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# Revenue and Budget Update

**Department of Finance**

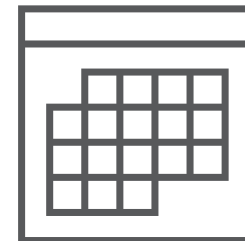
July 30, 2024

# Agenda

- 2024 Revenue Update
- Impact of Revised 2024 Revenue Forecast on 2025
- 2025 Budget Preparation Timeline / Next Steps
- Q&A

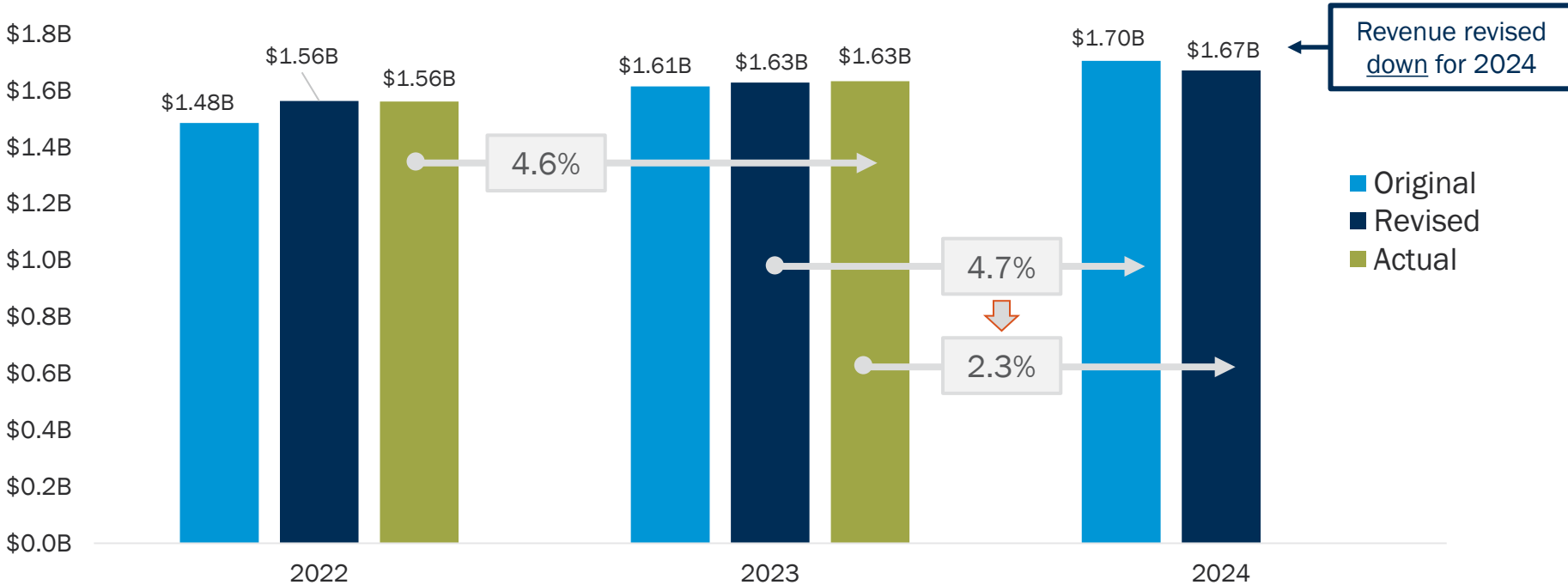
# What's Changed Since the April Update?

- ✓ Financial books closed on 2023
- ✓ Two additional months of actual revenue collection to better inform forecasts
- ✓ Two additional months of actual expenditures (through June 2024)
- ✓ Refined preliminary 2025 base budget

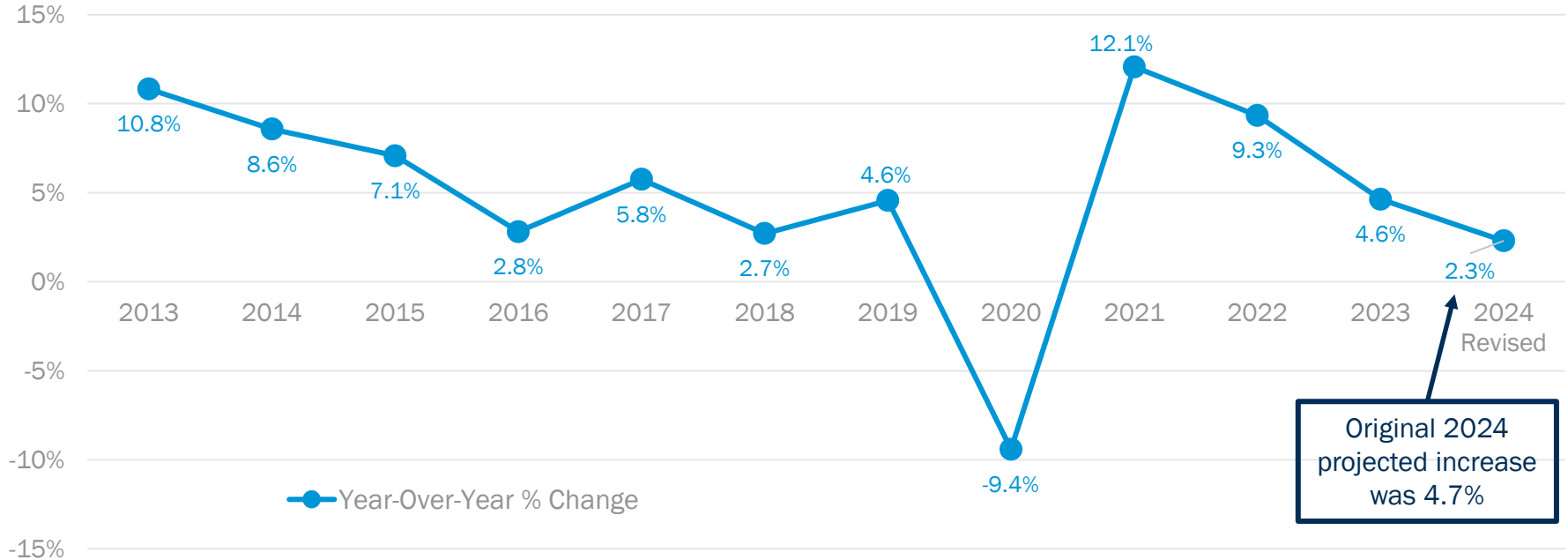


The “base budget” is the cost to continue what an agency is doing today without additional increases — *likely an underestimate due to services/supplies inflation.*

# 2024 Revenue Update: General Fund Revenue Projections and Actuals

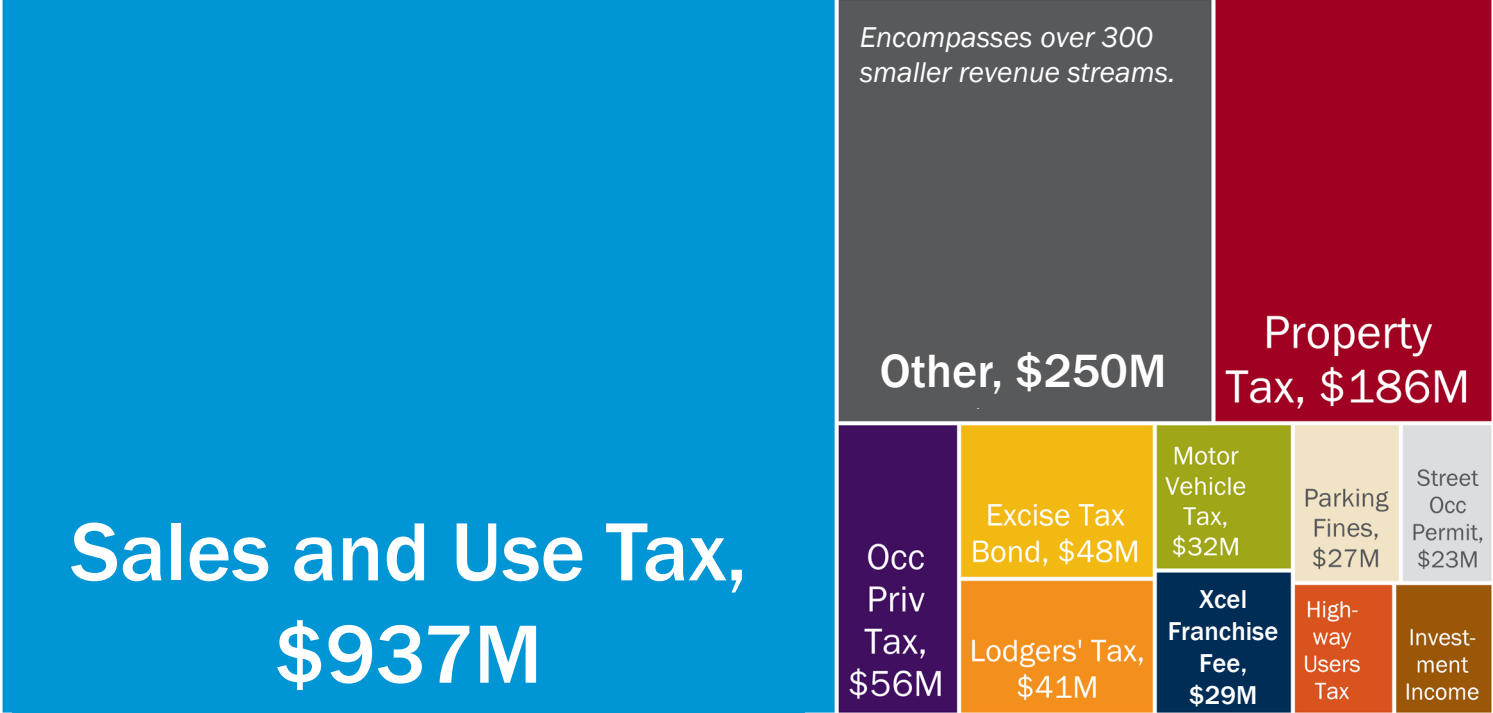


# Historical General Fund Revenue Growth

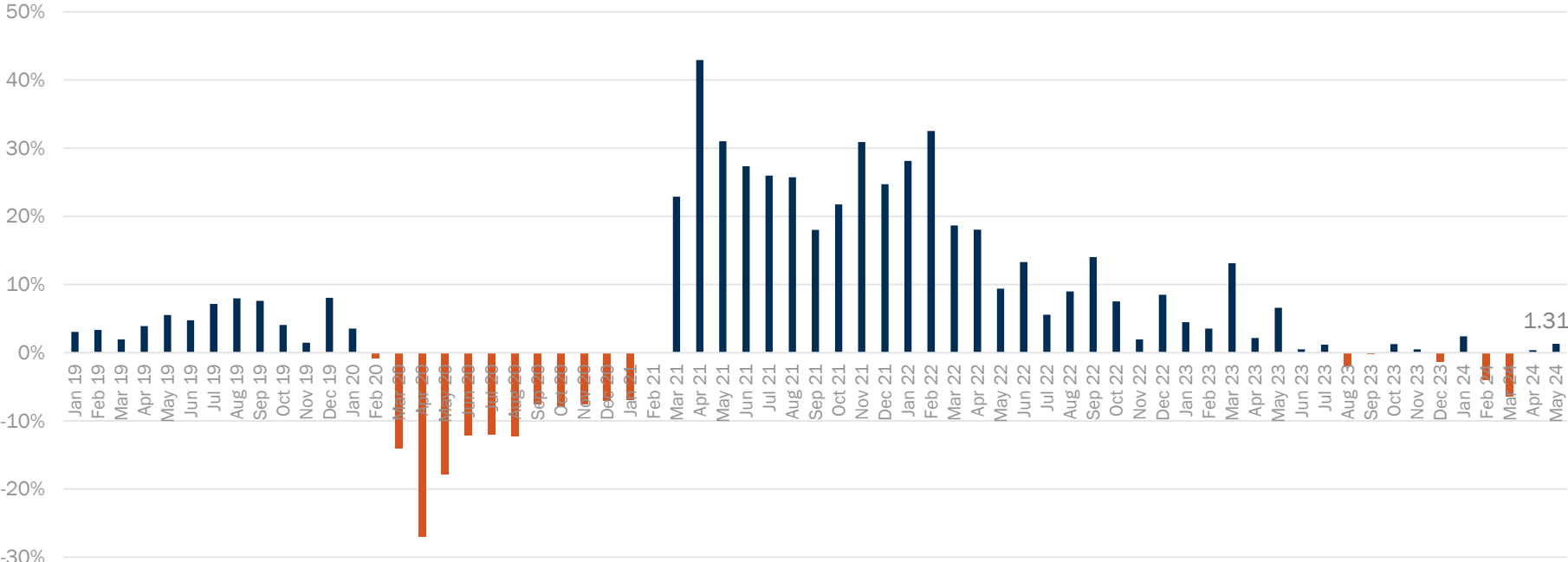


# General Fund Revenue Profile – Revised 2024

Total  
**\$1.67B**



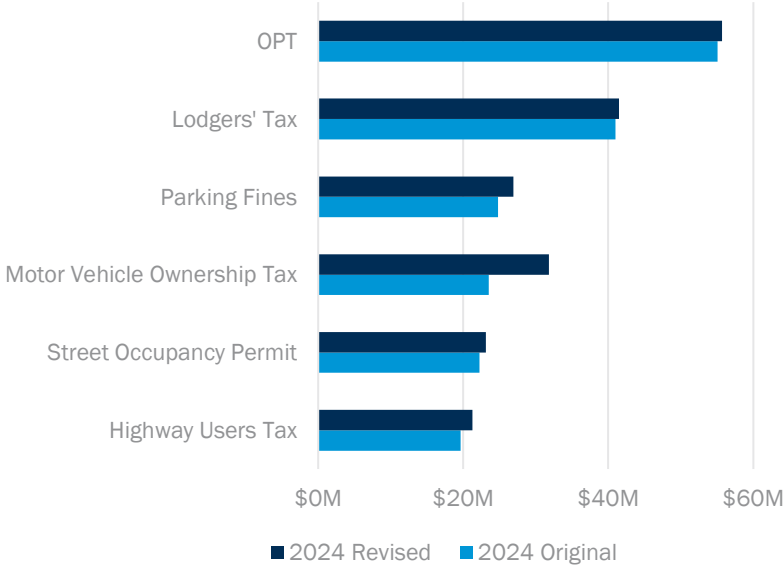
# Year-Over-Year % Change in Core Sales & Use Tax by Month



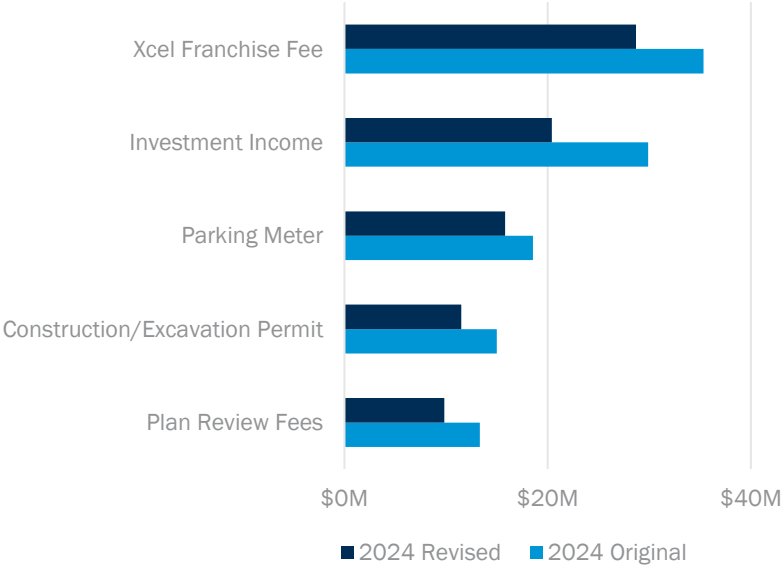
\* Please note the new presentation format showing sales activity by month instead of collections by month

# Preliminary 2024 Revisions to Other Revenue Streams

## Upward Revisions



## Downward Revisions





# Additional One-Time Items Impacting 2025 General Fund Revenues

Reduction Amount	Reason
(\$12.4 million)	Central Park (Stapleton) TIF termination
(\$10.6 million)	One-time cash transfers in 2024
<b>= (\$23 million)</b>	<b>Net decrease to 2025 base General Fund revenue from one-time items</b>



# How Revising 2024 Revenue Impacts 2025

- Lower revenue than projected in 2024 means less fund balance reserve than anticipated—the city may end 2024 below 15% fund balance.
- 2025 revenues will also be forecasted off a lower base amount than originally anticipated:
  - For example, 1% of \$100 vs. 1% of \$90
- Overall, there will be lower 2025 budget capacity, necessitating agency reductions. Charter requires balanced budget.

# Preliminary 2025 Base General Fund Expenditures

## The Big Picture

- It costs more to keep doing what we've been doing.
- For the General Fund, base costs are increasing by **about 2%**, which is more than base revenues are projected to increase (**less than 1%**).
- BMO is asking agencies to explore *additional* reductions in 2025.



### § 7.1.4 of City Charter

“The budget proposed by the Mayor shall not propose expenditures in excess of estimated opening balances and anticipated income...”

## Includes

- ✓ Collective bargaining increases for Safety agencies
- ✓ Recruit classes for Safety agencies
- ✓ New sidewalk fee assessed on City property
- ✓ Elimination of one-time budget items for 2024
- ✓ Various Career Service personnel budget adjustments (pay equity, benefits increases, minimum wage increase, etc.)

## Does Not Include

- ✓ Decisions on 2025 budget reductions/expansions
- ✓ Merit increases
- ✓ Extension of limited positions that expire in 2024
- ✓ Contract escalations

# Why is Sales Tax Revenue Flattening?



- Macro economic trends
  - Slowing U.S. economic growth
    - Large metros, including Denver, most impacted
    - Smaller metros less so
- Micro factors
  - Slower growth in retail sales, partly because of flat growth in prices for goods (moderating inflation)
  - Consumer spending has shifted away from goods and toward services
  - High housing costs continue to cause realignment of household budgets
  - Personal/individual factors
    - Slowing wage increases
    - Shrinking labor force (higher unemployment rates than the State)



# Other Cities Experiencing Similar Challenges

- **Kansas City's** 2023-2024 [revenues increased by 10%](#) but expenditures grew by 13%. It is using \$38M in reserves to balance its 2024-2025 budget.
- **Seattle** is facing [a likely \\$250 million budget deficit](#) next year due to inflation and slowing construction.
- **San Francisco**, after warning of an \$800M deficit, was able to [balance its general fund through a combination](#) of spending cuts, reduced hiring, and leveraging external funding and reserves.
- **Houston** is [using \\$200M in one-time ARPA funding](#) and cutting its parks, solid waste, public works, and housing and community development departments to balance its budget.
- **Los Angeles** [cut its budget by 2%](#) for 2025 in response to projected shortfalls. It eliminated 1,700 vacant positions but there were no layoffs.



# 2025 Budget Process Timeline

- ✓ April 29/30: Budget kickoff to City Council and agencies
- ✓ July 1: Base budget information provided to City Council
- **July 30:** **FinGov Committee to provide update to Council**
- September 15: Mayor's proposed 2025 budget release deadline
- September 16 – 23: Anticipated City Council budget hearings
- October 28: Charter deadline for City Council to hold public hearing on budget
- November 4: Charter deadline for City Council to propose amendments to budget
- November 8: Charter deadline for Mayor to respond to proposed amendments
- November 11: Charter deadline for budget adoption
- November 28: Charter deadline for 2025 Long Bill adoption

Thank you



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# APPENDIX



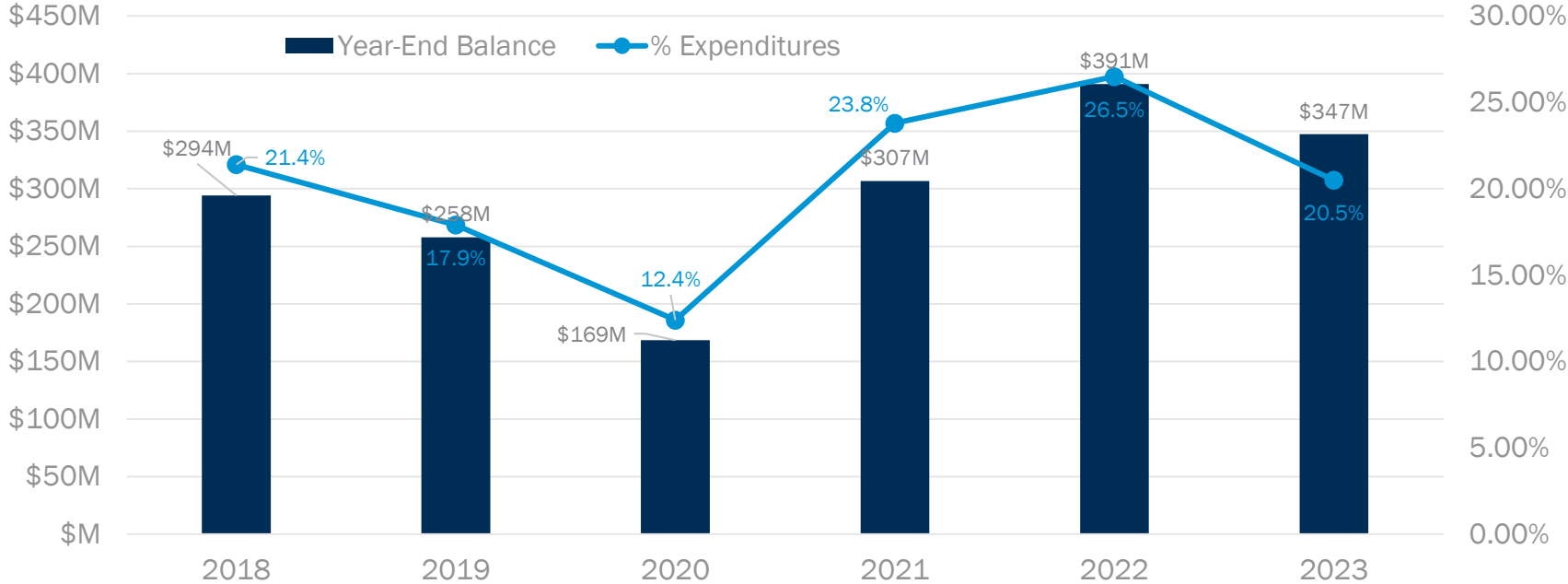
# 2024 General Fund Contingency Tracker

General Fund Contingency for 2024: **\$34,203,000 (2%)**

Approved Supplemental Appropriations	Date Approved	Amount
Transfer to Border Crisis Response Fund	Feb. 12, 2024	\$10,000,000
Workers' Compensation Billings	July 8, 2024	\$4,325,839

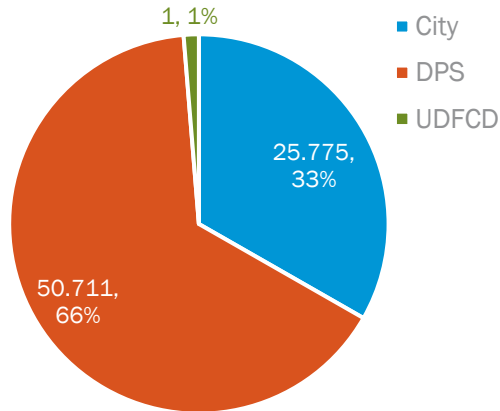
\* In 2023, nearly all General Fund contingency was spent.

# Historical General Fund Year-End Reserves



# Property Tax Overview

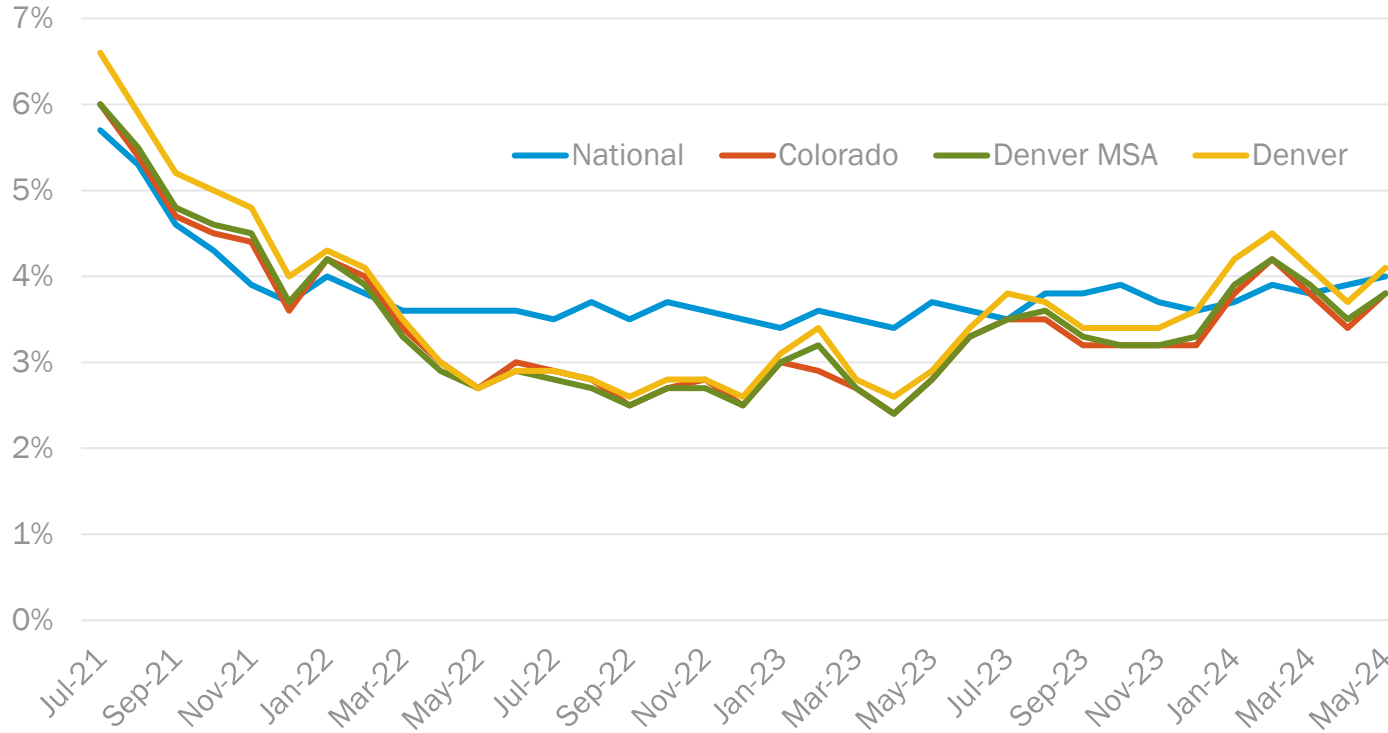
Allocation of 2023 Property Tax Mills Collectible in 2024



- ✓ 2024 is NOT a property reassessment year.
- ✓ 2025 is a property reassessment year.
- ✓ 2025 property taxes at the reassessed value will be collectible in 2026.
- ✓ There is at least one and possibly a second property tax initiative on the November 2024 ballot.

# Unemployment Rate by Region

(not seasonally adjusted)



## Unemployment Rates

May 2024

National: 4.0%

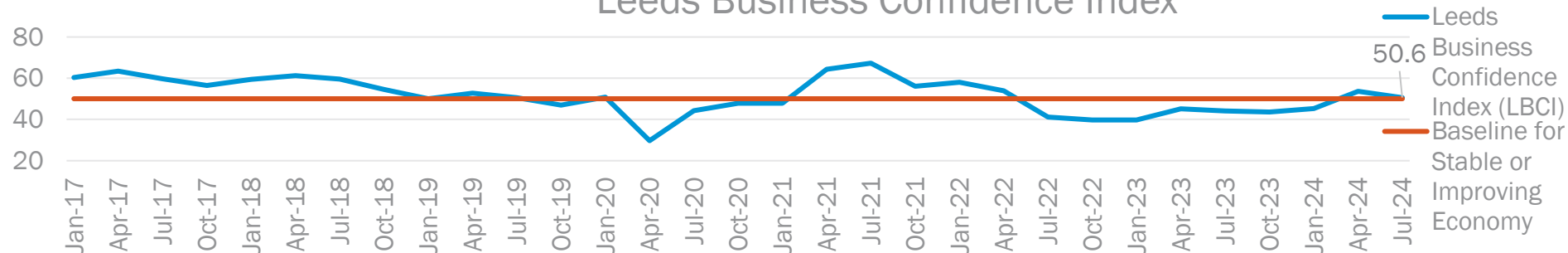
Colorado: 3.8% (P)

Denver MSA: 3.8%

Denver: 4.1%

# Business and Consumer Sentiment

## Leads Business Confidence Index



## University of Michigan Consumer Sentiment Index



# Countervailing National and Local Economic Forces

## (+) Positive Economic Signals

- Growing consumer confidence
- Record levels of Denver tourism
- Moderating inflation
- Potential for interest rate cuts
- Strong stock market
- Low national unemployment
- Continued (but slowing) wage growth

## (-) Negative Economic Signals

- Higher than historical inflation
- High interest rates
- Slow residential real estate market in Denver and nationally
- Commercial real estate vacancies in Denver's Central Business District and nationally
- Higher unemployment in Denver than statewide