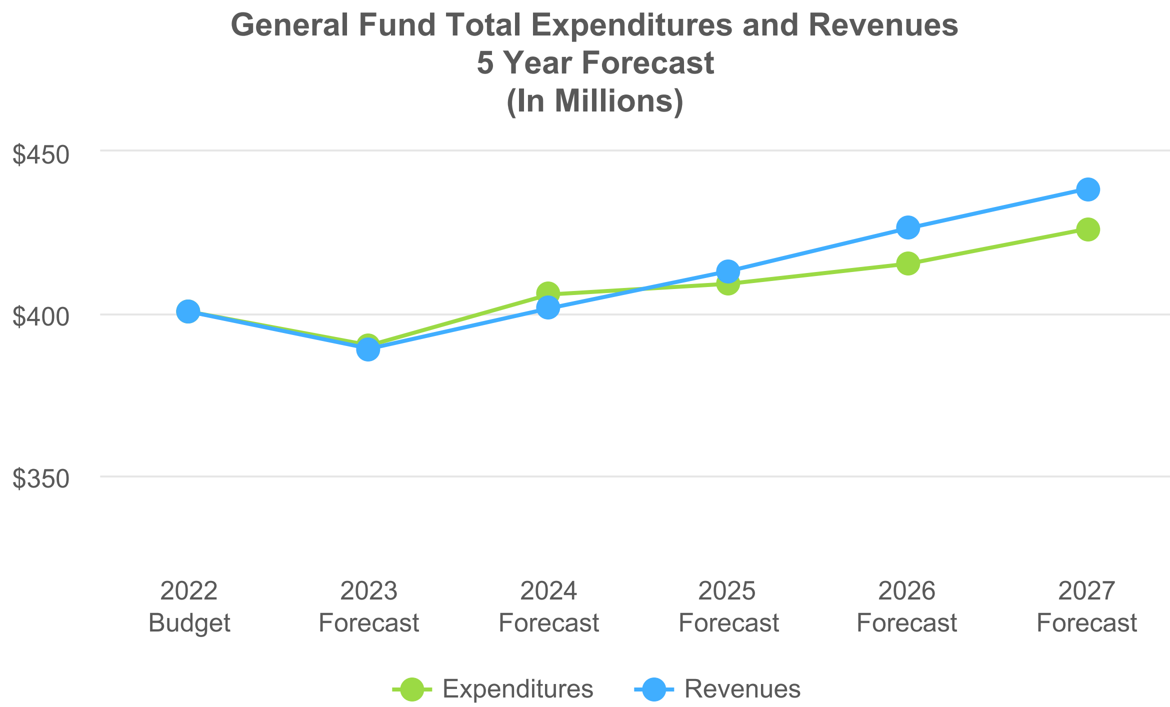
General Fund
Five-Year Financial Forecast

	2022 Budget	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Unrestricted Beginning Fund Balance	$78,391,004	$82,397,463	$85,266,397	$85,055,450	$93,055,904	$108,151,922
Revenue						
Taxes - Sales and Use Tax	223,670,000	234,853,500	241,899,105	249,156,078	256,630,760	264,329,683
Taxes - Property Tax	25,189,916	25,668,524	27,439,652	27,961,005	29,890,314	30,458,230
Taxes - Other	3,956,930	4,020,241	4,084,565	4,149,918	4,216,317	4,283,778
Charges for Services	19,102,365	19,388,900	19,679,734	19,974,930	20,274,554	20,578,672
Fines	10,979,482	11,418,661	11,875,407	12,350,423	12,844,440	13,358,218
Intergovernmental	23,399,873	24,101,869	24,824,925	25,569,673	26,336,763	27,126,866
Licenses and Permits	3,486,761	3,556,496	3,627,626	3,700,179	3,774,183	3,849,667
Miscellaneous Revenue	8,767,782	9,030,815	9,301,739	9,580,791	9,868,215	10,164,261
Other Financing Sources	55,592,810	57,260,594	58,978,412	60,747,764	62,570,197	64,447,303
Rebudgeted	26,500,000	0	0	0	0	0
Total Revenue	$400,645,919	$389,299,600	$401,711,165	$413,190,761	$426,405,743	$438,596,678

	2022 Budget	2023 Forecast	2024 Forecast	2025 Forecast	2026 Forecast	2027 Forecast
Expenditures						
Prior Year Salaries and Benefits	242,396,856	269,519,097	277,081,591	284,904,553	292,999,533	301,378,709
Pension increases/(decreases)	(788,423)	887,167	919,903	953,847	989,044	1,025,540
Healthcare cost increases/(decreases)	1,779,978	1,730,725	1,847,203	1,971,520	2,104,203	2,245,816
Changes in compensation	26,130,686	4,944,602	5,055,856	5,169,613	5,285,929	5,404,862
Total Salaries and Benefits	269,519,097	277,081,591	284,904,553	292,999,533	301,378,709	310,054,927
Operating Expenditures	98,440,058	98,440,058	98,440,058	98,440,058	99,424,459	100,418,704
Capital Outlay (Operating)	4,375,561	4,375,561	4,375,561	4,375,561	4,419,317	4,463,510
Capital Improvements (CIP)	7,215,970	6,385,625	6,005,600	5,852,000	6,017,659	7,017,659
General Fund Projects	1,223,857	1,223,857	1,223,857	1,223,857	1,223,857	1,223,857
Internal Services Charges	2,771,876	2,827,314	2,883,860	2,941,537	3,000,368	3,060,375
TABOR retention/refund	17,099,500	12,463,208	8,148,442	3,450,592	0	0
Budget reductions to balance	0	(12,463,208)	0	0	0	0
Total Expenditures	$400,645,919	$390,334,006	$405,981,931	$409,283,138	$415,464,369	$426,239,032
Budget to Budget $ Change	56,030,879	(10,311,913)	15,647,925	3,301,207	6,181,231	10,774,663
Budget to Budget % Change	16.3%	(2.6)%	4.0%	0.8%	1.5%	2.6%
Expenditure savings - 1%	4,006,459	3,903,340	4,059,819	4,092,831	4,154,644	4,262,390
(Draw from)/Contribution to Fund Balance	4,006,459	2,868,934	(210,947)	8,000,454	15,096,018	16,620,036
Unrestricted Ending Fund Balance	$82,397,463	$85,266,397	$85,055,450	$93,055,904	$108,151,922	$124,771,958
Unrestricted F.B. as a % of following year Expenditures	21%	21%	21%	22%	25%	29%
Mayor Suthers' Fund Balance Goal	20%	20%	20%	20%	20%	20%

Rebudgeted funds typically result from under expenditure of budget in the prior fiscal year or from the receipt of revenue which is greater than the budgeted amount. The 2022 rebudgeted dollars are the result of expenditure savings in prior years.

Based on the information in the table above, the % of fund balance based on the following year's expenditures stays at approximately 21% for years 2022-2024, then climbs steadily in years 2025-2027, thereby keeping the fund balance at or above Mayor Suthers' fund balance goal of 20%. In any given year, adjustments can be made to expenditures during the budget process and during the year to prevent the fund balance from declining.

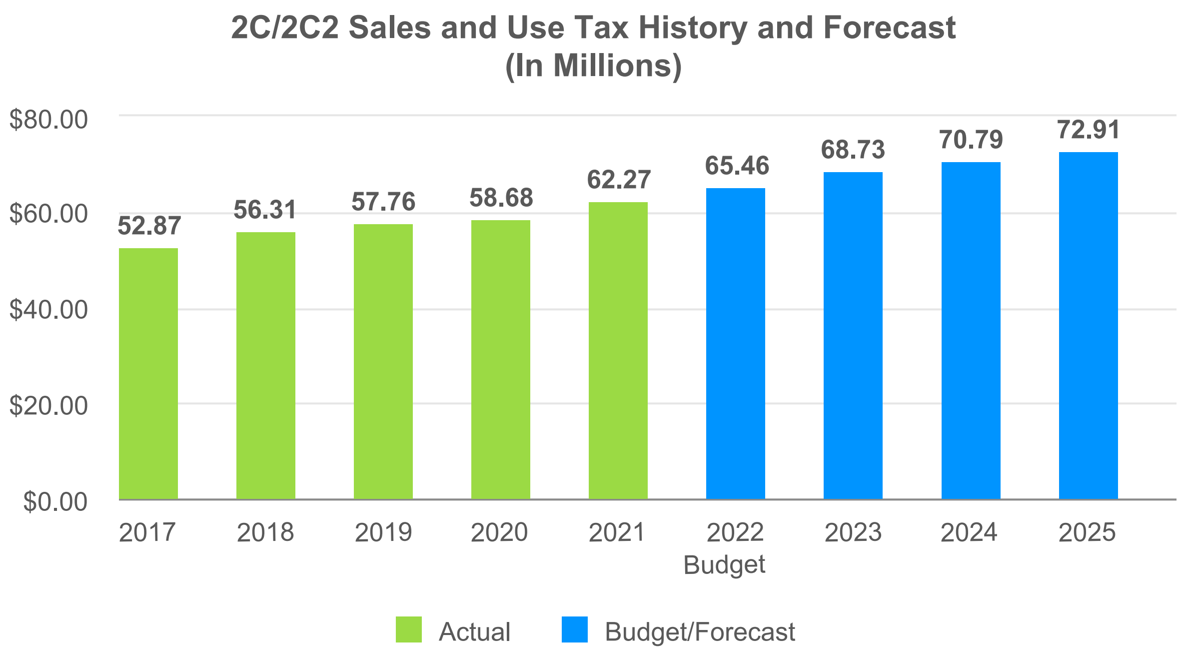


The ***General Fund Total Expenditures and Revenues*** graph charts the expenditure and revenue forecasts for the current budget plus the next five years.

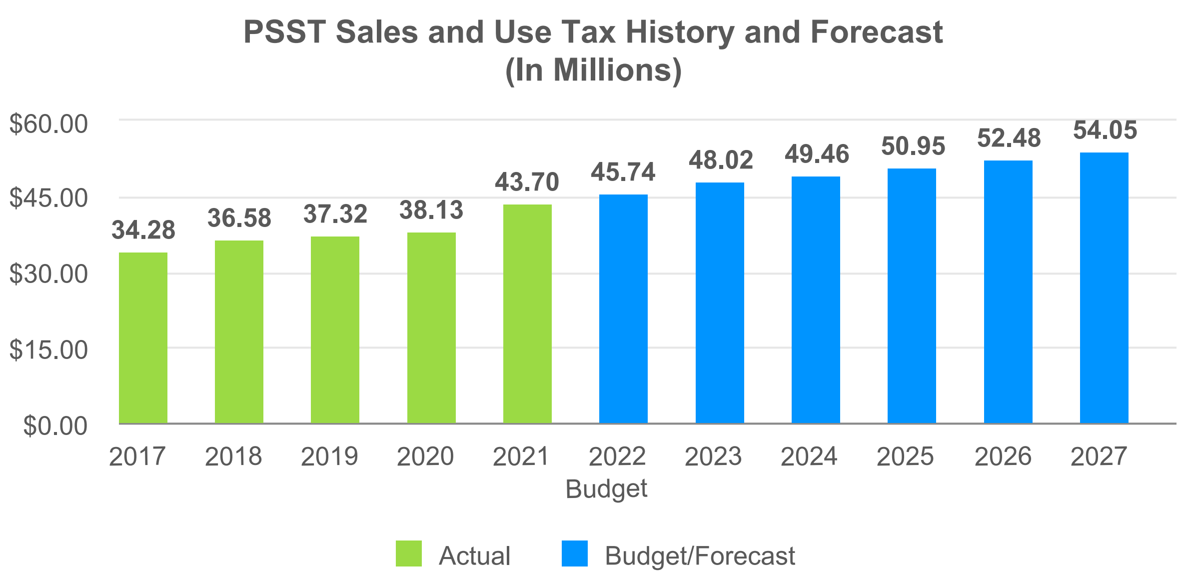
For 2023, while sales tax and other General Fund revenue is projected to increase, overall revenue is expected to decline because we are not anticipating utilizing rebudgeted revenue. Expenditures will also decline, related to planned operating expenditure reductions. In years 2024-2027, expenditures steadily increase and are largely related to Salary, Benefit, and Pension costs, the largest portion of the General Fund budget. Reasons for increases can include salary increases for city employees, added positions related to City growth, healthcare and pension cost increases.

Revenue forecasts are determined by expected economic activity within city-limits, in the state, and the nation. We use an average of several forecasting models, while also factoring in the current and projected economic conditions. While the COVID-19 pandemic and related shutdowns slowed the rate at which sales and use taxes were collected in 2020, the recovery during 2021 has been stronger than anticipated due to a change in City sales tax code in the 4th quarter of 2020 to begin collecting sales tax on all qualifying online purchases. The recovery is also attributed to additional federal funds paid to individuals and businesses during 2020 and 2021. Going forward into 2022 and beyond, we anticipate strong revenue growth related to population increases and construction.

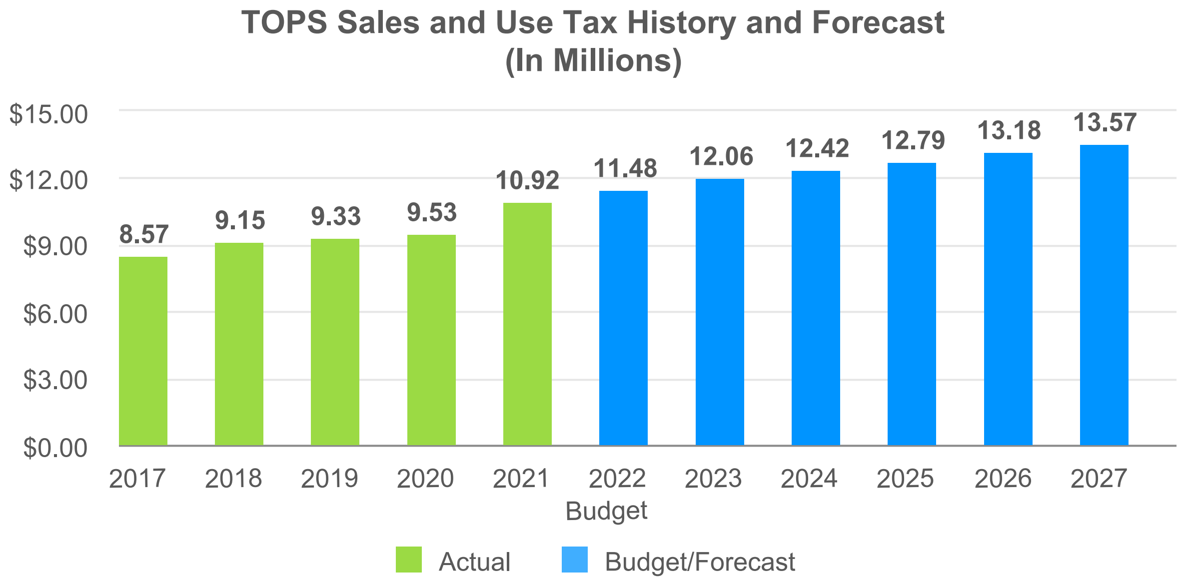
There are a number of options to address the gap between projected revenues and expenditures. In any given year, expenditures can be reduced to match anticipated revenue. This can include pausing capital projects, a hiring freeze, reduction of department operating expenditures, and employee pay adjustments. Other options are rebudgeting expenditure savings from the prior year, or taking a draw from fund balance.



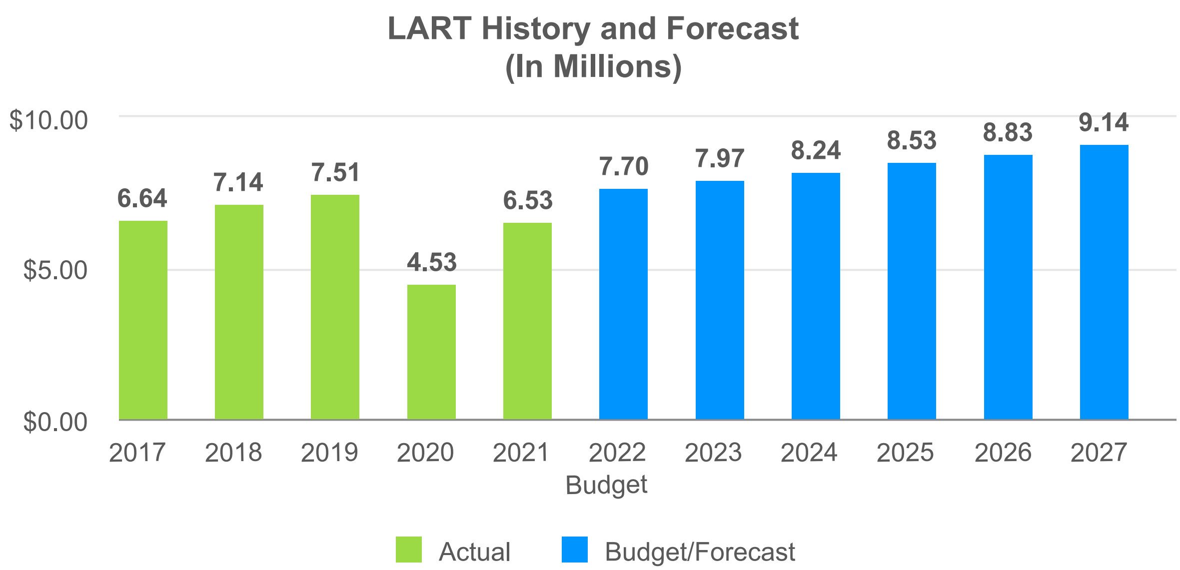
The 2C/2C2 Road Repair and Maintenance tax is a temporary sales and use tax. The revenue is placed in a dedicated fund to be used only for funding the cost to repair roads and streets in the City. For years 2021-2025, the rate of the 2C2 tax is 0.57%, which is a reduction from the 2C tax which was 0.62%. For the years 2016-2020, tax revenue grew each year, slowing during 2020 due to the COVID-19 pandemic and related shutdowns. It is expected to grow 5% in 2023, then 3% each year through 2027, which aligns with the General Fund sales and use tax revenue forecast. For more detailed information on 2C/2C2 please refer to the All Funds Overview, or visit www.coloradosprings.gov/2c.



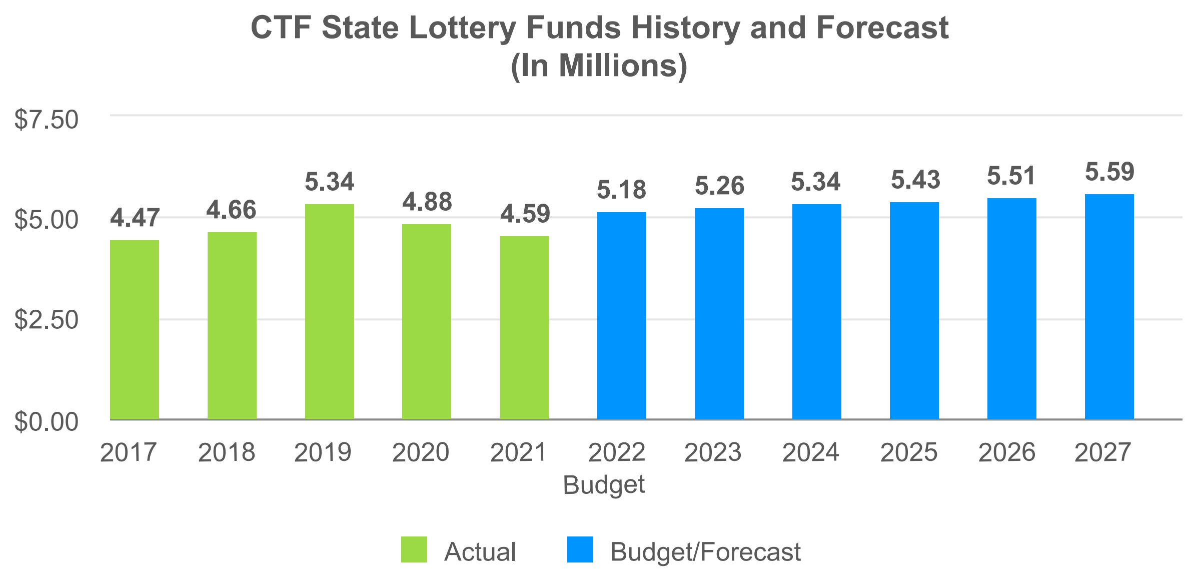
The Public Safety Sales Tax (PSST) is a 0.4% sales and use tax designated for Public Safety operations. PSST tax revenue has grown over the past several years, slowing during 2020 due to the COVID-19 pandemic and related shutdowns. It is expected to grow 5% in 2023, then 3% each year through 2027, which aligns with the General Fund sales and use tax revenue forecast. For more detailed information on PSST please refer to the All Funds Overview, or visit www.coloradosprings.gov/page/public-safety-sales-tax-oversight-committee.



The Trails, Open Space, and Parks (TOPS) tax is a 0.1% sales and use tax designated for acquisition of open space and associated maintenance, development and maintenance of trails, and development of new parks. TOPS tax revenue has grown over the past several years, slowing during 2020 due to the COVID-19 pandemic and related shutdowns. It is expected to grow 5% in 2023, then 3% each year through 2027, which aligns with the General Fund sales and use tax revenue forecast. For more information on TOPS please refer to the All Funds Overview, or visit www.trailsandopenspaces.org.



The purpose of the Lodgers and Auto Rental Tax (LART), a 2% lodging tax and a 1% auto rental rental tax, is to attract visitors and enhance the economy of the City and the Pikes Peak Region. The tourism industry was hard hit by the COVID-19 pandemic and related shutdowns during 2020. The recovery is progressing during 2021, though not yet to pre-pandemic levels. Going forward into 2022 and beyond, we anticipate steady increases in the LART tax revenues due to the popularity of the Pikes Peak region as a tourist destination, numerous outdoor activities, new attractions and venues, and an increasing number of hotel rooms and short term rentals. LART revenue is more volatile than other sources of revenue, and is expected to grow by 3.5% each year through 2027. For more detailed information on LART please refer to the All Funds Overview, or visit www.coloradosprings.gov/city-council/page/lodgers-and-automobile-rental-tax-lart-citizens.



Conservation Trust Fund (CTF) revenue is received by the State of Colorado from apportioned lottery funds dedicated for acquisition, development, and maintenance of conservation sites. The City's portion is calculated using a formula that is largely based on population. There can be larger payouts to local governments if there is a large jackpot, as happened in 2019. As a result, this revenue source is less predictable and we have projected a modest increase of 2% each year starting in 2023. For more detailed information on CTF please refer to the All Funds Overview, or visit www.cdola.colorado.gov/funding-programs/conservation-trust-fund-ctf.