



COVID-19 Response Financial Update

Finance and Governance Committee
Tuesday, May 19, 2020

Agenda



Economic
Update



General Fund
Performance



2021
Budget



Federal
Funding

Economic Update



Economic Overview



JAN.–FEB. 2020

- Foundation strong. However, seeing signs of growth moderation in revenues
- Global markets highly uncertain
- Stock market volatility, yet rising to record levels
- Consumer confidence levels remained strong
- Business confidence and investment levels were starting to slide

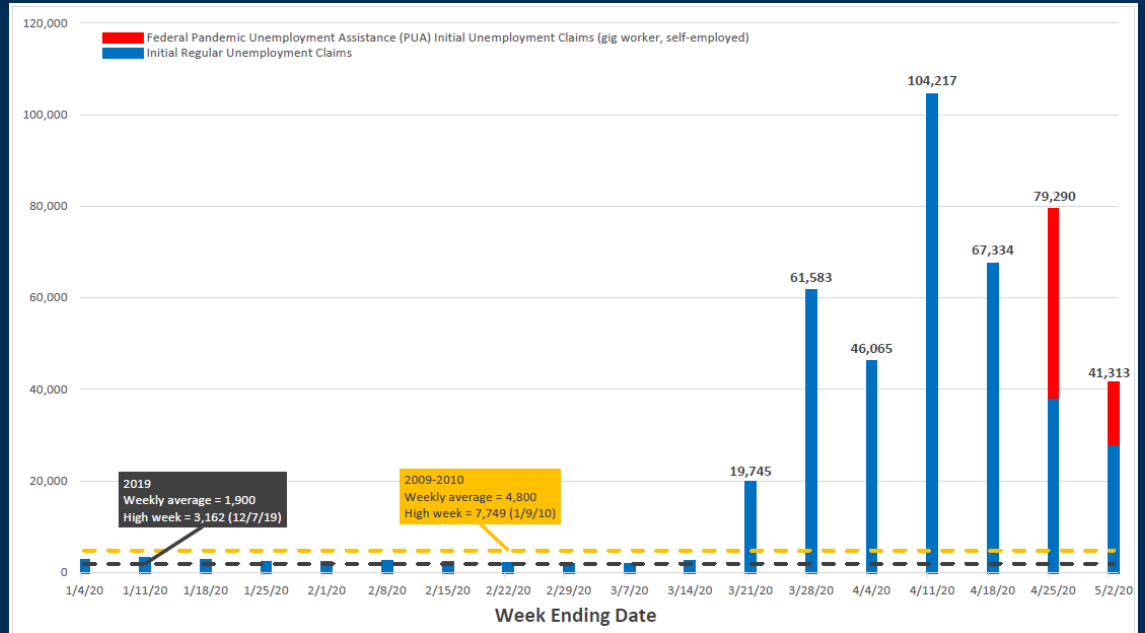
Economic Overview



MAR.–PRESENT

- Sudden and broad halt to economic activity
- Greatest initial impact seen to service industries and retail
- Unprecedented initial unemployment claims
- Oil and gas markets in free fall
- Impact on multiple City and County of Denver revenue streams
- Economic and revenue projections, especially for later periods, are highly uncertain

Colorado Initial Weekly New Unemployment Claims



Modeling Denver's Economic Recovery

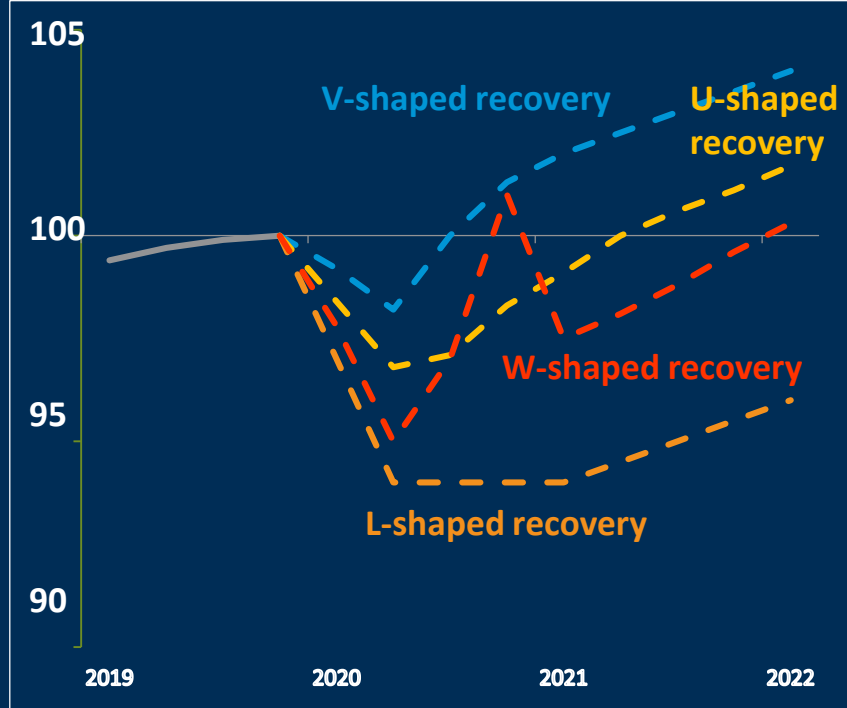
V-shaped: Steep decline, quick recovery. Minimal long-lasting financial damage.

U-shaped: Long drawn-out period between decline and recovery.

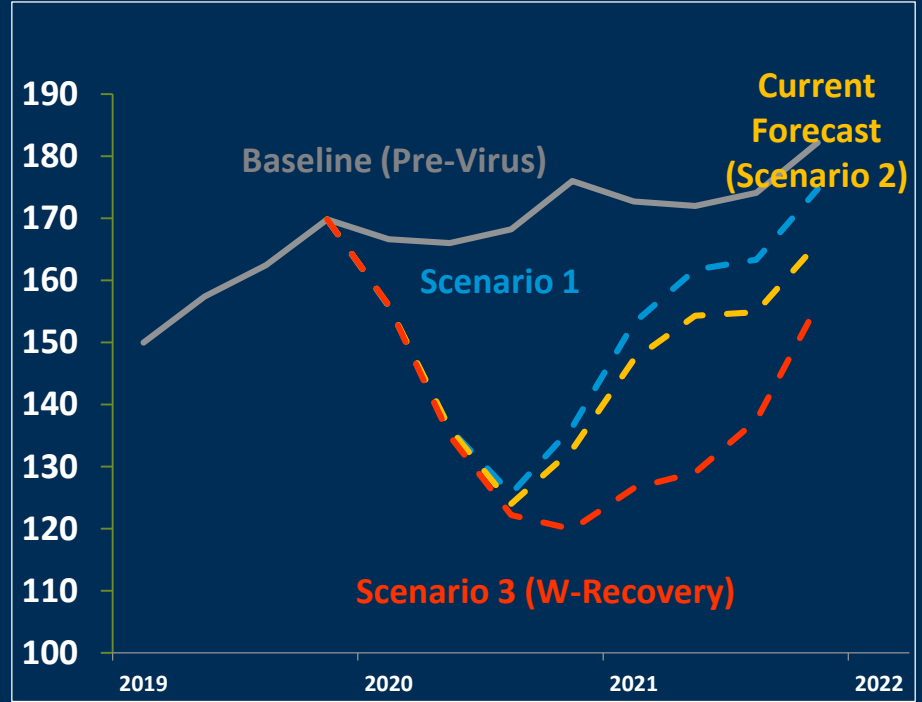
W-shaped: Economy begins to recover rapidly, but then falls into a second period of decline. “Double-Dip Recession.”

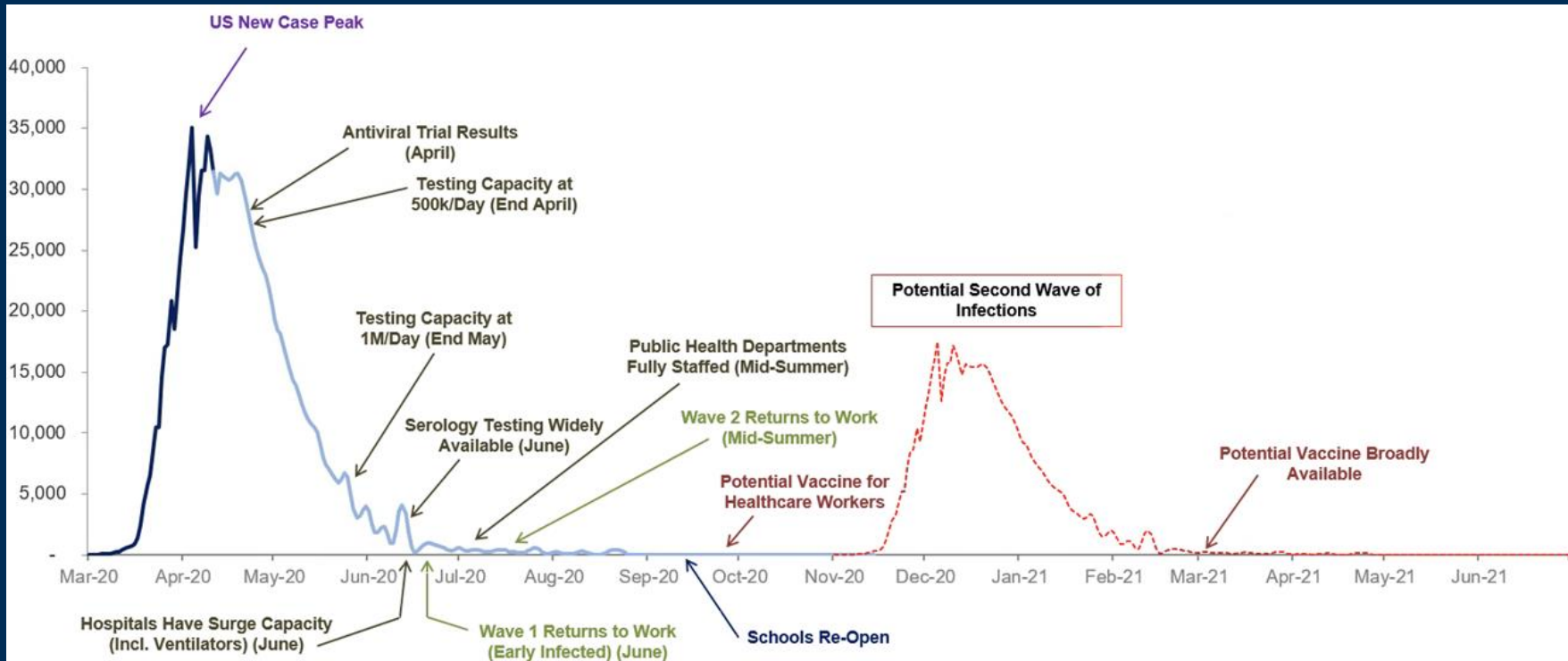
L-shaped: An extended economic downturn.

Potential Economic Recovery Paths U.S. GDP (indexed, 2019 = 100)



Projected Sales & Use Tax Collections Moving Quarterly Average



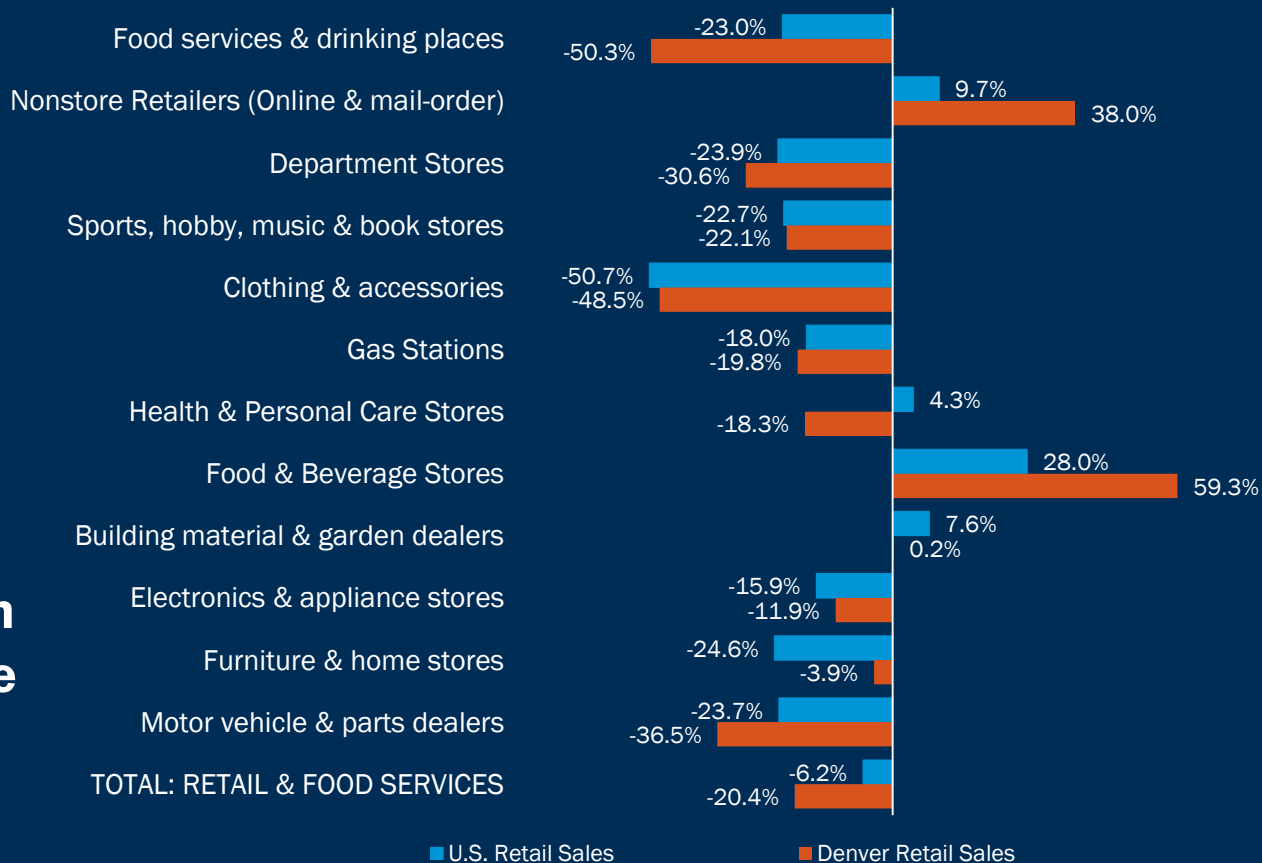


Drivers of uncertainty

Consumer Activity

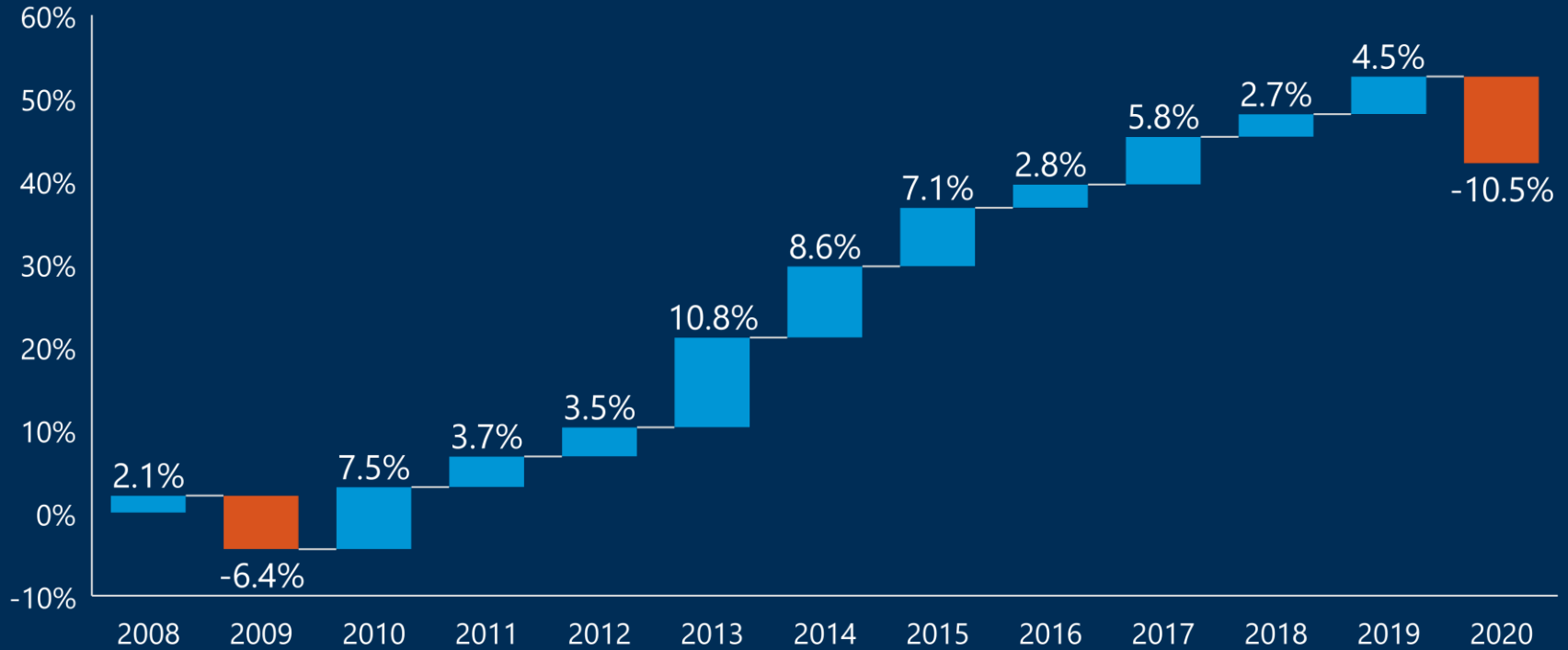
Retail and Food Services Monthly Sales

March 2019 to March 2020 Percent Change



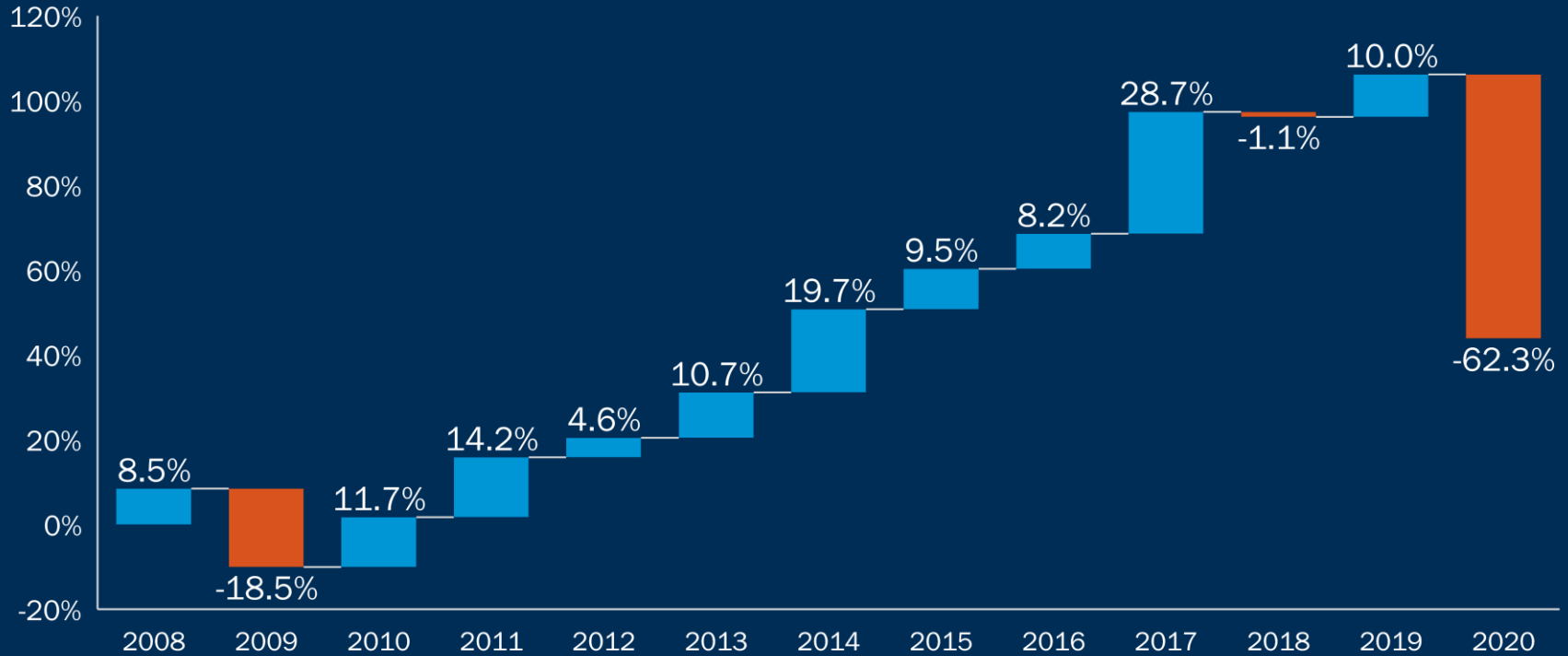
General Fund Revenue

■ Increase ■ Decrease



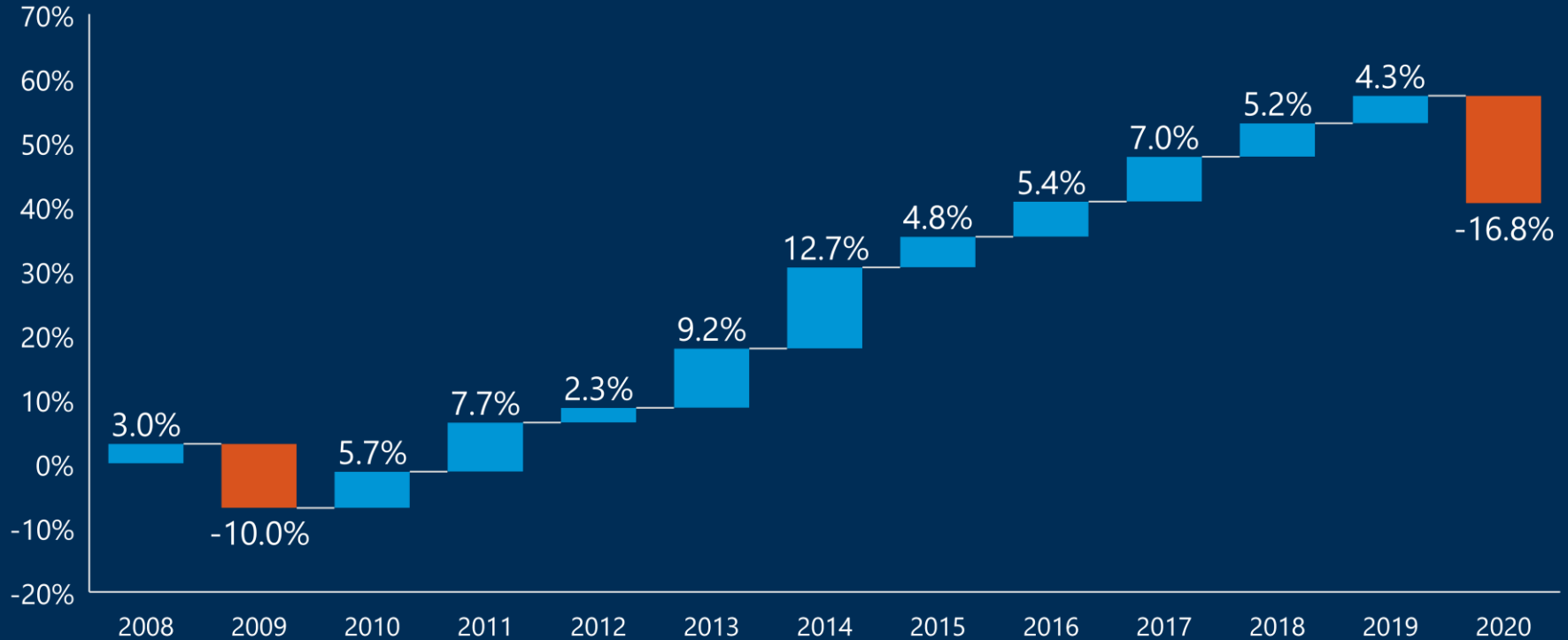
Lodgers' Tax Revenue to the General Fund

■ Increase ■ Decrease



Sales Tax Revenue to the General Fund

■ Increase ■ Decrease



2020 Budget Shortfall from COVID-19

Initial projected shortfall (as of March 2020):

- \$180M projected loss in revenue

Revised projected shortfall (as of May 2020)

- \$226M projected loss in revenue

Between March and May 2020, the City's projected revenue losses grew by an additional \$46M.

83% of the \$46m losses is due to lowered revenue expectations for sales tax, lodgers' tax, Occupational Privilege Tax (OPT), and parking-related revenue (fines, meters, lots)

2020 Tax Revenue Impact

Parking Fines

Parking Meters

Rec Membership

- Revised 2020: \$18,640,800
- -\$8.3m (-30.7%) compared to Original
- Assumes curtailed enforcement through May
- Assumes phased returning workforce and disruption to enforcement plan

- Revised 2020 = \$8,159,400
- -\$4.3m (-34.7%) compared to Original
- Assumes meters are not active through late May
- Monthly average = \$986k

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

2020 Tax Revenue Impact

Sales and Use Tax

Lodger's Tax

OPT

- Revised 2020 = \$599,679,700
- -\$159m (-21%) decrease compared to Original
- Factors in impacts from shelter-at-home, mass gathering restrictions, audit slowdown

- Revised 2020 = \$13,182,900
- -\$22.5m (-62.9%) decrease compared to Original
- Factors in shelter-at-home and mass gathering restriction impacts
- Aligns with Visit Denver's projections

- Revised 2020 = \$48,456,700
- -\$7.7m (-13.7%) decrease compared to Original
- Factors in Denver's Industry composition and employment share

What could 2022 look like?

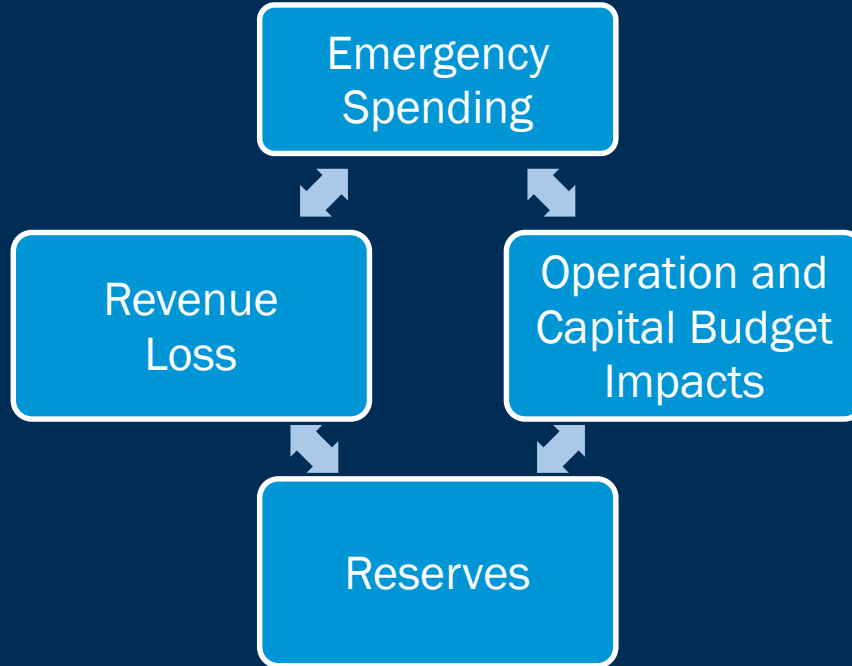


- Possibly in a New Normal Recession marked by behavioral changes, including changes in consumption and work patterns
- While labor market is expected to improve from current state, likelihood remains for elevated unemployment levels well into 2022
- Visit Denver expects lodgers' tax to continue at below 2019 collection levels in 2022
- Property taxes payable in 2022 are likely to be calculated off of lower commercial valuations (e.g., business closures, retail/office vacancies) and lower residential assessed values, absent legislative or constitutional changes

General Fund Performance



2020 Financial Dilemma



2020 Three Strategies

- 1) Agency savings proposals (submitted 4/24)
 - 7.5% target
 - Deliberative Process
 - Anticipate sharing which savings proposals will be implemented within the next few weeks
- 2) Citywide/multi agency reductions
 - Examples: Capital projects transfer
- 3) Fund Balance Reserve
 - Anticipate using \$90 - \$100M

Furlough Days

8 furlough days in 2020

5 scheduled, 3 flexible

\$16M for General Fund



Furlough Days

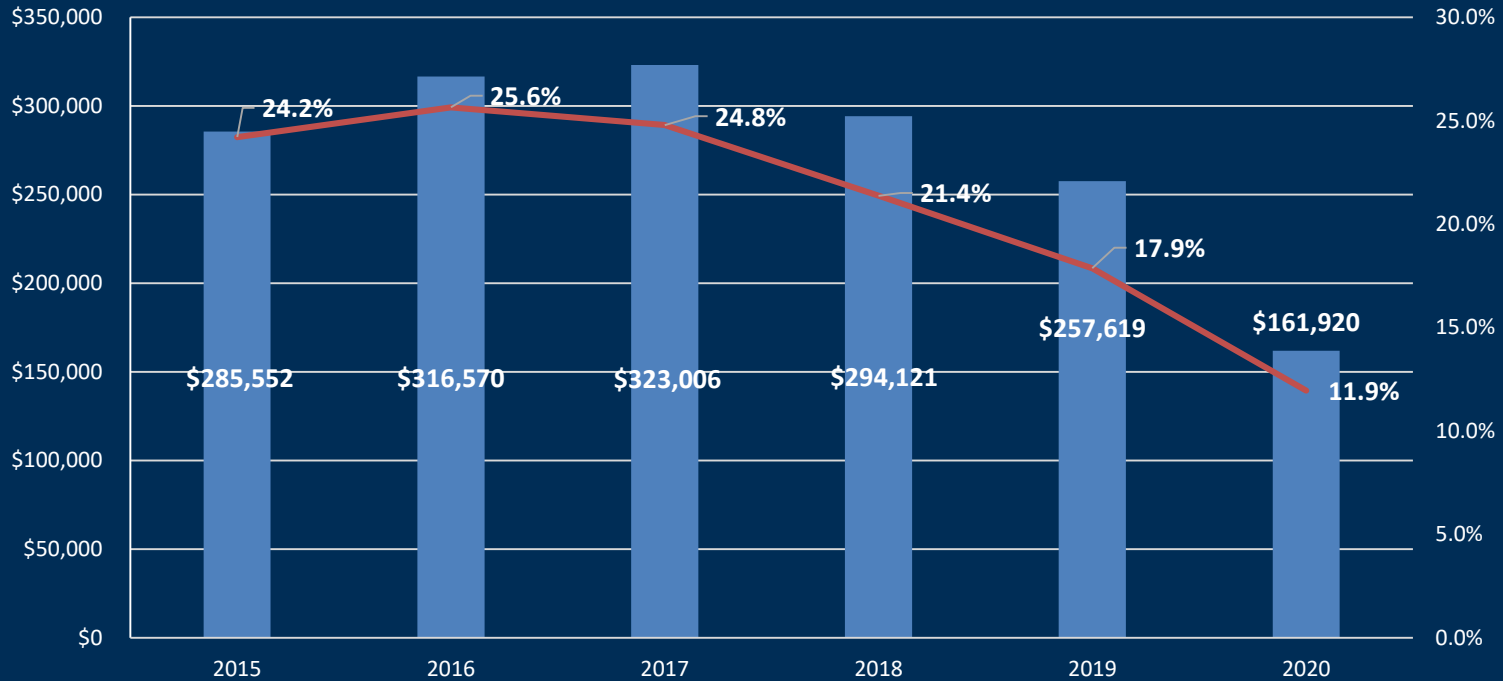
Scheduled furlough days:

- July 6 (Monday after Friday holiday)
- September 4 (Friday before Monday holiday)
- October 19 (Monday; DPS closure plus a three-paycheck month)
- November 27 (Friday after Thanksgiving)
- December 24 (Christmas Eve)

Three flex furlough days to be taken by the end of the year



Reserves: GF Fund Balance



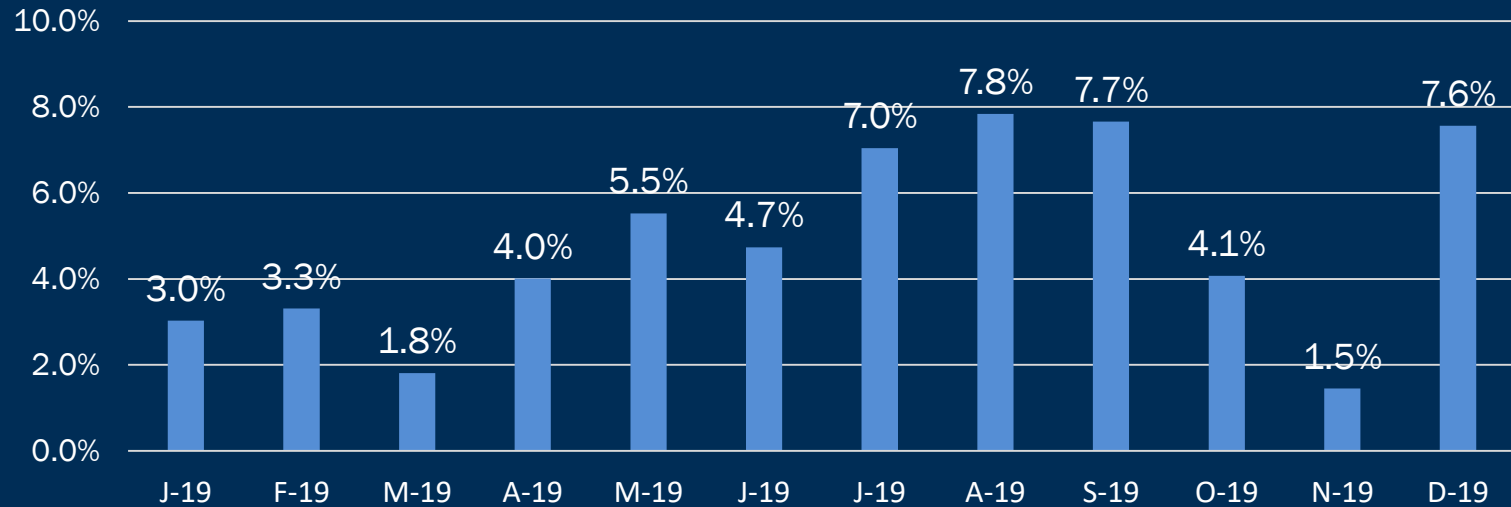
2019 Revenue & Expenditures

Unaudited

- Overall Revenue growth was 4.5%
 - Core Sales and Use Tax grew 4.9%
- Expenditures were 2.6% underspent overall
 - Unspent Contingency = \$7 million
 - Agency Unspent = \$29.4 million

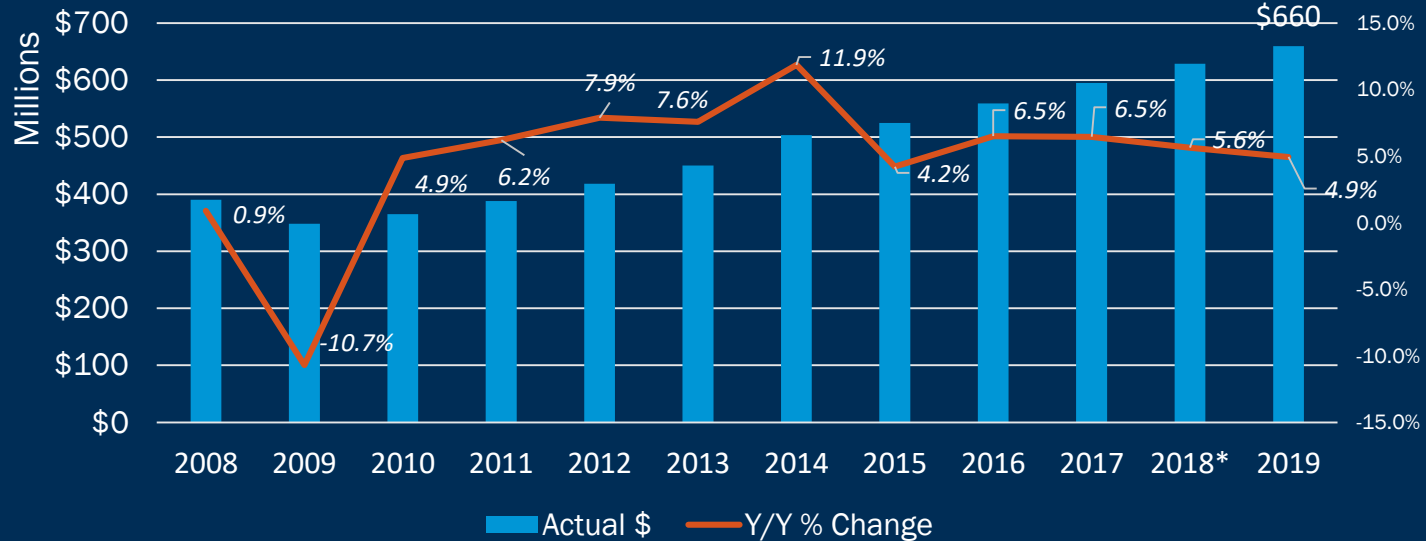
2019 Sales Tax Performance

2019 Year-Over-Year Percent Change in Denver's Monthly Core Sales and Use Tax Revenue



General Fund Sales & Use Tax Revenue

Core¹ Sales and Use Tax, 2008-2019*



2021 Budget



Primary Goals

- Minimize impact on services and employees
- Preserve Fund Balance for future uncertainty
 - Any late 2020 additional or resurgent impacts
 - Any delayed or continuing economic impacts into 2021
- Mitigate impact of reductions through Office of Social Equity and Innovation (2021)
- Put the City in the best position possible to support recovery in 2021

2021 Budget Priorities

Preserve
Financial
Stability

Support a
Sustainable
Recovery

Deliver a More
Equitable and
Inclusive City

Maintain
Essential
Services

Strengthen
the Safety Net

2021 Budget Timeline – Key Dates

May 22nd
Base Budget

June 19
Budget Book Narratives, etc.

July - August
Mayor Meetings



June 5
Reductions,
Mandatory
Expansions,
etc.

July
Finance
Meetings

On or before Sept. 15
Mayor's Budget to City
Council & Public

Budget Equity Framework

The How

As we make difficult budgetary adjustments, the SEI Budget Equity Framework is a tool to guide city employees towards creating equitable outcomes, building inclusive opportunities and addressing built infrastructure needs to meet the demands of a growing city.

The What

The Budget Equity Framework questions are used to operationalize a process into the city-wide budget as agencies/departments allocate economic resources to meet the diverse needs of the people we serve.

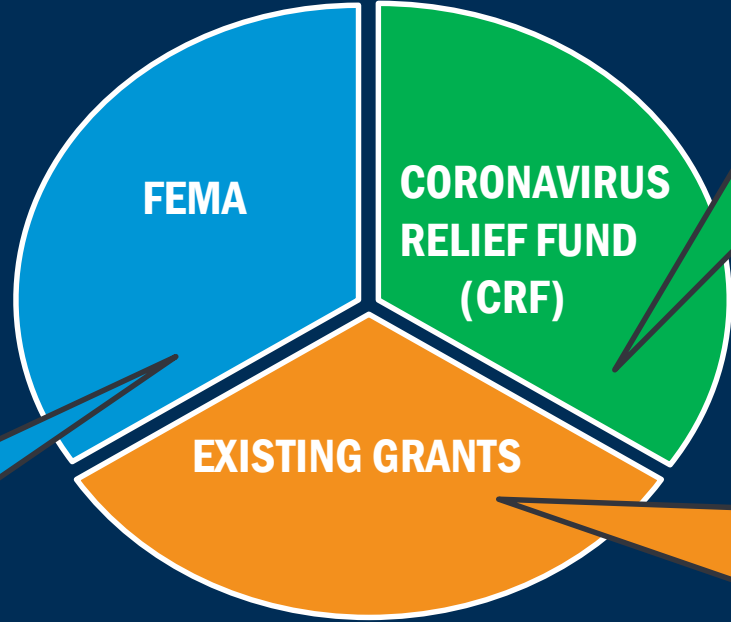
Federal Funding



Federal Funding: Overview

Federal funds cannot be used to offset lost revenue

Reimburses expenses directly tied to COVID-19 public health emergency



One-time funding: unbudgeted COVID-19 expenses: Medical, public health, community support

Pre-existing federal grant programs supplemented with COVID-specific funding

Federal Funding: Overview

Federal Fund Totals:

**\$17
million**



FEMA
*(First advance.
Additional
reimbursements
to come)*

**\$126.8
million**



CRF

Deployment strategy:

Adopted a FEMA-first approach

FEMA and CRF are time-bound

FEMA has more circumscribed usages,
rather than broader, citywide applicability

FEMA → CRF → Existing Grant Programs

CRF Usage: Priority Areas

Community Investment

- Widespread testing
- Rent, utility, and mortgage assistance
- Food support for vulnerable populations

Business & Non-Profit Support

- Grant programs for impacted non-profits
- Grant programs for impacted small businesses

City Operations

- Offset for emergency costs incurred
- Making public buildings safe
- Supporting telework infrastructure

Contingency

- Preserve funds for potential second wave
- Flexibility for future needs and programs
- FEMA cost share if allowed

Phase 1 Emergency Deployment

\$20 million for emergency utilization toward COVID-19 impacted areas

Economic Support \$6.5 million	Housing \$6.5 million	Food \$2 million
<ul style="list-style-type: none">• Grants to non-profits: \$2M• Grants to small businesses: \$4.5M	<ul style="list-style-type: none">• Rent and utility assistance: \$4M• Mortgage assistance: \$1M• Re-housing strategies: \$1.5M	<ul style="list-style-type: none">• Food delivery to vulnerable populations: \$1.5M• Sanitizing & PPE to food delivery programs: \$500k

\$5M: Public health for businesses, non-profits, nursing homes; PPE; community testing

Federal Funding Timeline

March > April > May > June > July > Aug. > Sep. > Oct. > Nov. > Dec.

Community, Business, Non Profit Support

Phase 1: Emergency Deployment

Future Phases: New investments and continued support for Phase 1 investments

Payroll, Sick Leave/FMLA, Redeployment & Unemployment Cost Offloading

Making public spaces safe for the public and staff

City Operations

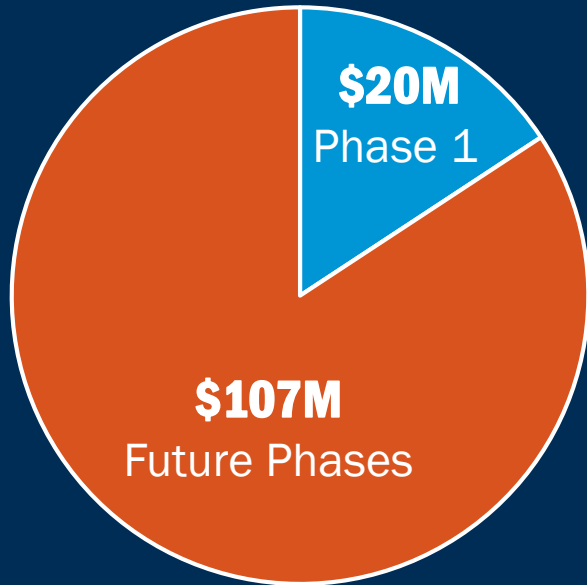
Teleworking Support

Contingency

Flexibility to program future needs + reserve \$ for possible COVID resurgence

Federal Funding: Future Phases

Total CRF Funds: \$126.8M



- Initiate a deliberative process
 - Collaborate with City Council to identify eligible uses and priorities
 - Develop an intake process for programmatic ideas
- Program remaining funds outside of contingency
 - Includes City operations support to complement continued Phase 1 investments
- Expected release of funds: Q3 2020

Next Steps

- Contracts relating to federal fund deployment expected to start the city council process in the next 30 days.
- Identify new program partnerships for rehousing investments over the next 30-60 days.
- Federal funds anticipated to be available to the public within 30-60 days, pending city council approval.

Questions?

Visit [Denvergov.org/COVID19](https://denvergov.org/COVID19) for more information.

Appendix

Additional Employee Impacts

COVID-19 Treatment

- Kaiser and United – no copay or deductible through May 31
- Denver Health still charging for treatment
- City can extend coverage of treatment for UHC

Bus Passes

- Will be reimbursed
- Awaiting timing from RTD

Webb Gym/Wellness Center

- Waiving monthly deductions
- Currently closed per recreation center policy

Pay Equity Adjustments

- Those completed will continue
- Have asked to delay those not implemented; 6 month impact in 2020
- Suspend/hold those not started

Minimum Wage will continue

Pay Survey

- Because of market volatility and budget challenges , it is recommended that Pay Survey not be implemented