



2025 Budget Kick Off

Department of Finance

April 29, 2024

Agenda

- Economic Overview
- General Fund Performance and 2025 Forecast
- ARPA Update
- 2025 Capital Budget
- 2025 Budget Priorities and Timeline
- Q&A



Economic Overview

Lisa Martinez-Templeton
Chief Economist and Data Scientist

A Look Back at 2023

Surprising Upsides

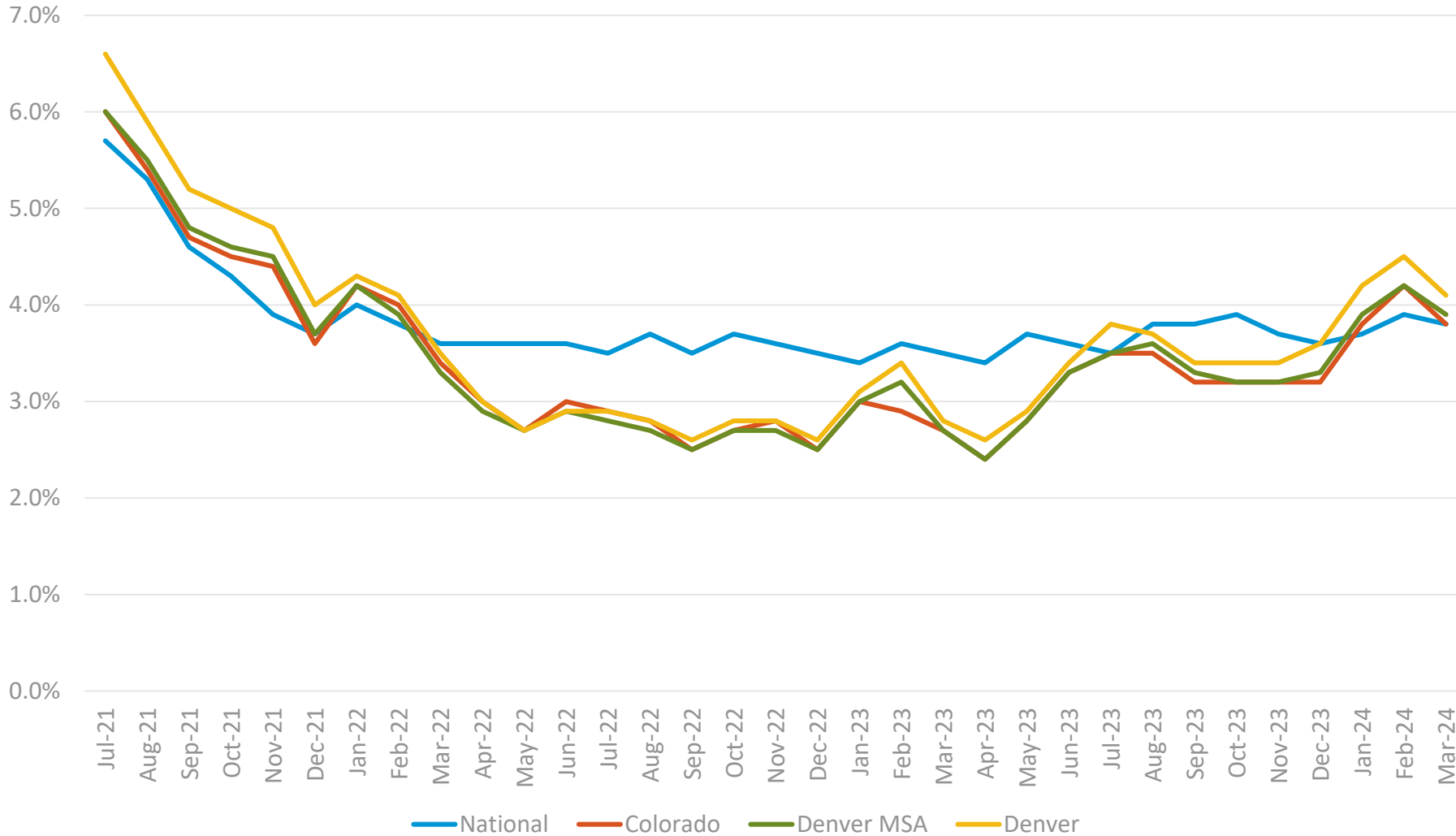
- Particularly strong performance for U.S. gross domestic product (GDP), which exceeded majority consensus expectations
- Progress on inflation despite strong economic growth
- Labor market rebalancing progressed smoothly
- Real disposable income growth
- Declining oil prices

Underperformance

- Retail sales
- Consumer confidence
- Denver County specific labor force
- Denver County specific sales and use tax collections

Unemployment Rate by Region

(not seasonally adjusted)



Unemployment Rates March 2024

National: 3.8%

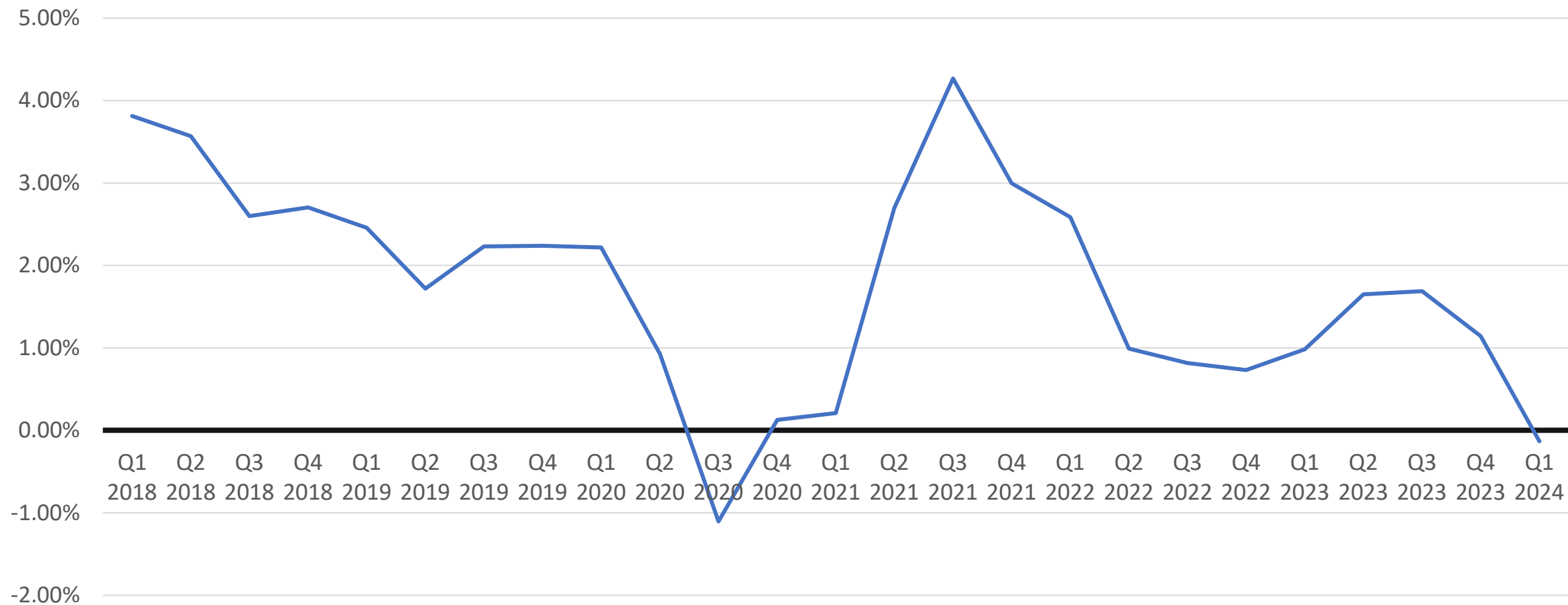
Colorado: 3.8% (P)

Denver MSA: 3.9%

Denver: 4.1%

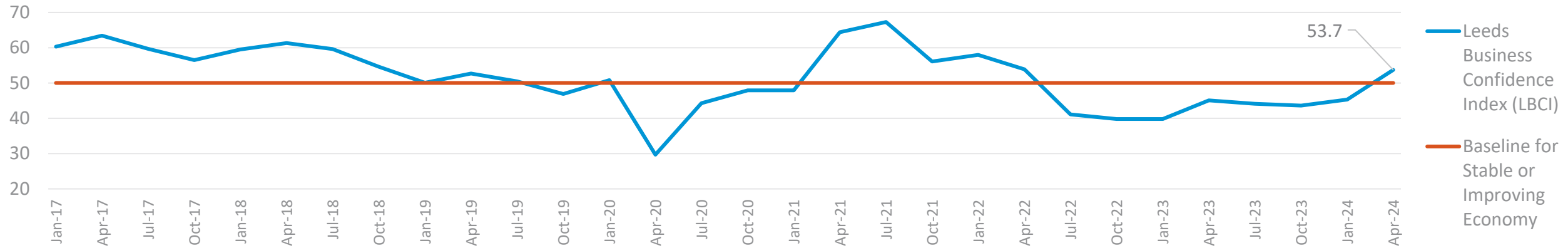
Labor Force Growth Rates

Denver County Year-Over-Year (YOY) % Change Labor Force

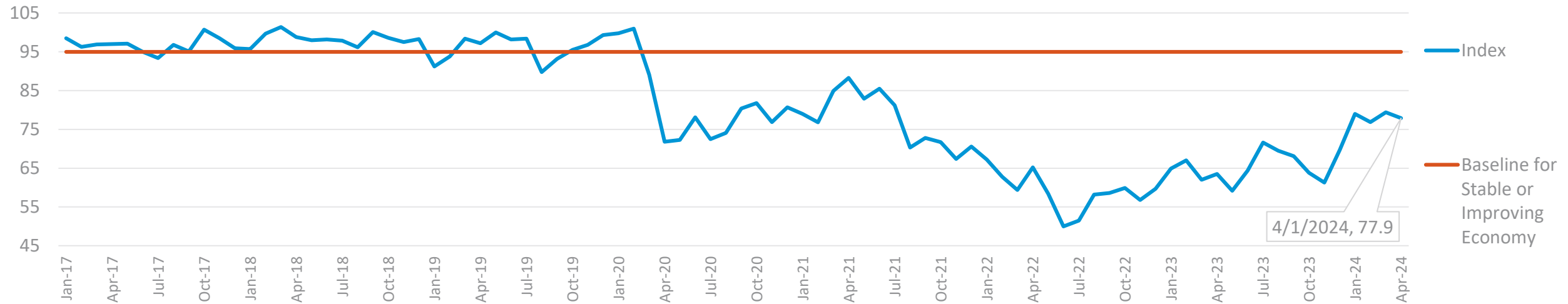


Business and Consumer Sentiment

Leeds Business Confidence Index

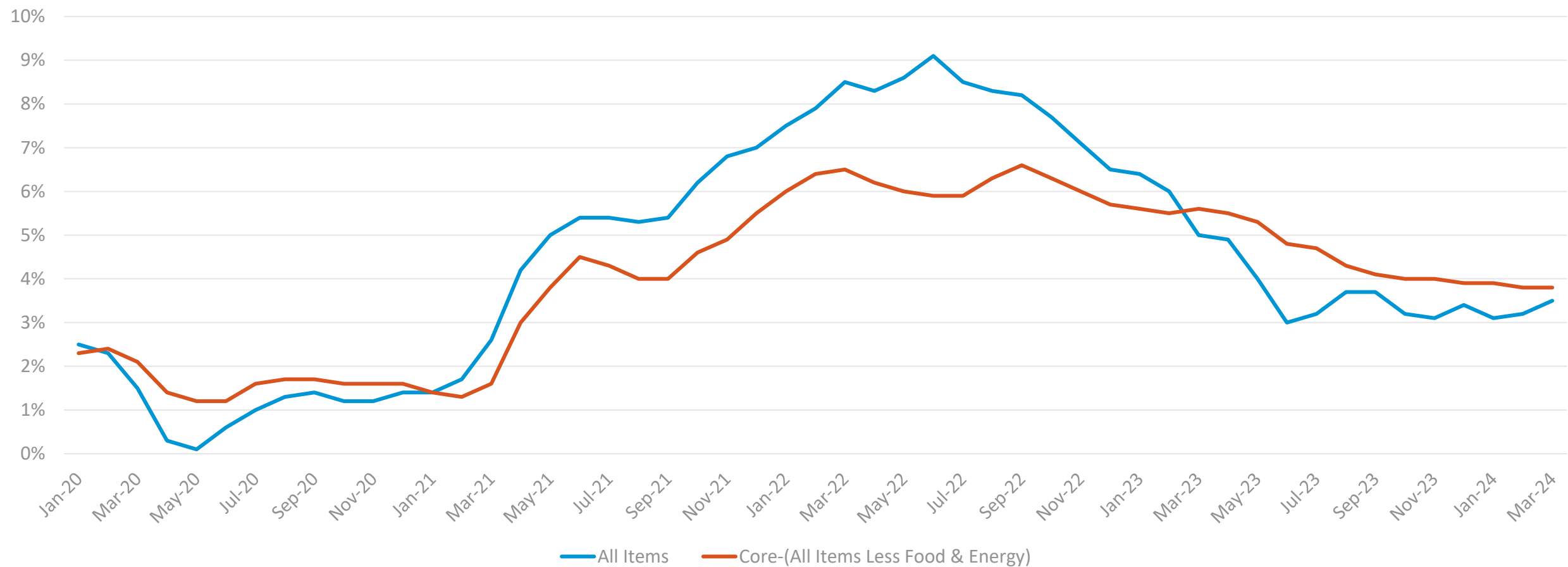


University of Michigan Consumer Sentiment Index



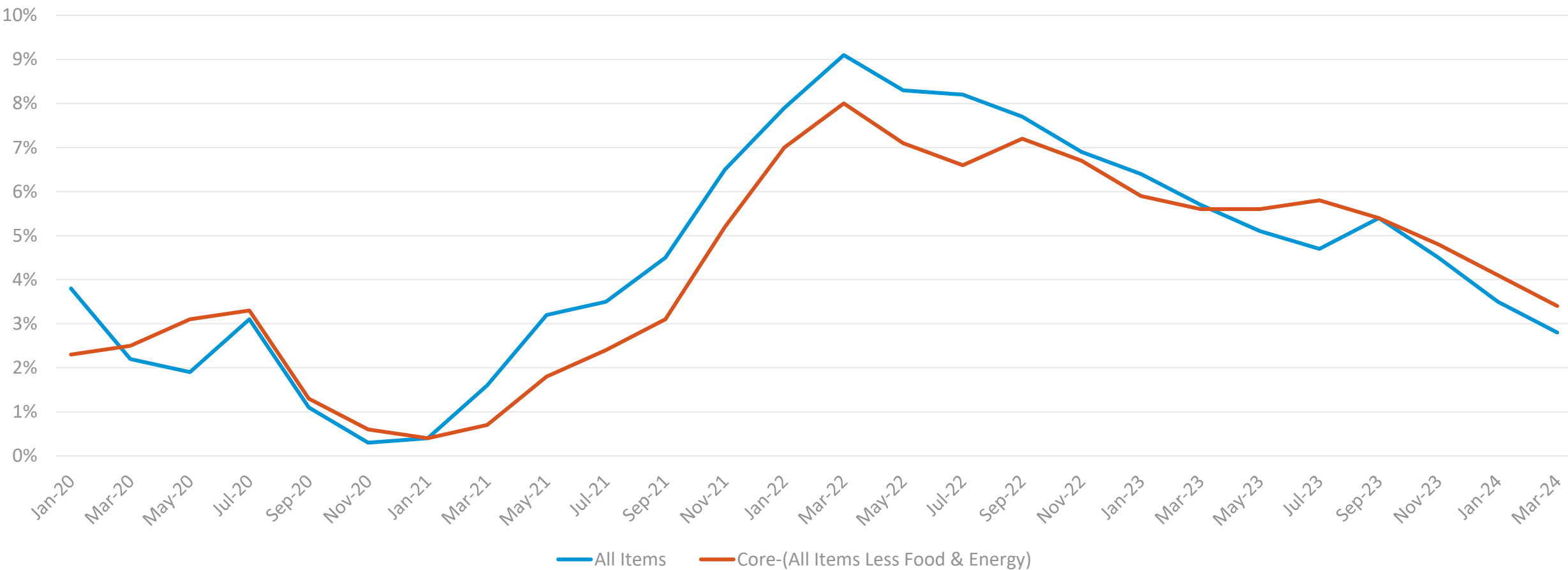
Inflation – All U.S. Cities

CPI-U Year Over Year Comparison, all U.S. cities, Seasonally Adjusted



Inflation – Denver Metropolitan Statistical Area (MSA)

CPI-U Year Over Year Comparison, Denver-Lakewood-Aurora MSA, Not Seasonally Adjusted



Housing Prices

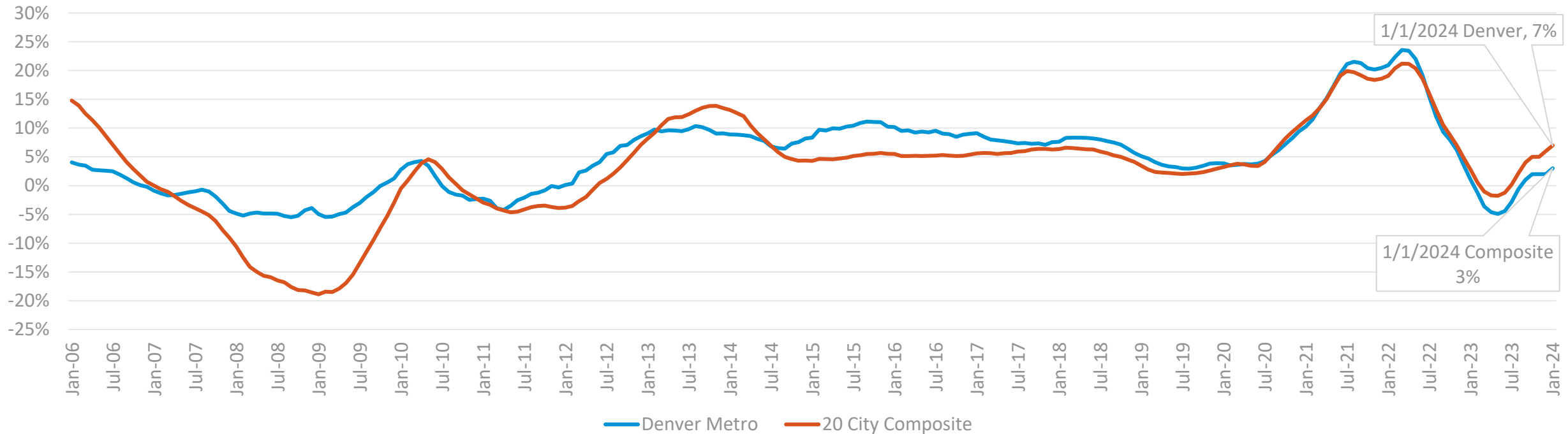
Assessor's Office Valuation Statistics
June 2023

Median Single-Family Change: 33%

Median Multi-Family Change: 45%

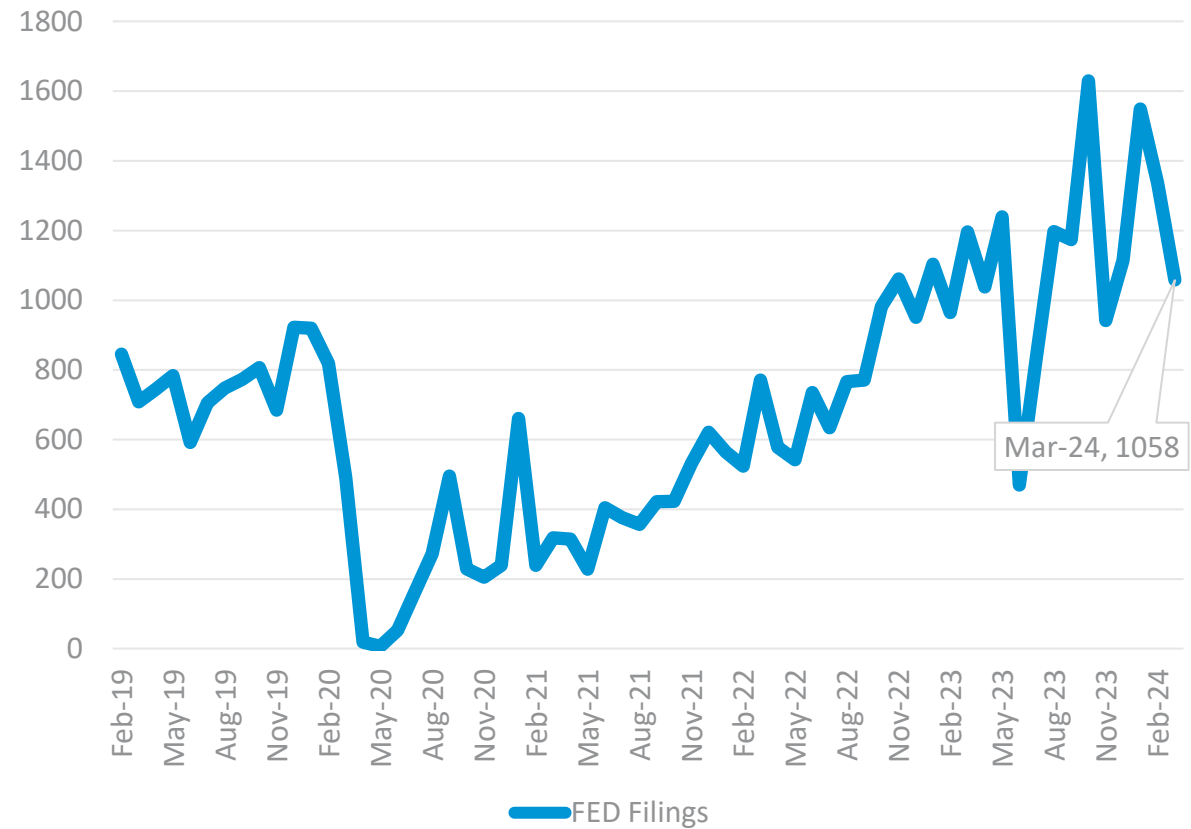
Median General Commercial Change: 17%

Year-Over-Year Percent Change in S&P/Case-Shiller Home Price Indices

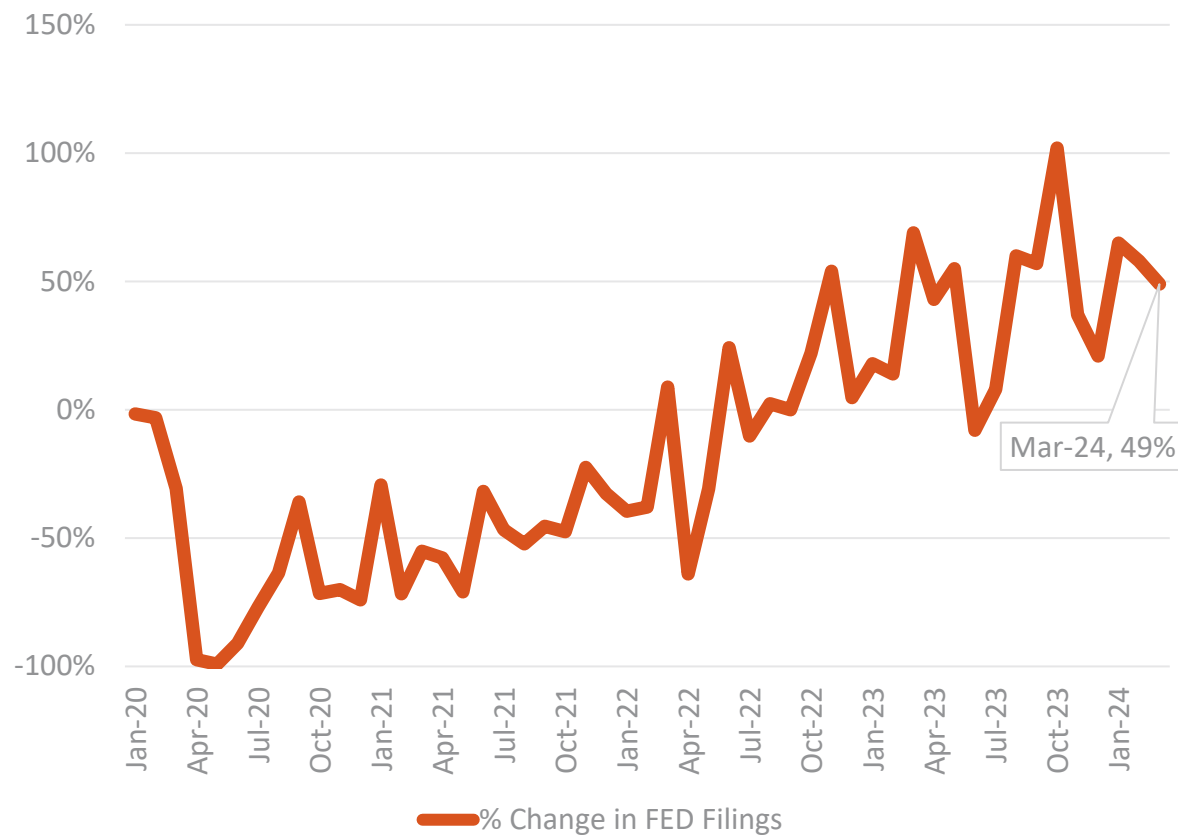


Foreclosures

Monthly Forcible Entry and Detainer a/k/a
Eviction Disclosures (FED) Filings

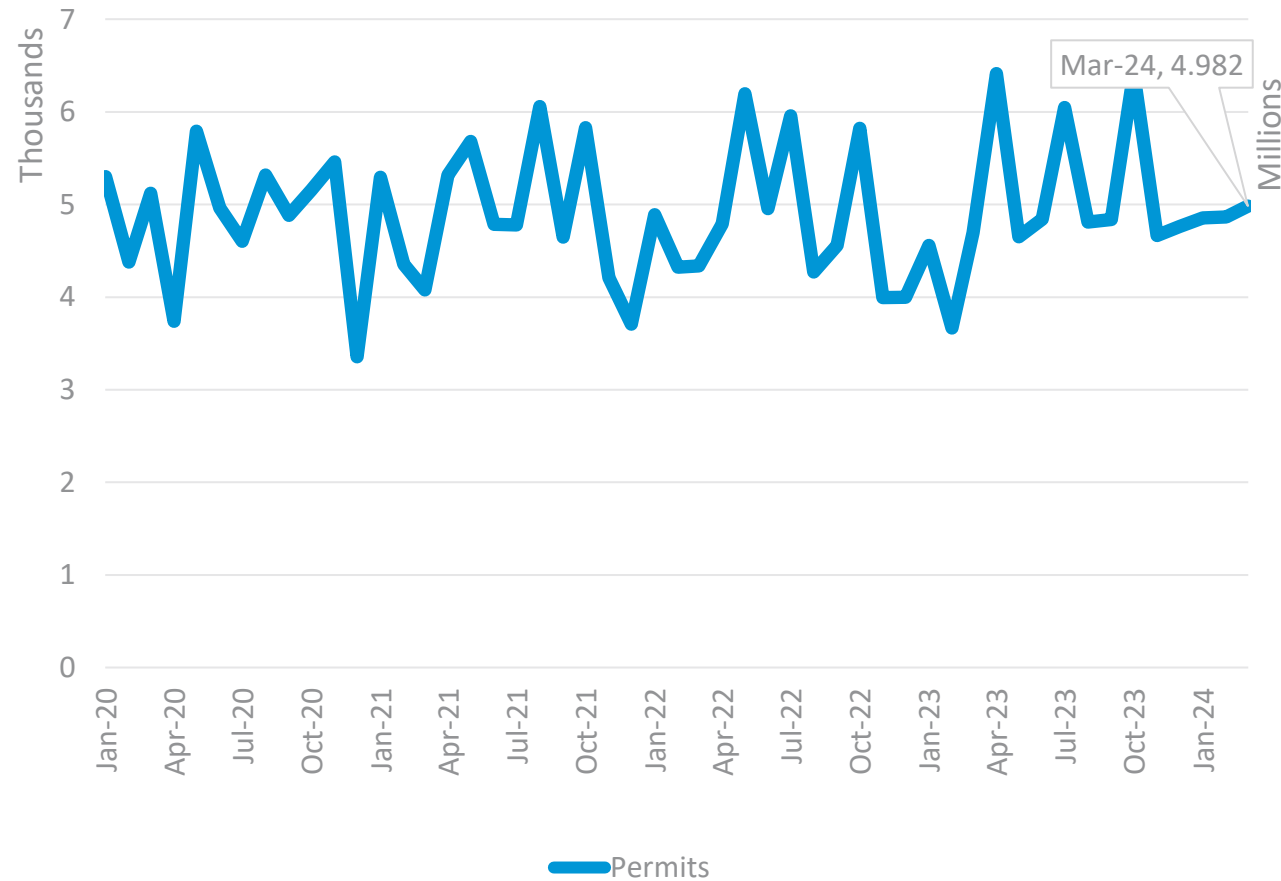


% Change in FED Filings from 2019

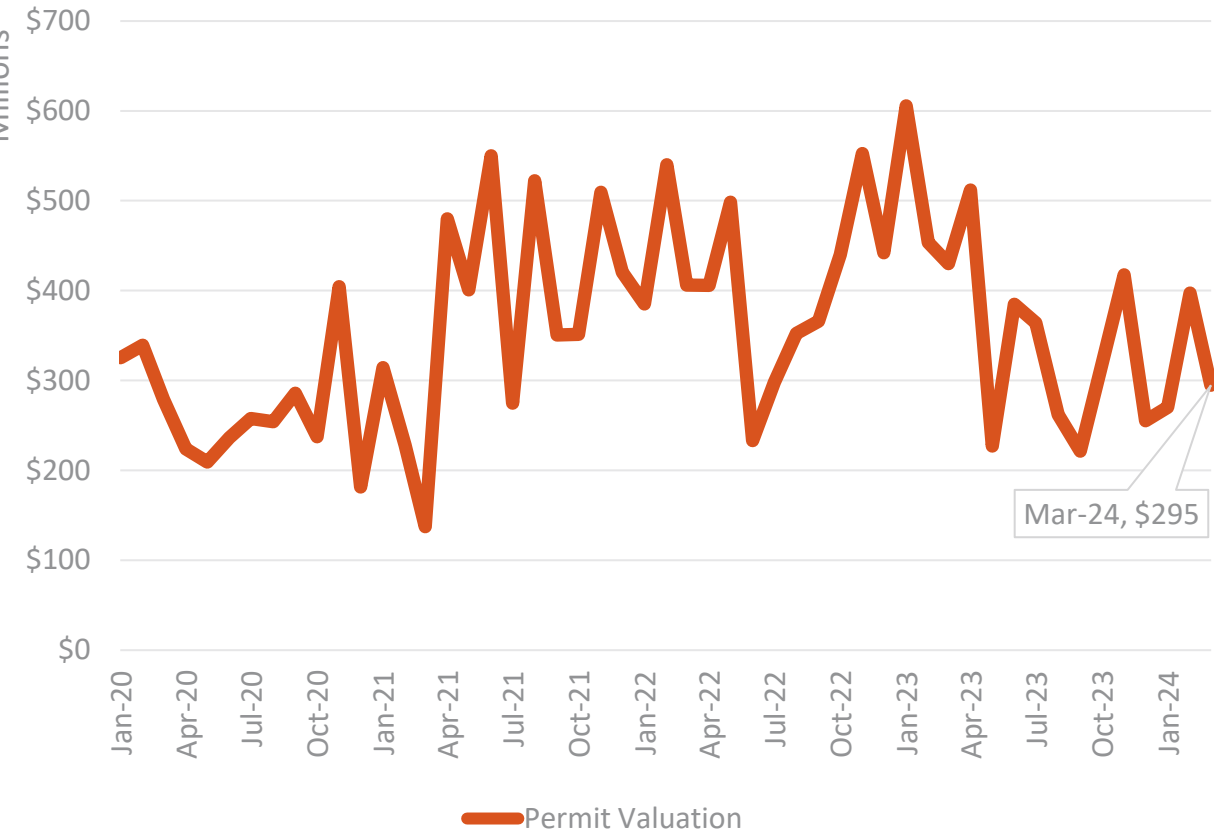


Construction Permits, Denver County

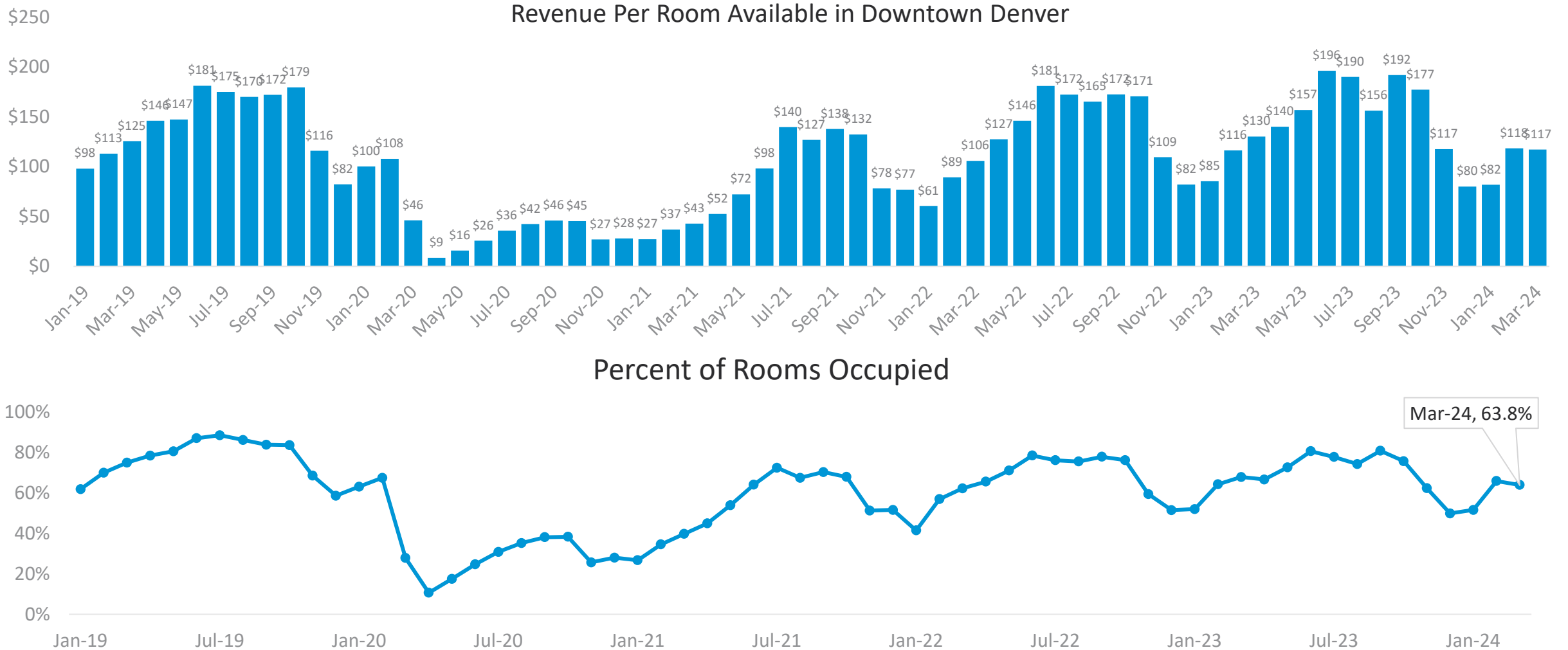
Monthly Permit Volume



Monthly Permit Valuation



Lodging Activity



Looking Forward in 2024 - 2025

Expectations

- Probability of recession over next 12 months at 25%
- Hit Federal Reserve's inflation target by end of year/early 2025
- 2024 Q4/Q4 GDP growth of 1.4%
- Consumption growth of 1%

Key Risks

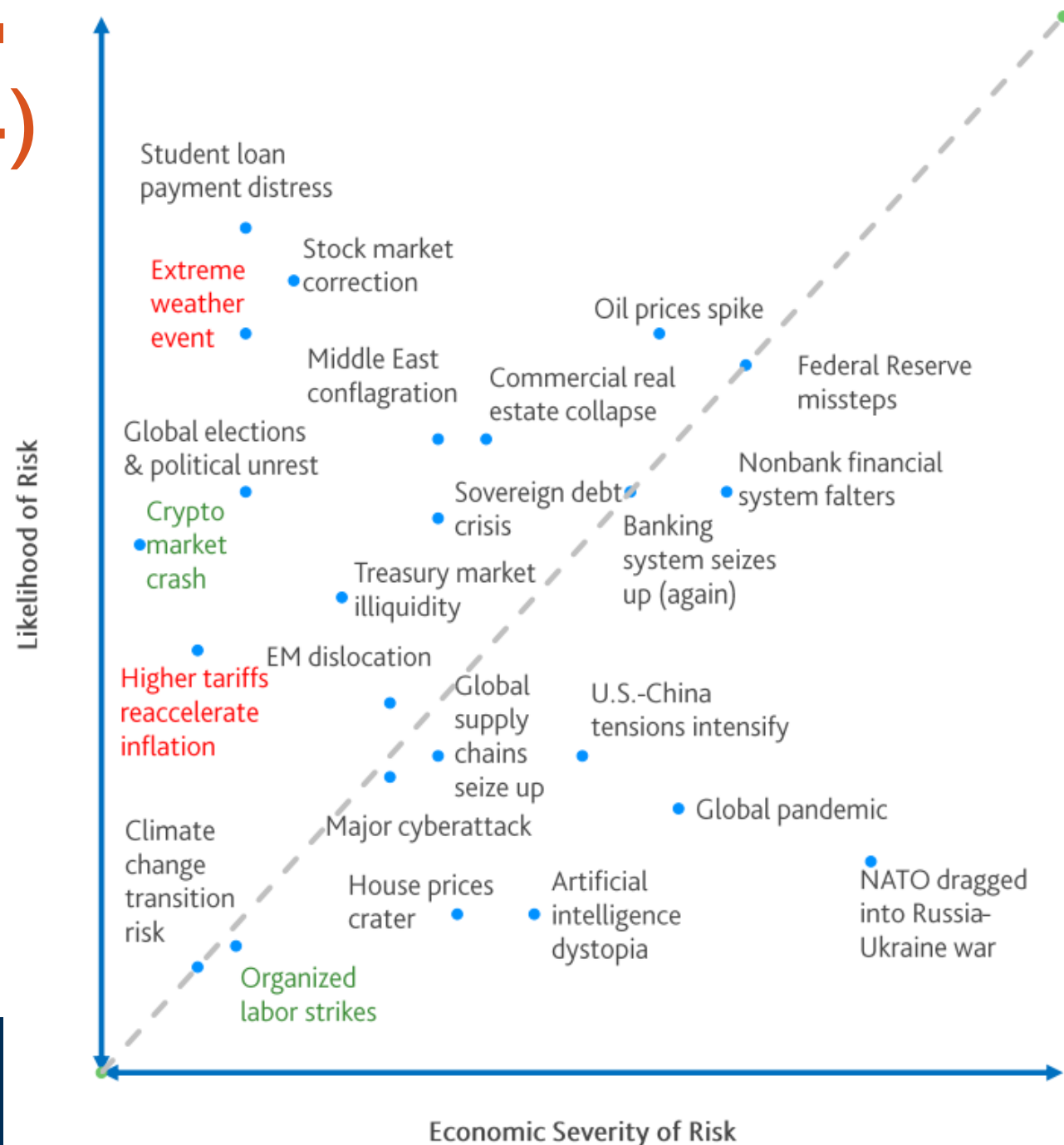
- Geopolitical conflict
- Spike in oil prices
- Office vacancies

Risk Matrix (Apr. 2024)

Note:

Changes in **RED** are either an increase in the odds of the event occurring or a new downside risk

Changes in **GREEN** reflect a decline in the probability of the event occurring



Zooming Out: What's Happening Elsewhere?

Other Major Cities Projected 2025 Sales Tax Growth Rates -

- San Diego: 4.60%
- Phoenix: 0.90%
- St. Louis: 0.60%
- Seattle: 2023 - 2024 growth originally was 4.6%, revised to -0.31% for 2024

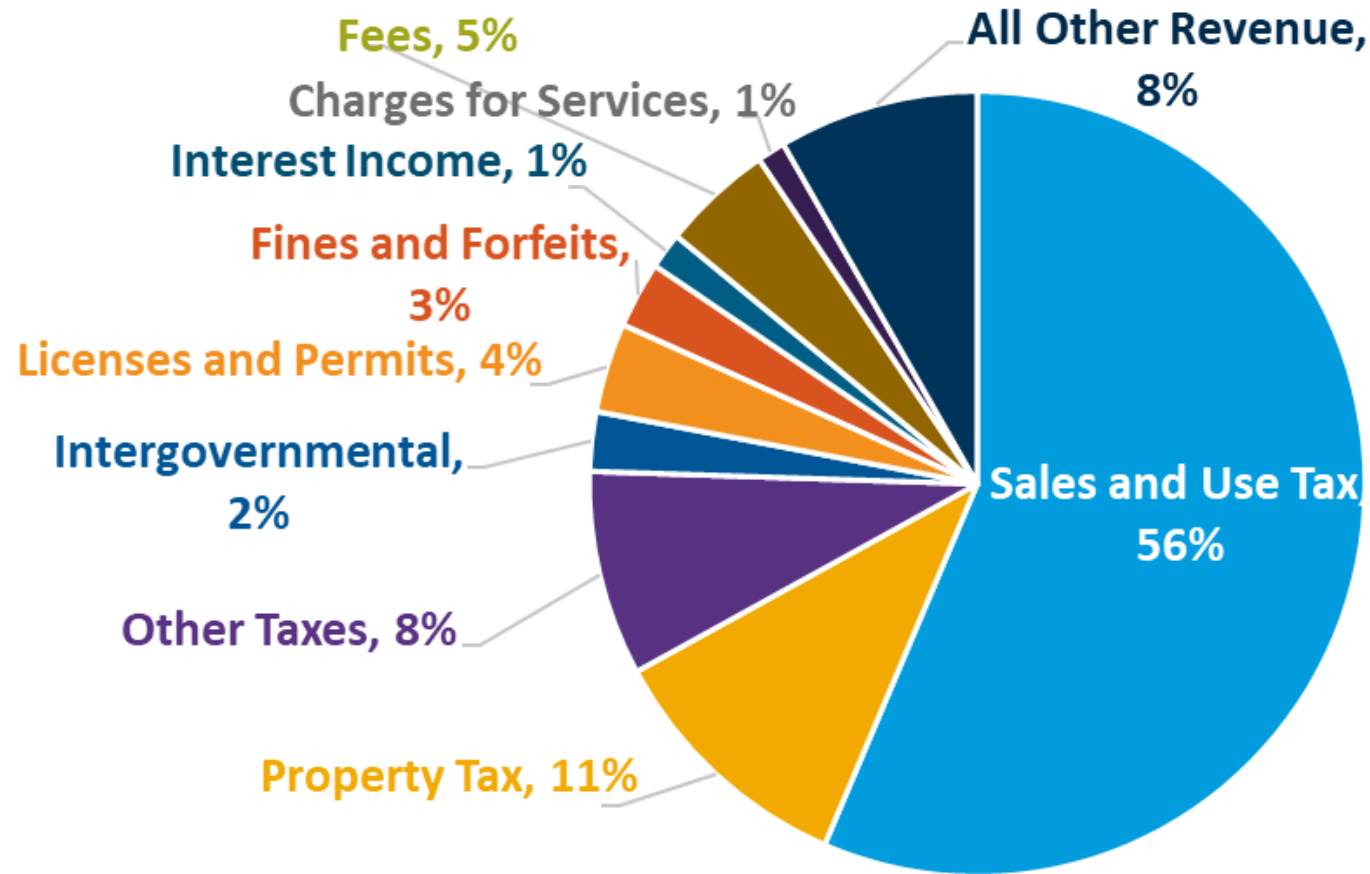
These cities have a similar size of GDP, similar demographics and population growth levels, similar economic sector components, and are located west of the Mississippi.



General Fund Performance & Projections

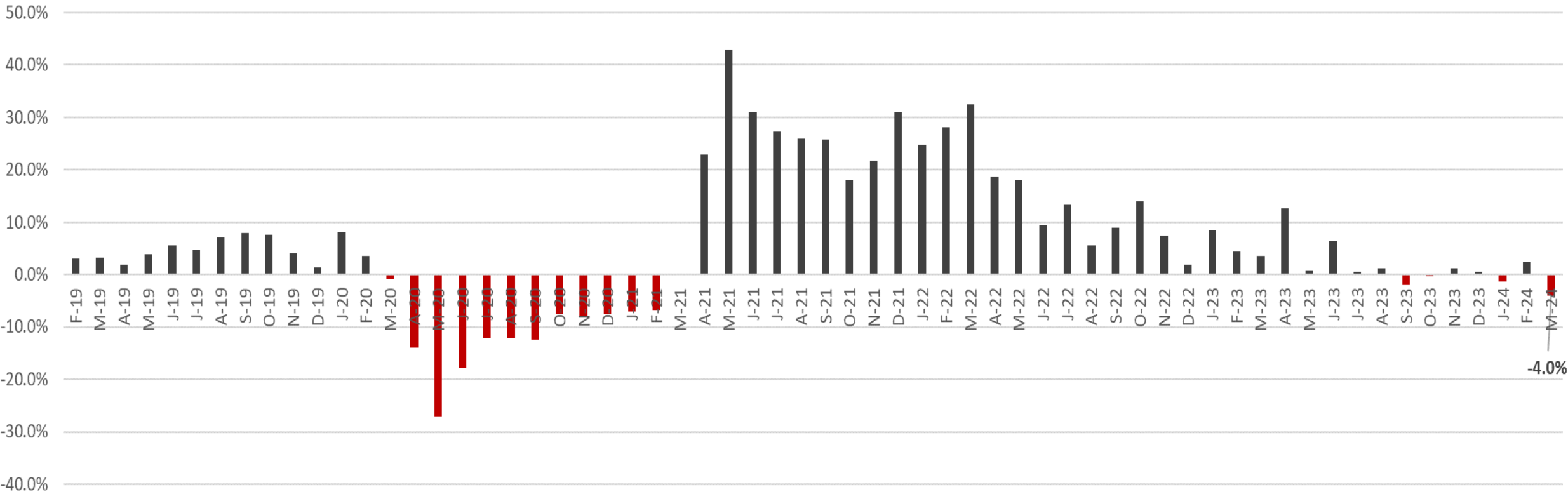
Stephanie Karayannis Adams
Deputy Chief Financial Officer

2023 General Fund Revenue (Unaudited)



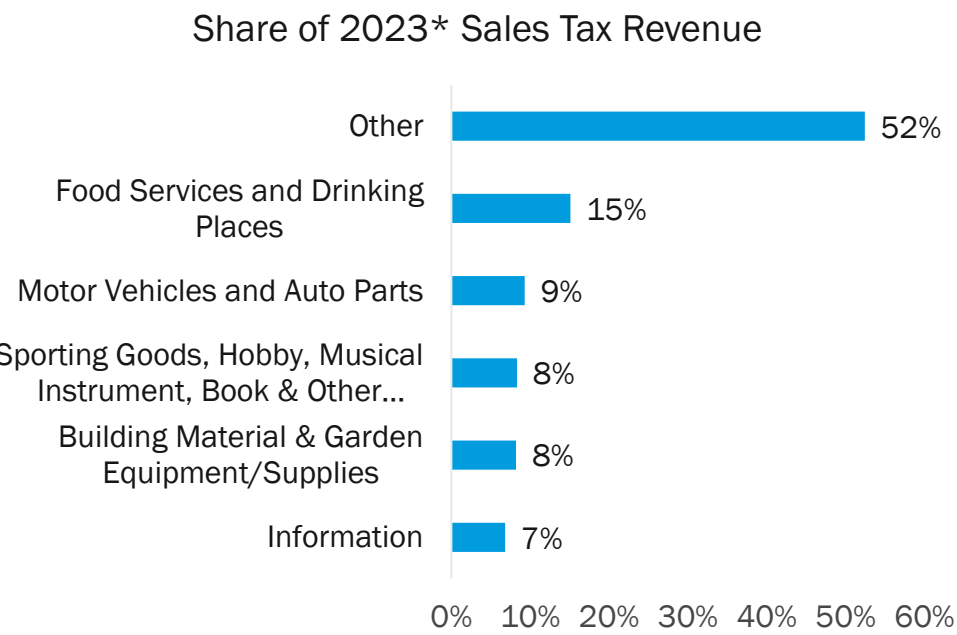
Total: \$1.633 Billion

Year-Over-Year % Change in Core Sales and Use Tax by Month



2023 Core Sales Tax Performance

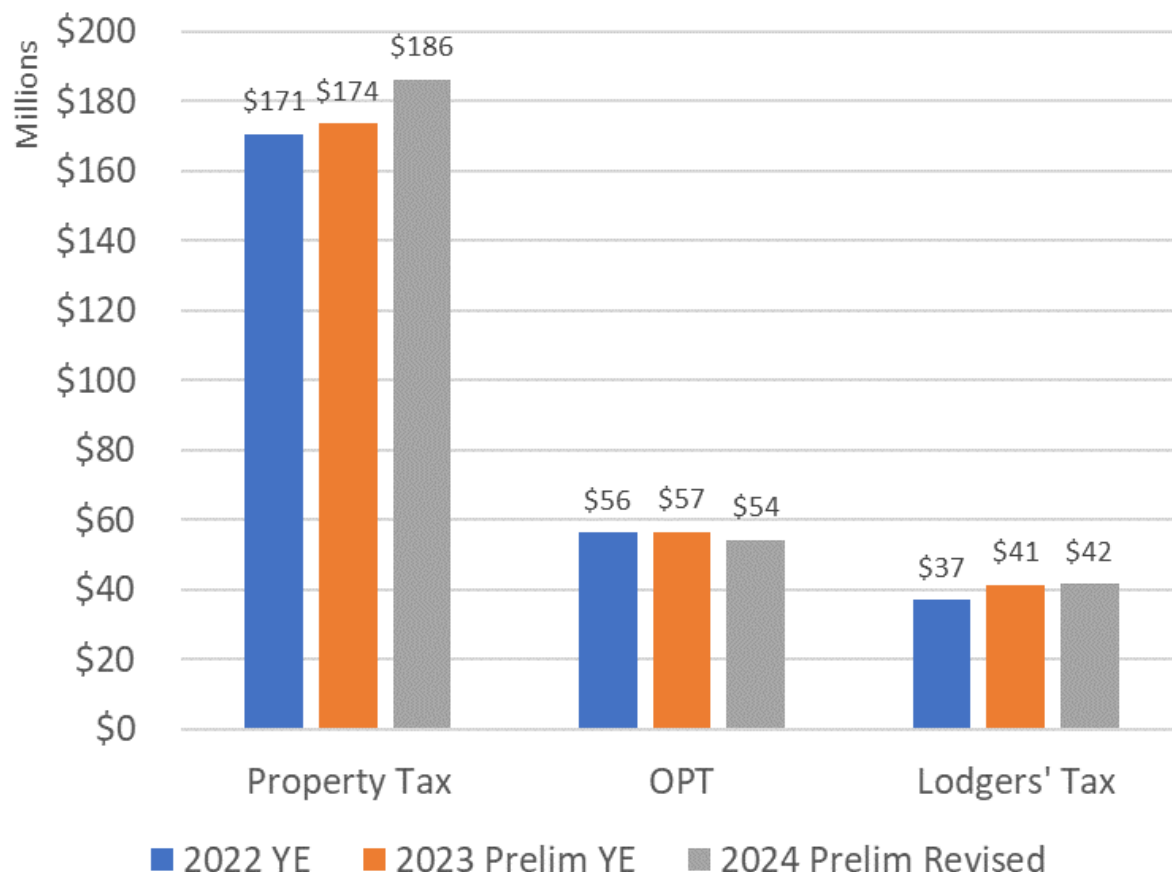
- The largest five industry sectors contribute nearly 48% of the city’s sales tax revenue to the General Fund
- In 2023*, sales tax revenue from these categories increased by a combined 3.4%



Sales Tax Industry Sector	2022 YOY% Change	2023* YOY% Change
Other	10.4%	1.2%
Food Services and Drinking Places	22.9%	6.2%
Motor Vehicles and Auto Parts	10.9%	3.8%
Sporting Goods, Hobby, Musical Instrument, Book & Other Misc. Stores	13.3%	4.4%
Building Material & Garden Equipment/Supplies	13.3%	-0.2%
Information	13.3%	-0.1%

* 2023 figures are preliminary, unaudited

2023 Other Tax Revenue (unaudited)



- In 2024, property tax will grow up to the 2A growth cap due to 2023 revaluation
- Occupational privilege tax (OPT) is projected to decline in 2024 based on Denver-specific labor force trends and remote work patterns
- Lodgers' tax grew in 2023 partly due to one-time audit. 2024 projection is that it will stay flat (informed by Visit Denver)

2023 Other Significant Revenue

- Motor Vehicle Ownership Tax: **\$15.9m**
 - Distribution correction
- Investment Income: **\$8.9m**
 - YOY growth of 60%
- Covid SRF Transfer for House1K: **\$8m**
 - One-time per Ord 23-1325
- Construction/Plan Checking: **(\$3.8M)**
 - Shift toward smaller-scale projects

2023 General Fund Performance (unaudited)

Revenue performance = 0.3%

- Net overperformance of \$5m due primarily to MV Ownership Tax correction partially offset by underperformance in sales tax, construction permitting, and investment income

Expenditures met projections = 0.003% (unaudited)

- Agencies primarily spent appropriation available to them
- Contingency was fully spent in 2023 for the first time in at least 10 years

2024 General Fund Budget

Formal revisions to the 2024 Budget occur in September

Original Appropriation (Expenditures): Projected increase of 3.84% over 2023 revised, driven by:

- Merit increases
- Collective bargaining increases

Original Revenue: Projected increase of 4.7%, driven by:

- Sales and use tax originally projected to increase 4.1%
- Property tax projected to increase 7.3% based on reassessment and growing up to the 2A cap

Based upon revenue experience since Q4 of 2023, revenue projections are likely to require a downward revision for 2024

Original Use of Fund Balance: \$40.8M

- To achieve a balanced budget and to meet a 15% fund balance goal

2025 Initial General Fund Forecast

Preliminary 2025 revenue projection: Increase of less than 1% (\$15-16m) over 2024, driven by:

- Core sales and use tax growth of 3.9%
- Stapleton TIF district termination in 2025 and a reduction in retained sales tax
- One-time transfers from 2024 not carrying forward into 2025 (-\$15m)
- Net growth of \$9m across various other revenue streams, the largest drivers being lodgers' tax, occupational privilege tax, and the excise tax transfer to the General Fund

Preliminary 2025 expenditures increases include:

- Annualization of approved 2024 positions
- Uniform collective bargaining agreements
- Personnel increases, including pay equity adjustments and minimum wage adjustments

2025 Will Likely Require Reductions to Balance

- Expecting less revenue than anticipated in 2024, meaning fund balance may end below 15% in 2024
 - Impacts our ability to use the surplus to offset 2025 projected expenditures
- Less than 1% increase in revenue projected for 2025
 - Our natural growth is greater than 1%
- Sustainable reduction proposals are needed to ensure a balanced budget for 2025
- Currently the estimate to balance the budget would require a 5% reduction to 2025 base projections
- After receiving information from agencies on agency-generated revenue and mandatory increases through May-June, BMO will re-project revenues and expenditures in July

2024 Reductions versus 2025 Planning

2024

Solved for \$89.9 million in unbudgeted expenses in the short term

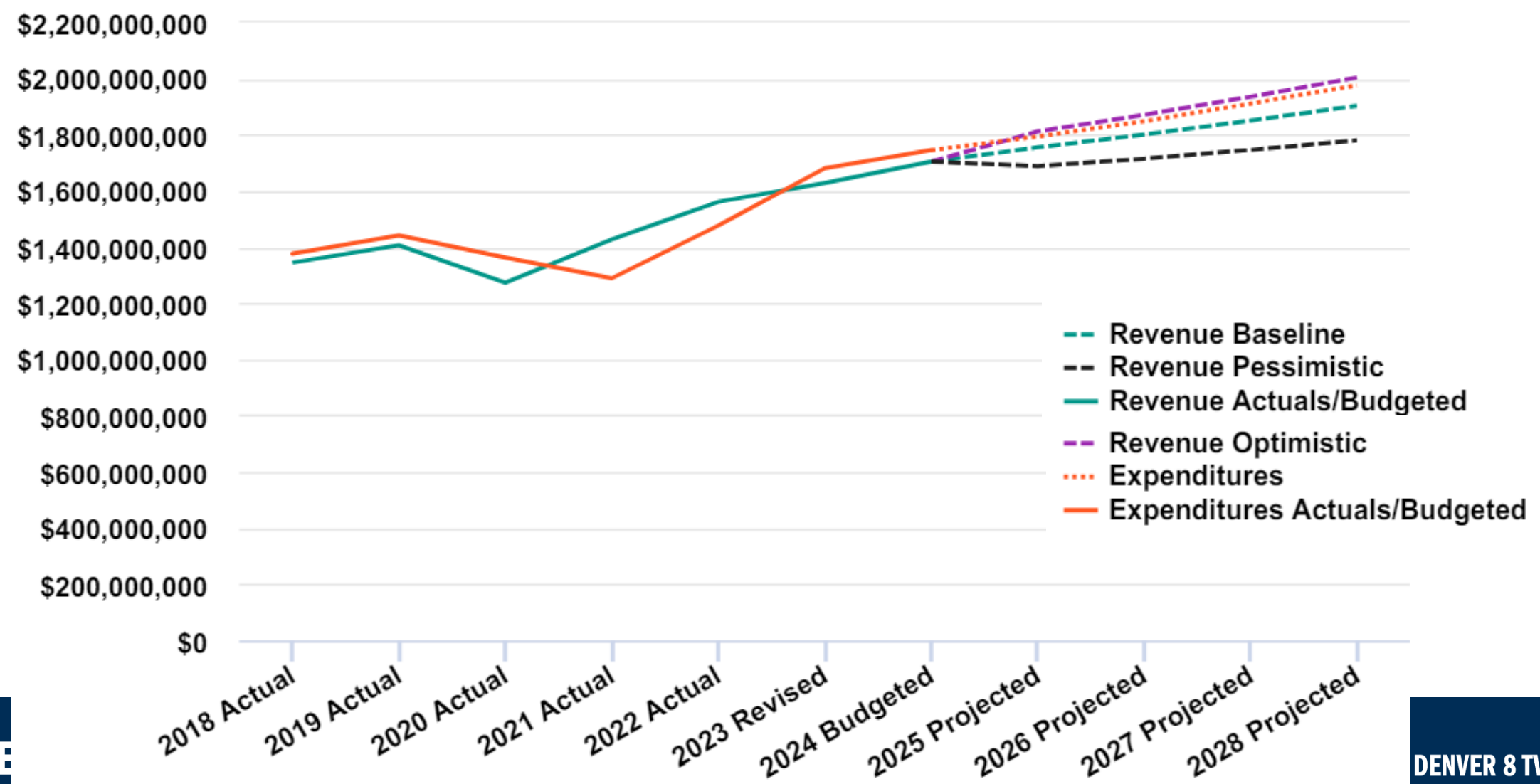
- Average agency reductions of 2.5%
- Leveraged primarily one-time reductions
- All funds went to the Newcomer Program
- Significantly abbreviated process did not allow for strategic long-term proposals

2025 and Beyond

Planning for a more financially sustainable future by reducing city base expenses amid slowing revenue growth

- Focus is on sustainable reductions
- Even with no budget expansions in 2025, city's natural growth would likely outpace revenue growth
- Longer turn-around time will allow us to be thoughtful on how to strategically use more limited resources in 2025

General Fund Revenues and Expenditures (2018-2028)



General Fund Reserves and Contingency

The city has multiple reserves to address unforeseen revenue shortfalls or unanticipated expenditures:

- **Contingency – helps address unforeseen expenses during the year**
 - Required by Charter to be at least 2% of estimated General Fund expenditures
- **Undesignated Fund Balance/Emergency Reserves – helps maintain services if revenue drops unexpectedly during the year**
 - Targeted at 15% of annual General Fund expenditures
 - Minimum of 10% of annual General Fund expenditures
- **Tabor Reserve**
 - 3% of fiscal year spending (state mandated, maintained in separate special revenue fund)
 - Can only be used in the event of a natural disaster and must be replenished within a year
 - Is primarily met through real estate value

These three reserves total 20% of the General Fund's expected expenditures.

GF Fund Balance/Emergency Reserves

- Original 2024 Projected Fund Balance = \$261.7M
 - \$40.8M to cover the gap between revenues and expenditures
 - \$19M assigned fund balance
 - This was 15.0%
- Current Projected Fund Balance
 - Contingent upon final 2024 revenue projections
 - Depending on the downward revision of revenue, fund balance could end between 13%-15%
 - Would impact our ability to use this resource in 2025

Charter Requirements for City Budget

Article VII of the City Charter

- “On or before May 1... shall prepare a budget calendar and procedures for the preparation of the budget...”
- “On or before July 1... all agencies, offices, departments, boards, commissions and other spending agencies...shall prepare and submit...estimates of their expenditure requirements and estimated revenues...”
- “[On or before Sept. 15] The budget proposed by the Mayor shall not propose expenditures in excess of estimated opening balances and anticipated income...”

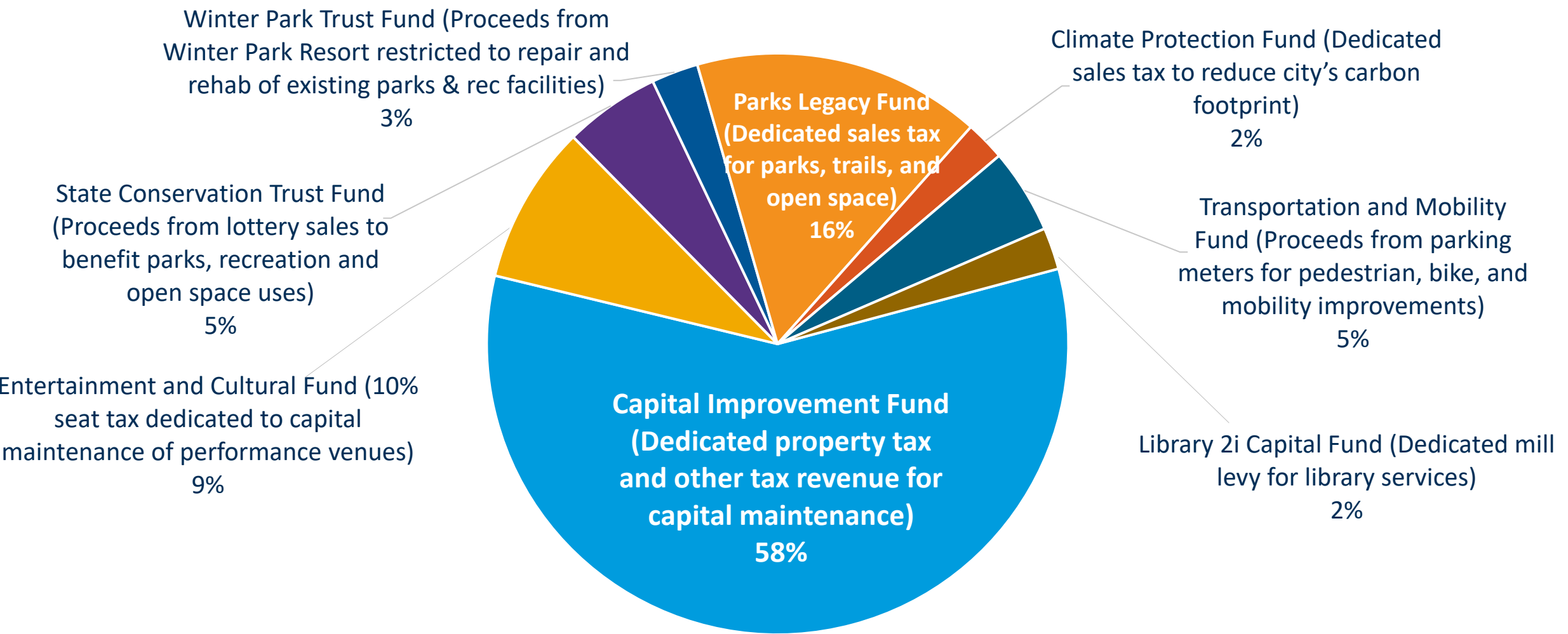
We will re-project revenues and estimates of expenditures in July



2025 Capital Improvement Program (CIP) Budget

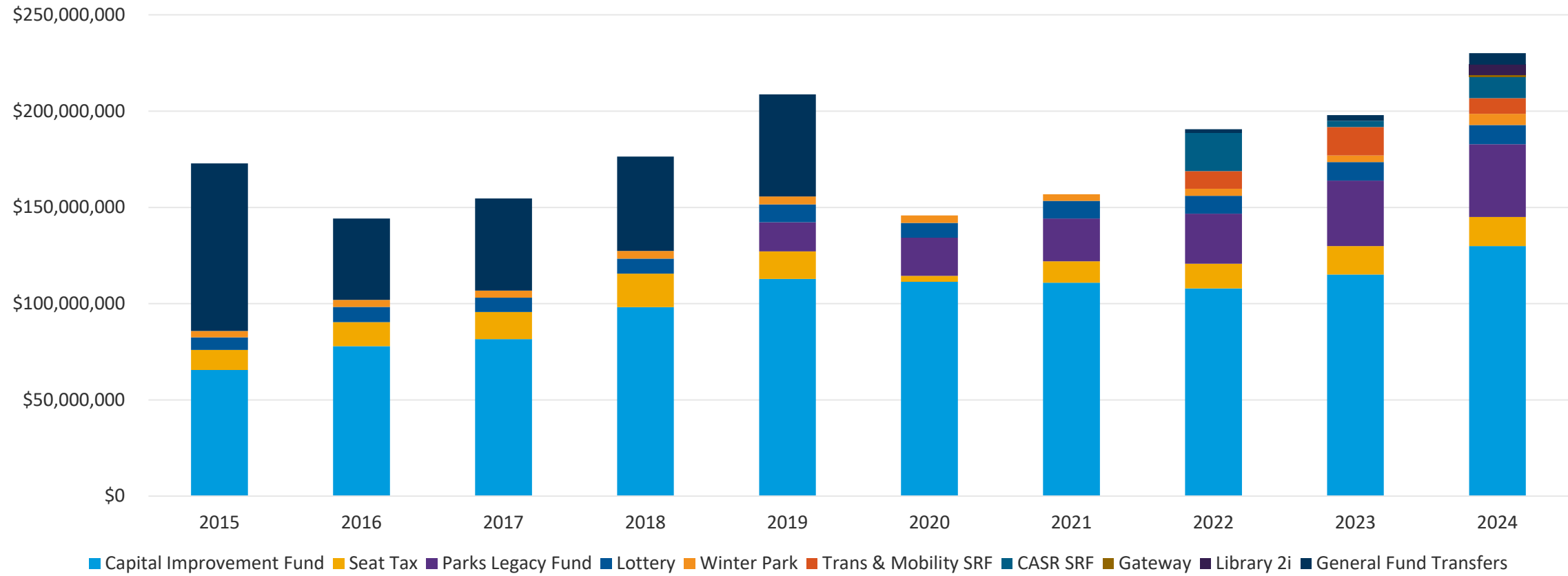
Lamar Garlington
Capital Budget Manager

Projected 2025 Annual CIP Revenue



10-year CIP Revenue Growth

Annual Capital Improvement Program (CIP) Revenue



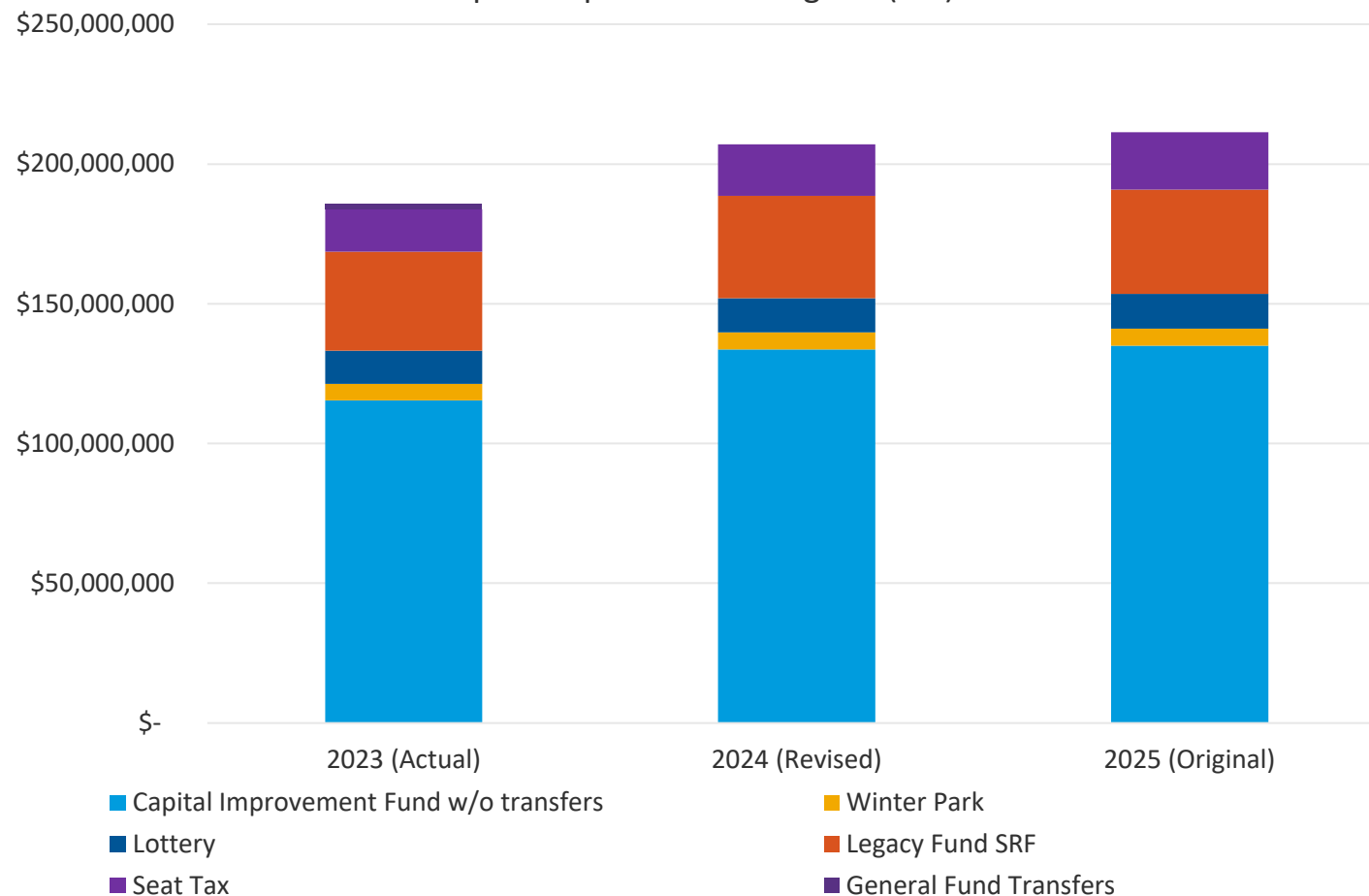
2025 CIP Preliminary Revenue Forecast*

- **2025 revenues, excluding transfers into CIF, are projected to be \$211M**

1% increase over 2024 revenues

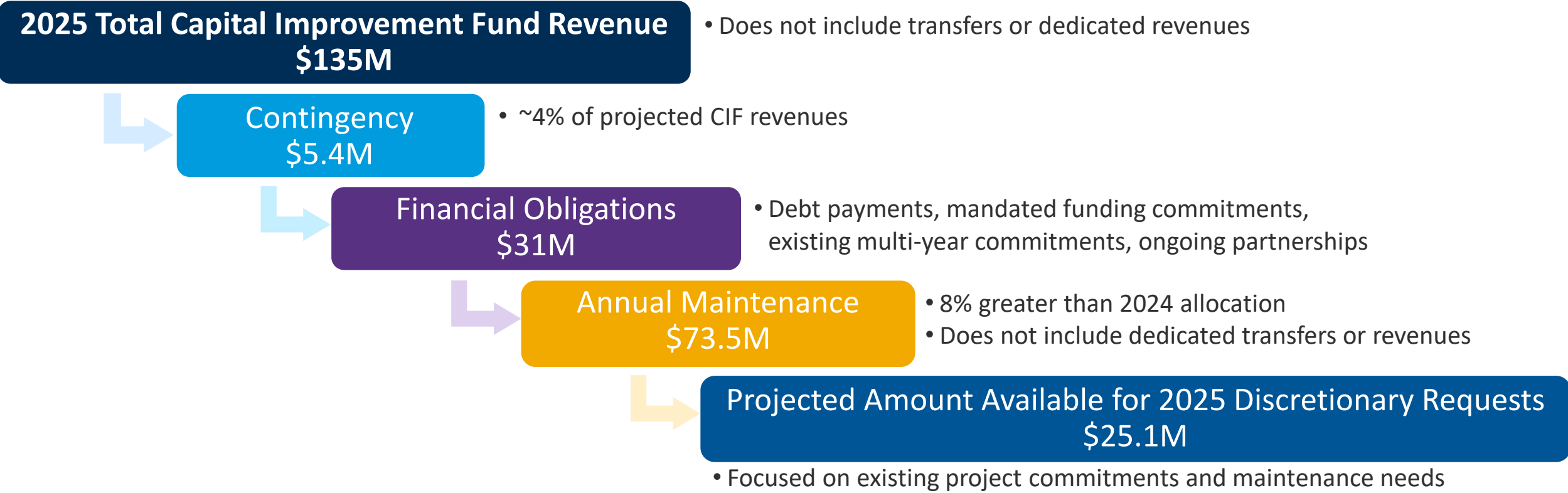
- Increases in Property Tax and Capital Maintenance Mills
 - Minimal growth in Lottery and Legacy
 - Substantial growth to Seat Tax projected
- **Will continue to be refined in the coming months**

Annual Capital Improvement Program (CIP) Revenue



*Initial projections based on information available at this time. Subject to change.

Projected Amount Available for 2025 Discretionary Requests



*Subject to change, as revenue projections are refined

2025 Budget Priorities and Timeline

Stephanie Karayannis Adams
Deputy Chief Financial Officer

Citywide Goals

Vibrant Denver

- Investing in long term economic development activities citywide – downtown and within neighborhoods

Affordable Denver

- Homelessness Resolution
- Long-term Affordable Housing

Safe Denver

- Mental Health and Addiction Care
- Reducing Violent Crime

Great Government

- City Processes, like Permitting
- City Response Times to Constituent Services

Employee Engagement

- Increase employee engagement

City Council Priorities

Based on April 15th Budget & Policy conversation

Strengthen community safety by engaging directly with neighborhoods & ensure investment in community-supported, anti-racist, public health strategies.

Empower community and improve customer service by sharing information, engaging, and collaborating with residents.

Improve housing pipeline, diversity & stability. Meet needs of those experiencing or vulnerable to homelessness. Implement proven & innovative methods to reduce involuntary displacement.

Incubate business, labor infrastructure, and our network of community organizations. Empower workers, sustain thriving workforce, and support small & local business.

Treat climate change as an emergency. Protect natural environment through action and investment. Mitigate harm in areas of environmental injustice.

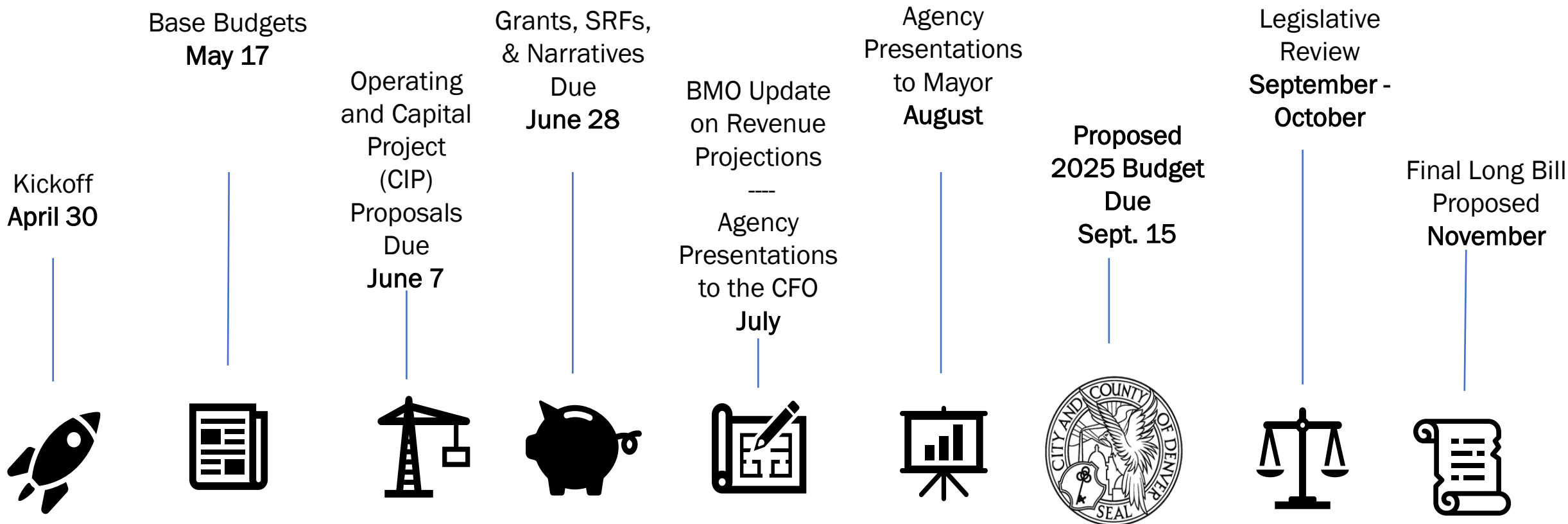
Create complete and safe multimodal transportation connections. Improve infrastructure. Reduce traffic deaths by 25% by the end of 2025.

Invest in children, youth, and families. Support, educate, and engage to meet multi-faceted, multigenerational needs.

Increase access to physical & mental health, addiction & substance use resources. Expand investment and collaboration between providers & partners for seamless service continuum.

39

2025 Budget Calendar



Next Steps for City Council

- Will share slide deck and we are available for 1:1 briefings all May
 - 2025 will be a challenging budget year. We would love to hear your input early.
- City Council budget workshop | May 3
- Update on revenues and expenditures | July

America Rescue Plan Act (ARPA) Update

ARPA Funding Update

***As of April 23, 2024**

Allocation Category	Funding Allocation	Commitments, Obligations & Expenditures	Planned for Allocation
Restoration Programming + Supplemental Services	\$77,677,270	\$72,120,509	\$5,556,761
Premium Pay - 2021	\$8,230,500	\$8,230,500	\$0
Recovery Programs	\$219,311,100	\$176,295,327	\$43,015,773
Administration	\$1,330,000	\$1,327,614	\$2,386
Technical Support and Program Evaluation	\$1,500,000	\$0	\$1,500,000
Total Allocation	\$308,048,870	\$257,973,950	\$50,074,920
Interest Earnings	\$9,767,300	\$6,752,051	\$3,015,249
Total ARPA Funding	\$317,816,170	\$264,726,001	\$53,090,170

ARPA Milestones

Milestone	Due Date
Final Reallocation Request Approved by DOF	May 31, 2024
CCD Obligation Deadline	September 30, 2024
ARPA Obligation Deadline	December 31, 2024
CCD Expenditure Deadline	September 30, 2026
ARPA Expenditure Deadline	December 31, 2026
Final Quarterly Financial Report & Final Recovery Plan Report	April 30, 2027

ARPA Funding ‘Wind Down’

- Approximately \$40 million of ARPA restoration funds have been absorbed in the General Fund
- Many ARPA programs were intended to be one time to address pandemic challenges, like:
 - Behavioral Health and HOST strategic needs assessments
 - Capital investments, including land acquisition for affordable housing
 - BIO grants to businesses impacted by COVID
- Agencies may request 2025 General Fund resources to continue programs that were ARPA funded, which would become part of citywide budget decisions this fall
- An update on ARPA programs will also be provided as part of the 2025 Budget Overview in September



Thank you!