

2027 SCFD Budget Narrative

Introduction

In 2027, the Scientific and Cultural Facilities District (SCFD or the District) will celebrate 39 years since the initial passage of its enabling legislation in Metro Denver. Since 1988, District residents have reauthorized SCFD three times, affirming the public value of broad access to arts, culture, and scientific programming across the region.

The 2027 operating budget is built on a conservative \$88 million sales and use tax revenue projection while preserving statutory compliance, incurring no debt, and using a limited amount of unassigned reserves to complete one-time strategic project work supporting the District's 2028 reauthorization. SCFD is required to maintain a balanced budget and may not incur debt. The District maintains accurate calculations, timely disbursements, transparency, accountability, and sound fiscal management on behalf of taxpayers. SCFD's revenue consists almost entirely of sales and use tax revenue collected in the seven-county District. Statute allows up to 1.5% of revenue collected to fund operating expenses, and SCFD receives sales and use tax revenue from the Colorado Department of Revenue two months after the sales tax is paid by the consumer.

The revenue allocated to the organizations is accounted for in the Special Revenue Fund. Although only the General Fund operating budget is described below, the SCFD audit covers the Special Revenue Fund as well. SCFD accounting records are maintained on an accrual basis in accordance with government accounting standards. On an accrual basis, revenue is reported when earned, not when the payment is received. Expenses and liabilities are reflected at the time they are incurred, not when they are paid.

Pursuant to C.R.S. §29-1-106, the SCFD must make its proposed budget available for public inspection for a period of one month prior to final adoption by the board. The legal notice of availability to the public will be published ahead of the September 24th SCFD board meeting, allowing the board to adopt the budget at the October 22nd meeting.

General Assumptions

1. A conservative sales and use tax revenue projection of \$88 million was used to prepare the 2027 operating budget. This is roughly equal to actual revenue collected in 2025 and a 2% decrease from 2026 estimated year-end collections. As the state of the economy, job market, and inflation continue to be a concern, a conservative approach to how the District responds to the changing economy and consumer spending in 2027 is responsible and prudent.
2. The District has experienced a 20% increase in funded organizations since 2017, putting greater pressures on an already small and nimble office. A growing workload and operational demand has required an internal 2026 assessment of how to sustain quality output. With existing staff already utilized to the fullest potential, investing in a sustainable future workforce is critical. Main objectives will continue to focus on modernizing and streamlining processes, improving efficiency, and advancing SCFD values internally and for grantees. Transparency, accountability, and fulfillment of voter intent remain paramount.

3. Consultants have been hired as experts to lead a one-time stakeholder assessment process to support the 2028 reauthorization. This work is a strategic, time-limited investment and is anticipated to require the use of unassigned reserves to maintain a balanced budget.

SCFD Operating Budget

I. 2026 FY Operating Budget

The SCFD fund balance reflects the General Fund, or operating fund. The January 1, 2026 beginning fund balance was \$4,470,159. This included \$61,805 in restricted TABOR reserves; \$31,184 in non-spendable prepaid items; \$830,839 committed as a six month operating reserve; \$2,000,000 committed for the seven county election cost reserve under Resolution 25-05; and \$1,555,378 in unassigned funds. The election cost reserve was created by the Board at the end of 2018 for future costs associated with the 2028 reauthorization. In prior reauthorizations, election costs were paid by withholding funds from Tier distributions. Maintaining this committed reserve is fiscally responsible, benefits funded organizations and supports the District's long-term stability.

Year-to-date 2026 sales tax revenue for January through June is \$43,167,374, a 2.84% increase from the same period in 2025. Forecasting year-end 2026 revenue remains challenging given economic uncertainty; however, based on actual revenue and expenditures through June and adjusted forecasts through year-end, the December 31, 2026 fund balance is projected to end the year within 1% of the budgeted amount.

II. Economic Factors Influencing 2027 Budget

The health of the local economy is the primary factor influencing sales and use tax revenue. Projecting annual tax revenue with only six to seven months of current-year data requires caution. SCFD consulted economic experts, reviewed key indicators, and analyzed historical revenue data to develop the 2027 forecast.

Business confidence remains cautious entering the fourth quarter of 2026 amid ongoing monitoring of inflation and consumer spending. Denver metro unemployment has held relatively steady since last year at 4.1%. According to the June 2026 Economic Outlook from the Colorado Governor's Office of State Planning and Budget, the near-term economy continues to expand but is becoming increasingly fragile as inflation, household financial stress, and weakening labor market conditions combine to create an unstable economic environment. While large decreases in sales and use tax revenue are not expected in 2027, current indicators support a cautious outlook with little to no growth anticipated.

III. 2027 FY Operating Budget

After considering currently known revenue trends, economic factors, and the 2026 outlook for the Denver metropolitan area, the 2027 SCFD budget assumes a 2% decrease in sales and use tax revenue to conservatively manage expectations. The \$88,000,000 revenue projection supports a statutory 1.5% operating allocation of \$1,320,080, supplemented by budgeted interest income of \$709,541. The budget also includes a 5% increase in operating expenses, primarily for staffing, building more finance and communications capacity, and the conclusion of the one-time contracted stakeholder assessment project tied to 2028 reauthorization planning. Together, these assumptions result in a projected operating deficit of \$134,312, which will be covered by unassigned reserves. No debt will be incurred, and the reserve use is limited to strategic, one-time work that supports the District's long-term stability and 2028 reauthorization readiness.

A. Revenue Estimates

Actual 2026 sales and use tax revenue accrued to date (January through June), is \$43,167,374, a 2.84% increase from YTD 2025. SCFD has historically received an average of 48% of its total annual revenue through June, putting total 2026 revenue projections around \$90,000,000. As is SCFD's practice, revenue estimates are budgeted and forecasted conservatively to ensure reasonable expectations and maintain fiduciary responsibilities. Using budgeted revenue of \$88,000,000 for 2027, the 1.5% statutory allocation for SCFD operations would be \$1,320,080.

Investment Options

SCFD is required by statute to distribute 98.5% of annually received tax revenue to eligible organizations; therefore, investment priorities are, in order: safety, liquidity, and yield. SCFD currently holds most of its capital at ColoTrust, a liquid-asset government investment pool that invests in high-quality commercial paper and does not invest in stocks. The 2027 budget reflects prevailing interest rates, and SCFD is budgeting \$709,541 in interest income for fiscal year 2027. This is an 8% decrease from the 2026 budgeted projection but in line with the current year-end forecast. With the recent addition of the Director of Finance and Administration position, the District will explore opportunities to increase investment revenue as strategic fiscal planning continues.

B. Distribution Estimates

By statute, 98.5% of all revenue is disbursed to cultural and scientific organizations providing programming to District residents. Based on projected sales and use tax revenue of \$88,000,000, Tier I, II, and III distributions from the Special Revenue Fund are budgeted at \$86,680,000 in 2027. Budgeted distributions by tier are approximately: Tier I, \$52,027,700; Tier II, \$21,039,600; and Tier III, \$13,612,700. These figures reflect the bifurcated allocation formulas: one formula for revenue up to \$38 million and an adjusted formula that favors Tiers II and III for revenue above \$38 million.

C. Expense Estimates

The proposed 5% increase in 2027 budgeted expenses is primarily due to an additional 1.5 FTEs, a full-time Director of Finance and Administration (replacing outsourced accounting services) and a part-time communications position. In a flat-to-down revenue environment, these investments are intended to strengthen organizational health, modernize financial oversight, support public awareness, and prepare the District for the 2028 reauthorization while maintaining transparency and accountability for public funds.

D. Expense Details of Note

The Salary line will increase 22% year over year to account for cost-of-living increases, benchmarking compensation adjustments, and the addition of a full-time Director of Finance and Administration position (replacing outsourced accounting services) and the addition of a part-time communications position. The last salary compensation adjustment occurred in 2022 and implementing competitive compensation helps SCFD retain stable, knowledgeable, and high-performing staff in the regional labor market. Investment in staff and internal infrastructure supports productivity, reduces turnover risk, and strengthens service to the regional community.

Statutory Payroll Taxes include Medicare, State Unemployment, and PERA, totaling approximately 17% of salaries. The local government employer's required PERA contribution is increasing to 16.84% of employee salaries. Under Senate Bill 18-200, designed to restore PERA to full funding in 30 years, employer and employee contribution rates may be adjusted annually on July 1. SCFD is a member of the Local Government Division of PERA.

Health Insurance costs are estimated to increase 19%, primarily due to the addition of a recent full-time staff position and higher anticipated monthly premiums. SCFD provides employer-paid health, dental, and vision coverage for full-time employees and contributes to family plans to maintain a competitive benefits package.

Legal fees are estimated to be \$15,000 in 2027 for regular District legal matters, as well as anticipated need for counsel for county and reauthorization related matters.

Accounting fees will phase out in the first quarter of 2027, with the addition of the full-time Director of Finance and Administration position.

Legislative Advisory fees will be \$34,150 per contract for legislative advisory service during the 2027 legislative session.

General Consulting includes consulting for Grant system IT support and code writing for the SCFD grants management system. This category is set to decrease roughly 50% compared to 2026 budget due to the conclusion of the Senior Advisor consultant contract.

Website Consulting will maintain 2026 levels in 2027 as SCFD continues to make the website and all downloaded and linked content as accessible as possible in accordance with state and national accessibility standards. Website maintenance is a main form of District communication with grantees and the public.

Public Awareness will maintain current levels. As SCFD continues its 2028 Road to Reauthorization, the district will increase its public awareness efforts in 2027 to lay the groundwork for the 2028 initiatives. This category includes communications consulting, graphic design fees, collateral and media expenses to expand SCFD's digital storytelling and outreach over the next year. As noted above, an investment in a part-time communications position will enhance these efforts.

Stakeholder Engagement is a one-time, two-year project investment to gather internal and external feedback and regional data to support informed decisions regarding the SCFD statute before the anticipated 2028 public reauthorization vote, pending legislative approval. The third-party consulting firm GBSM was hired to conduct research, focus groups, listening sessions, and consensus-building activities to help SCFD develop a statute that serves the cultural community now and in the future. These efforts conclude in 2027. This expense is the primary driver of the projected 2027 deficit and will be covered by unassigned reserves from prior-year surpluses while our overarching fund balance and reserves maintain a strong position.

Community Partnerships remains relatively steady as the District continues to focus on stakeholder engagement. SCFD believes in the importance of partnering with other local funders to create greater change in our communities. SCFD will continue its collaboration

with the Diversity in the Arts & Culture Internship Program (DITA), a program designed to create a pipeline of leaders in the nonprofit sector who come from and represent communities of color and other historically under-resourced populations.

Occupancy expenses reflect annual lease and utilities for the SCFD office, located at 1047 Santa Fe Drive, Denver, CO.

Professional Development & Training includes opportunities for board and staff, as well as professional training for grantees and county cultural council members. The District plans to continue the *Engage, Empower, Connect* Capacity Building Summit for grantees in 2027, as well as provide training events for county cultural councils.

Legal Notices are posted per the statutorily required public notice regarding when the proposed budget is available for public review.

Memberships/Subscriptions remain a priority as the District continues to strengthen regional community relationships. In addition to its membership in the Special District Association of Colorado, other memberships reflect SCFD's activities in the community and the need to maintain a presence within the business community. It is also beneficial for SCFD to engage with public and private cultural funders and related membership organizations to stay current with changes in the grant making arena.

Grants Management System expenses will increase modestly to \$34,443 for the Fluxx grant system subscription. Continued investment in this system supports streamlined protocols, staff efficiency, and improved functionality for funded organizations, including report generation and simplified applications.

Events will decrease in 2027 as the biennial Rex Morgan Awards Celebration will not occur again until 2028. SCFD will continue to engage legislators with SCFD Day at the Capitol.