2020 Budget Update

April 2020
Council Presentation
Disclaimers

• Economic conditions are changing daily.
• These numbers are a snapshot in time.
• 2021 revenue has not been estimated yet but when it is it will impact the financial plan.
Financial Philosophy

- Preserve services and projects
- Bring revenues and expenditures into alignment
- Move now to preserve our reserves to provide a cushion for economic uncertainty in 2021
- Solve the 2020 financial impact over 2 years
Revenue Impacts

• Total General Fund Revenue
  – $1.305B down from a projection of $1.485B
  – Revenue loss of $180m for 2020 or 12%
  – $1.305B is consistent with actual revenue performance in 2017.

• Other Funds
  – DEN, Capital Improvement Program, culturals partners and AVD are expected to significantly impacted.
2020 Financial Dilemma

- Emergency Spending
- Revenue Loss
- Operation and Capital Budget Impacts
- Reserves
Agenda

• Economic Overview

• Financial Impact

• Financial Plan
This scenario depicts a classic economic shock, a displacement of output, but growth eventually rebounds. In this scenario, annual growth rates could fully absorb the shock. For this type of recovery, the initial shock shouldn’t last longer than one to two months.

This scenario shows how the shock persists, and while the initial growth path is resumed, there is some permanent loss of output. This is what we would expect to see once the initial shock sustains into three months or more, and businesses could begin to shutter.

This scenario depicts real structural damage, with a significant impact on growth. Something on the economy’s supply side — the labor market, capital formation, or the productivity function becomes broken. The prolonged impact (> five months) at this point would be indicative of a recession.
3rd Party Validation

• “There’s a tremendous amount of uncertainty at this stage. But I think there’s a reasonable chance we’ll still see negative growth next year.” – Jason Furman, Professor of the Practice of Economic Policy at Kennedy School of Government at Harvard University and former Chairman of the Council of Economic Advisors in the Obama Administration

• “If you focus on the level [of activity], you might say that we assume a U-shaped recovery... But if you focus on growth rates, you’d probably call our forecast V-shaped... but whatever growth we get will come from a much lower level.” – Jan Hatzius, Chief Economist at Goldman Sachs

• McKinsey & Company for short term impact from virus (quickly contained) is forecasting return to Pre-Covid Crisis levels by Q4 2020 and not until Q1 2023 if a muted containment and extended recovery period. The corresponding ranges for 2020 US GDP growth currently fall between -8% to -13%. – Current as of March 25, 2020

• In Colorado, the restaurant industry lost an estimated $465 million in sales and more than 60,000 jobs during the first 22 days of March. 44% of operators temporarily closed their restaurants, and 14% anticipate closing permanently within the next 30 days. – Colorado Restaurant Association survey conducted March 23 – 26
Economic Indicators to Monitor:

**Depth of Disruption**
- Cuts in spending on consumer goods (e.g., cars, clothing)
- Extent of behavior shift (e.g., restaurant spend, leisure activity)
- Extent of travel reduction (% flight cancellations, travel bans, hotel occupancy changes)

**Length of Disruption**
- Late payments/credit defaults, foreclosure activity
- Stock market & volatility indexes
- Purchasing managers index
- Initial claims for unemployment
- Business closures

**Shape of Recovery**
- Bounce-back in economic activity in countries that were exposed early in pandemic
- Early private and public sector actions during the pandemic to ensure economic restart
Economic Impact on Revenue

- Major revenue categories: Sales/use, Lodgers, OPT, agency revenue
- March – May
  - Revenue impact: 50-90%
  - Social distancing and stay at home orders lead to reduced consumer spending
  - Parking revenue impacted only one month
- June – August
  - Revenue impact: 40-60%
  - Social distancing remains and consumer spending remains somewhat affected
- September – December
  - Revenue impact: 0-20%
  - Social distancing and stay at home orders eliminated and consumer spending returns to near prior impact levels
<table>
<thead>
<tr>
<th>Sales and Use Tax</th>
<th>Lodger’s Tax</th>
<th>OPT</th>
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</thead>
<tbody>
<tr>
<td>Revised 2020 = $618,137,200</td>
<td>Revised 2020 = $19,931,700</td>
<td>Revised 2020 = $54,478,000</td>
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<tr>
<td>-$140m (-18.5%) decrease compared to Original</td>
<td>-$15.6m (-43.9%) decrease compared to Original</td>
<td>-$1.7m (-3.0%) decrease compared to Original</td>
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<tr>
<td>Factors in shelter-at-home impact and audit slowdown</td>
<td>Factors in shelter-at-home impact</td>
<td>Based off estimated employment loss model from DEDO</td>
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<tr>
<td>Aligns with Colorado Restaurant Assn and Eat Denver</td>
<td>Aligns with Visit Denver’s projections</td>
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## Agency Revenue Impact

### Parking Fines
- Revised 2020 = $20,912,400
- -$5.9m (-22.2%) compared to Original
- Assumes curtailed enforcement through April
- Assumes disruption to ramped-up enforcement plan

### Parking Meters
- Revised 2020 = $10,946,300
- -$1.6m (-12.4%) compared to Original
- Assumes meters are deactivated through April
- Monthly average = $986k

### Rec Membership
- Revised 2020 = $3,789,600
- -$2.5m (-39.8%) compared to Original
- Assumes closure and delayed recovery due to behavioral response
- Monthly average = $597k
Revenue Policy Issues

• Tax Deferrals – will impact cash flow but likely not budget
  ✓ Sales and Use
  ✓ OPT
  ✓ Property Tax

• Agency Generated Revenue – Budget impact
  – Recreation fees
  – Parking rates and fines
  – Interest charges
Financial Plan for 2020

• Estimated $180m or 12% of original 2020 revenue estimate:
  • Three part plan:
    – Citywide Savings – CIP. Fleet, SRF balances
    – Agency Savings – 7.5% target
    – Use of Reserves – Use of approx. 6% of 18%

• More estimate updates to follow as conditions changes thoughtout the remainder of the year.
Savings Actions

Current
• First 3% reductions
• Increase 2020 target to offset emergency spending by 4.5%
• Vacant positions held – turnover will be limited
• Use reserves (2C, TABOR, GF, SRFs, AVD)

Next Steps
• Review cash flow/liquidity for all funds
• DOF identify citywide options
• 2021 budget forecast and reduction targets
Reserves

- 2019 Estimated Year End – 18% or $261m
  - Overperformance will be very helpful
- 2020 estimate
  - Do nothing – 6% fund balance by year end
  - Goal: No less than 12% to close out 2020 ($166m)
- 2021
  - We will likely need to use some to reserves the budget.
Emergency Spending

- All emergency spending will be accommodated into the 2020 budget.
  - Contingency ($12m/$29m)
  - Agency budgets
- Spend to date - $19m in the pipeline
  - Supplies and facilities
  - Payroll – not included but is being tracked
- Submit FEMA early claim on 3/27
  - Reimbursement may take years
- Submitted certification for CARES Act on 4/15
  - Approx. $100m estimated for Denver County
  - Process required by treasury to utilize funds is not determined
Federal Funding

Available to Municipalities
• $150B for COVID-19 Expenditures
  • Colorado expected to receive $2.233 billion
  • Unbudgeted expenditures from March 1-December 31.
• $45B in FEMA funding for a disaster relief fund
  • For medical response, PPE, coordination of logistics, safety measures and provision of community services. (Reimburse)
• $4.3B for federal, state and local public health agencies
  • to prevent, prepare for, and respond to the coronavirus (Reimburse)
• $10B in funding for airports to meet day-to-day needs and to continue ongoing construction projects.

Available to Community/Non Gov't
• $100B in funding to hospitals to cover unreimbursed health care-related expenses or lost revenue as a result of COVID-19
• $25B in funding for transit agencies
• Direct checks to individuals ($1,200 per adult; $500 per child) – phases out based on income
• Expands unemployment support to 39 weeks; adds $600 per week in benefits through July 31
• Loans for small businesses – convert to grants if employers retain employees for specified lengths of times
Non-GF Impacts
Capital Program

• Financial market access to issue bonds (NWC and Elevate)
• Declines in manufacturing outputs impacting supply chains
  – Increases in construction costs and project delays
• Defer CIP projects
  – Absorb portion/all of 2020 General Fund transfer ($14.5M)
  – Charge bond program (program management and FTEs) - $5.4M
  – Project admin costs are increasing in 2021-2023 as Elevate Denver bond program ramps up
Other City Funds Impacts

- DHS – Impact likely in the future with increased cases
- AVD – Revenue impacts are likely significant due to show/event cancellation.
- Convention Center – 2020 operating gap depending on reopening.
- Golf operating budget
- Culturals - Zoo, Art Museum, DMNS, DCPA
- DERP – Significant market losses forecasted
- DEN – Significant multiyear impact