



Budget Response Committee 2021 Budget Update

Budget & Management Office
August 2020

Disclosures

- Economic and financial conditions are continuously changing
- The revenue forecast will be officially revised in September

Agenda

- Economic Update
- Revenue Update
- 2021 Budget Overview

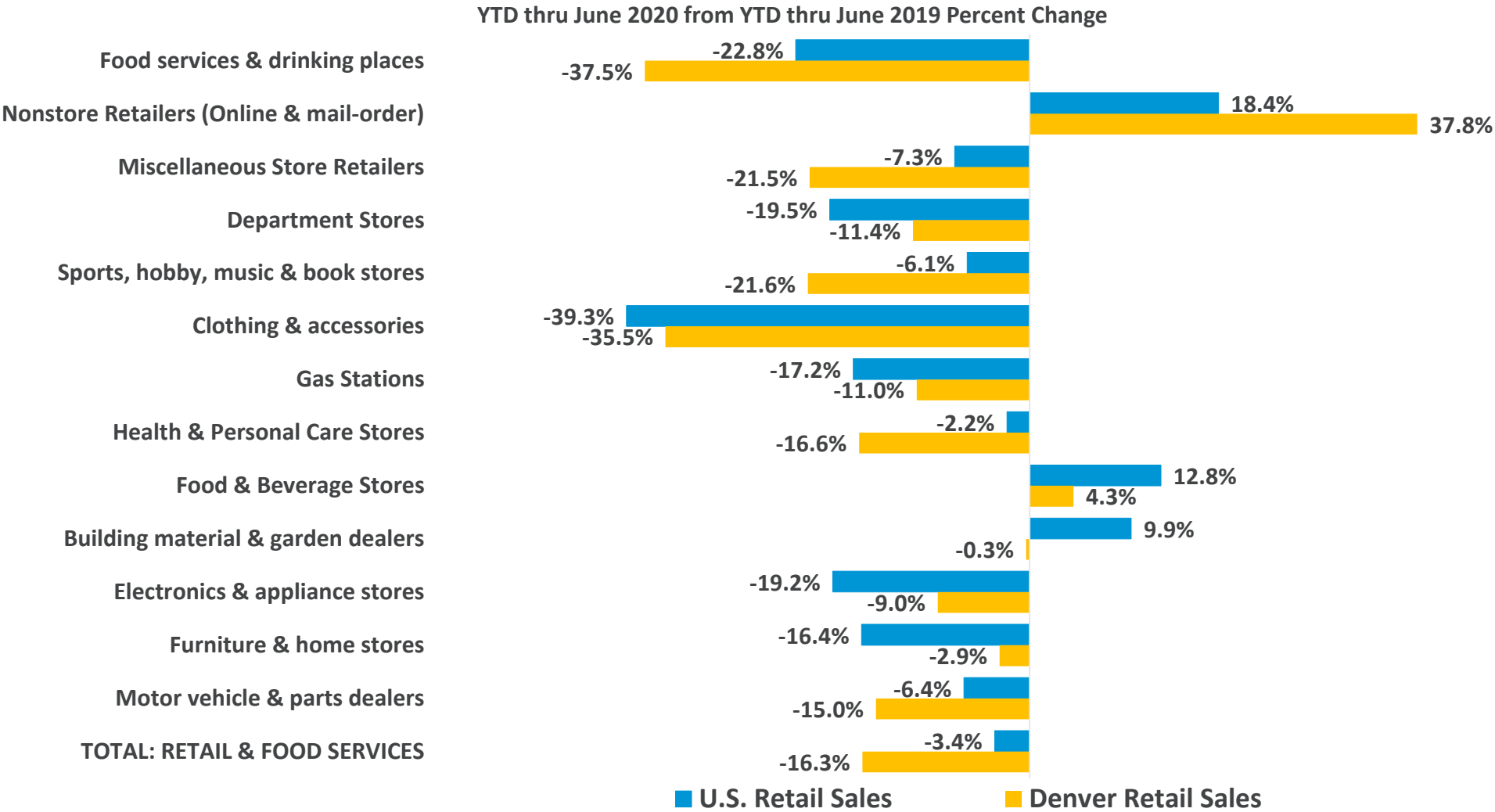
Immediate Economic Impact from the coronavirus

- US Economy officially moved into a recession in February 2020 (June 2020, NBER)
- Denver Economic Impact:
 - Sudden and broad halt to economic activity
 - Greatest initial impact to service industries and retail
 - Restaurants and bars temporarily closed (except for take-out and delivery)
 - Severe hit to tourism-related activity
 - Sharp decline in retail sales
 - Unprecedented initial unemployment claims

Immediate Economic Impact from the coronavirus

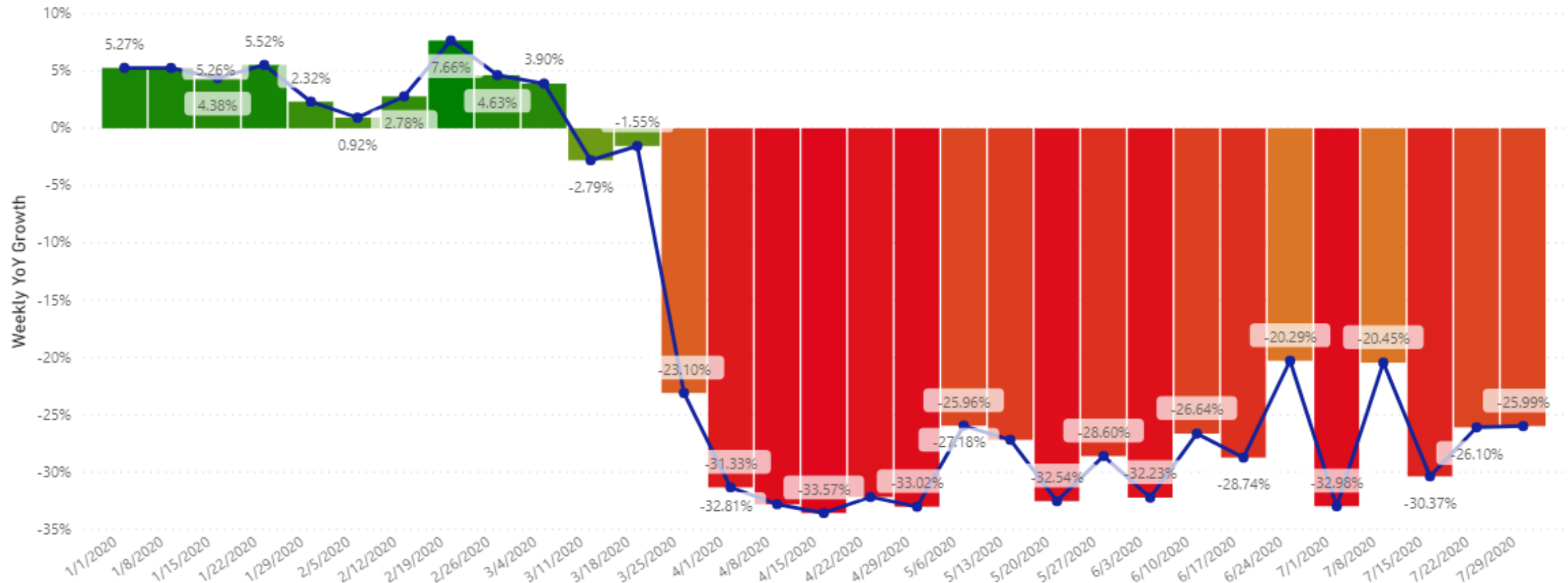
- Economic and revenue projections are highly uncertain because the depth and length of the impact is still unknown
- There are signs of improvement, but the fragile U.S. recovery is being undermined by an inability to control the virus
- Impact on multiple City and County of Denver revenue streams
- Denver has deployed a variety of financial tools to balance the 2020 budget
- The 2021 budget will be the most challenging to date

Retail and Food Services YTD Monthly Sales



Aggregate Consumer Bankcard Activity, Denver

Weekly YoY Growth by Date



Percent Change in Number of Denver Small Businesses Open

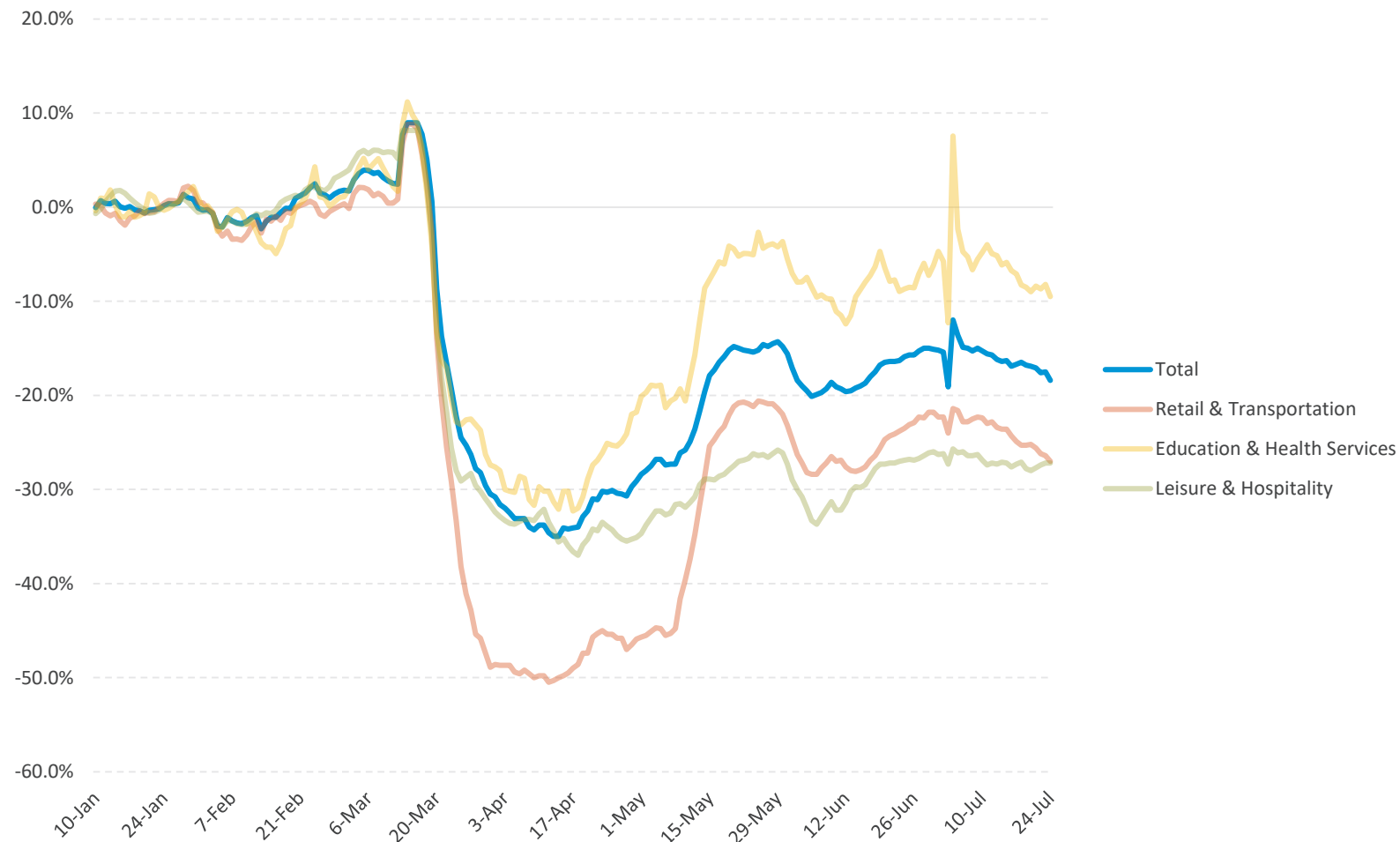
(relative to January 2020)

Total Denver Small Businesses:
-20.6% (-2.1% from prior wk)

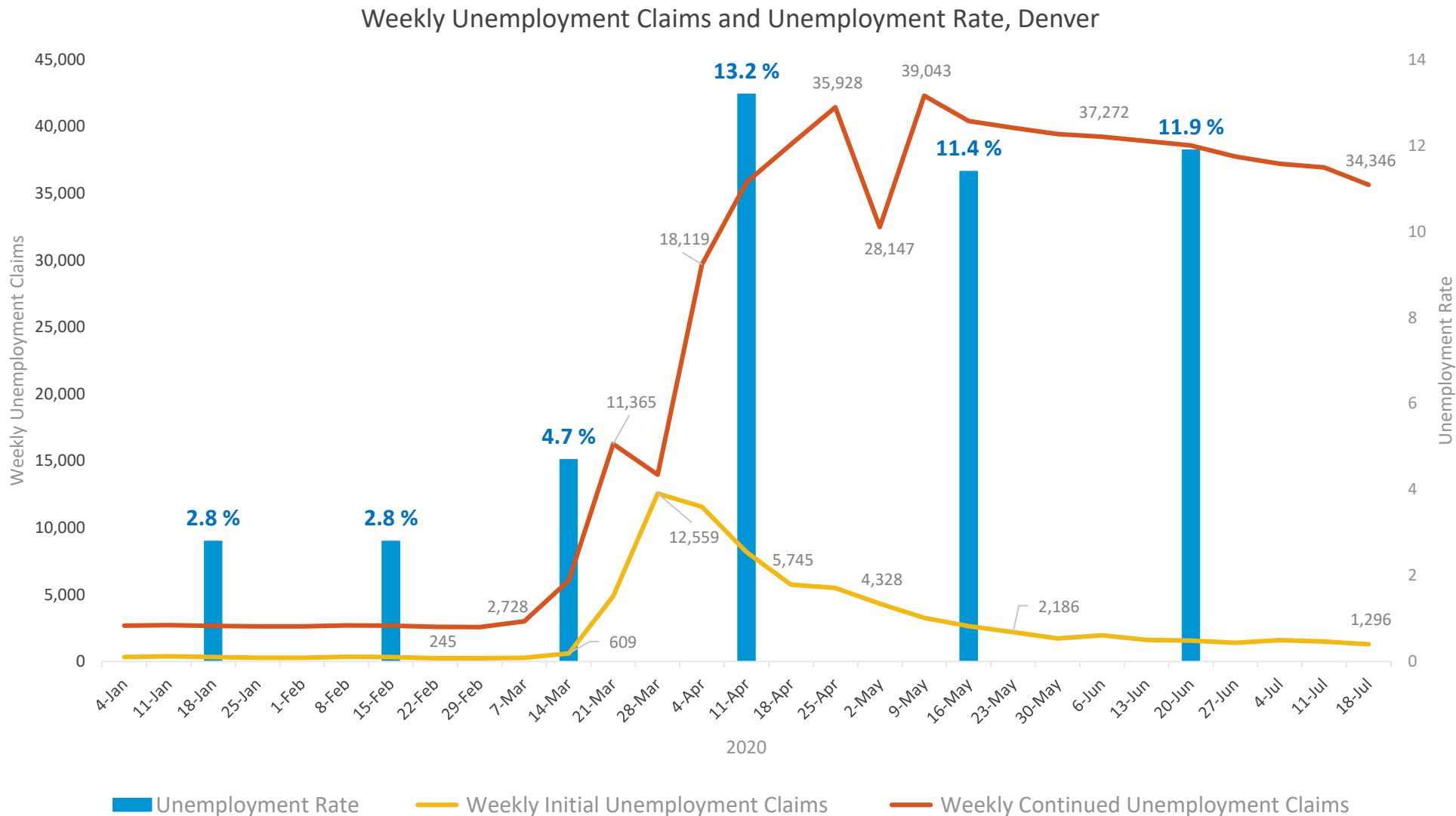
Retail & Transportation:
-28.4% (-1.4% from prior wk)

Education & Health Services:
-12.4% (-2.9% from prior wk)

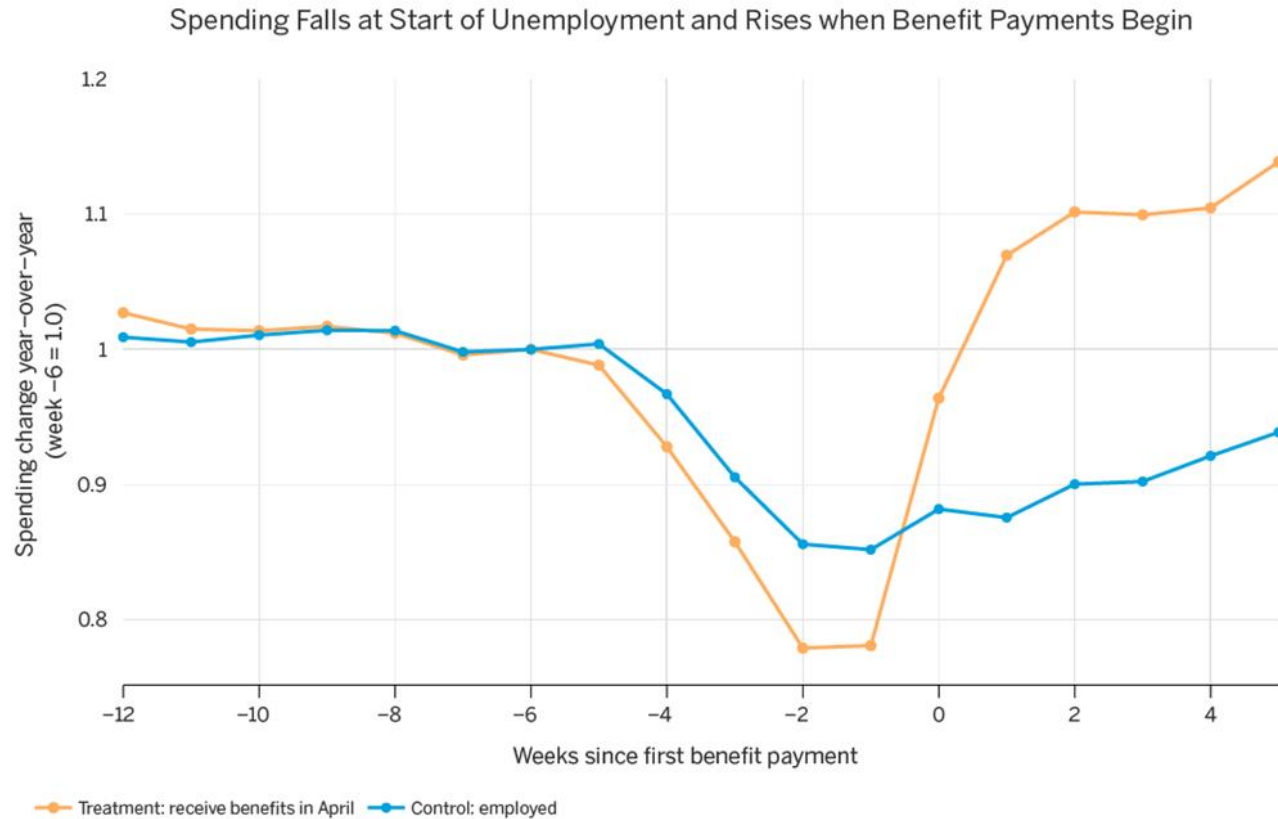
Leisure & Hospitality:
-27.6% (-0.2% from prior wk)



Denver Unemployment Claims & Unemployment Rate



Federal Stimulus



Note: This figure shows the change in spending year-over-year around the start of unemployment benefits. The x-axis shows the number of weeks since the first benefit payment. The treatment group, shown in orange, receives benefits beginning in April. The control group, shown in blue, is employed workers. See "Data and analytical approach" section for details on how the control group is constructed. The y-axis is normalized to one at six weeks prior to the first benefit payment.

Source: JPMorgan Chase Institute

- Expanded benefits for unemployed workers, which research shows have been propping up consumer spending throughout the spring and early summer, are scheduled to expire at the end of July, while more than 51k in Denver are still unemployed.
- Much of the economic pain has been thus far blunted by federal spending.

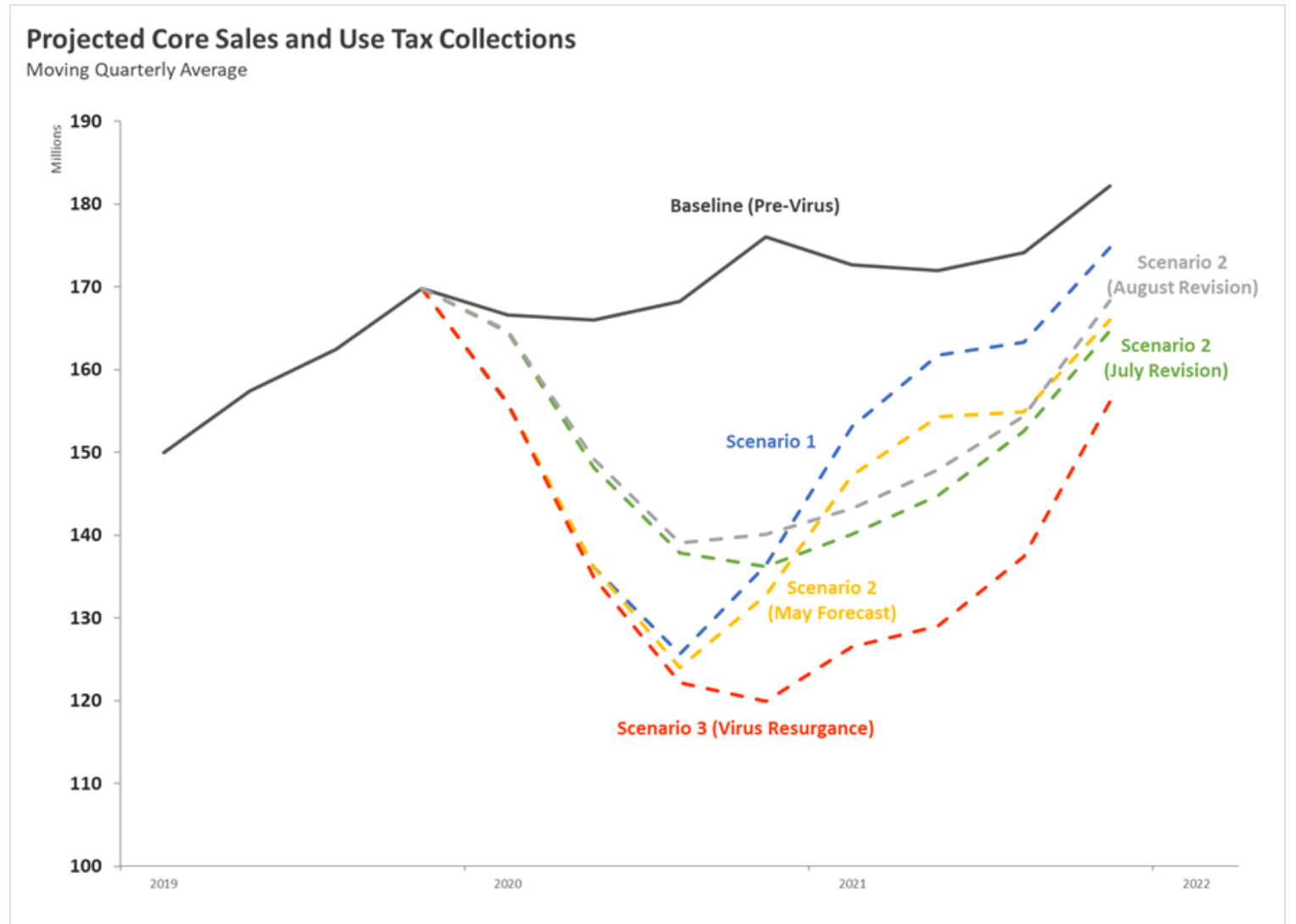
How Will Post-Virus Economic Recovery Shape Up?

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.



2020 Economy

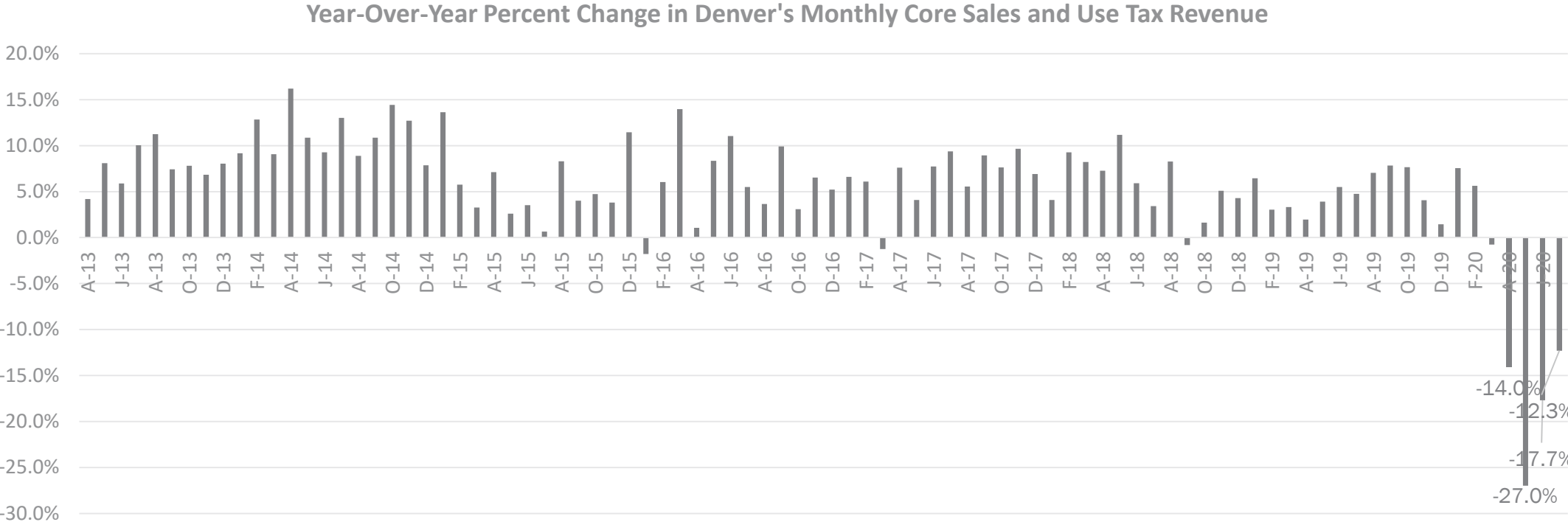
Any signs of economic recovery are overshadowed by increases in COVID-19 cases and various cities pulling back on reopening

At this stage, we're seeing all the wrong elements for rapid recovery:

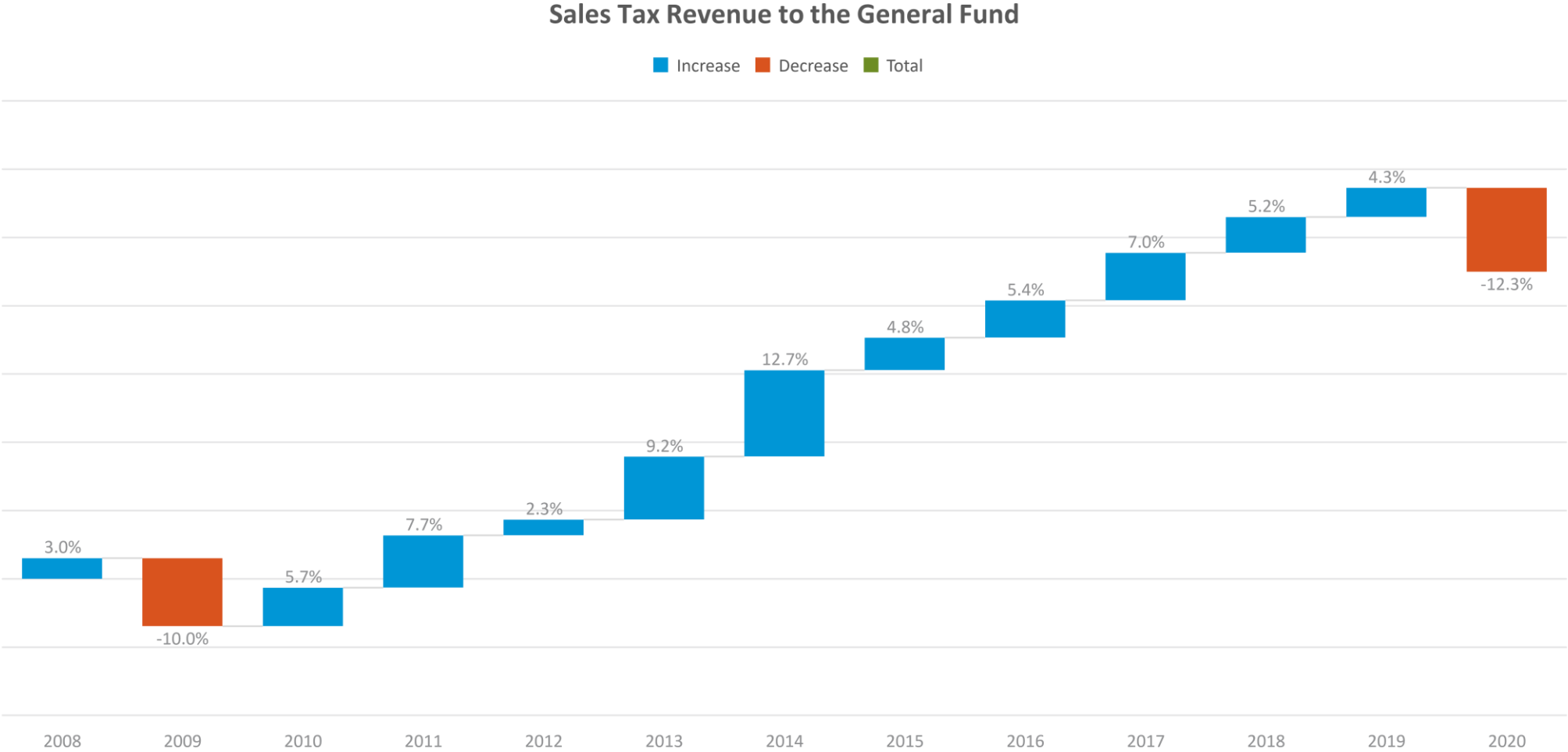
- Lack of controlled health situation;
 - Potential for second wave of infections in late fall (although we have not yet seen a decline in cases)
- Weakening labor market;
 - unemployment expected to hover near 10% by year end
 - impending business closures due to COVID-19 impacts
- A softening path for consumer demand
 - overall levels of economic activity likely to remain lower than pre-crisis levels

As additional data comes in, assumptions and projections will be updated

2020 Economy

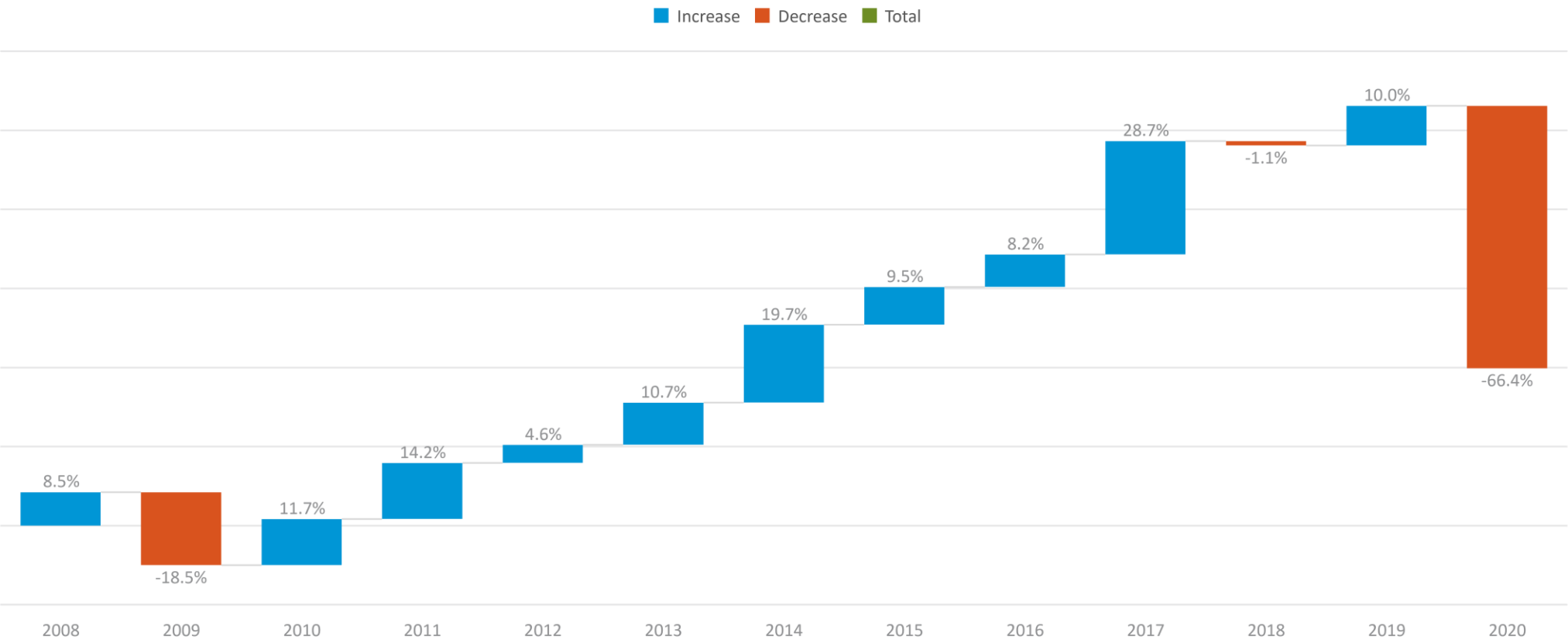


2020 Economy



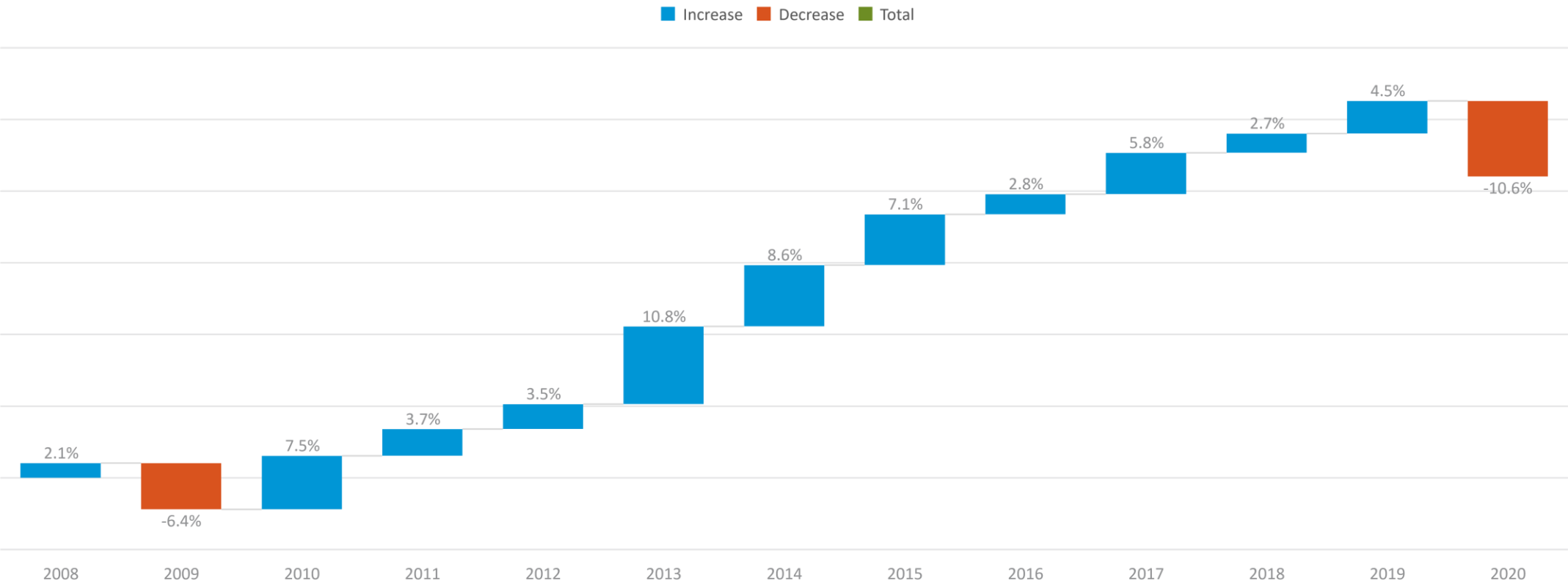
2020 Economy

Lodgers' Tax Revenue to the General Fund



2020 Economy

General Fund Revenue



Beyond 2020

- Ongoing public health crisis weighs heavily on economic activity, employment, and inflation in near-term, poses considerable risks to economic outlook over medium-term.
- May be experiencing 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 collections to remain below 2019 levels in 2022
- Property taxes payable in 2022 likely to be calculated off lower commercial valuations (e.g., business closures, retail/office vacancies) and lower residential assessed values, absent legislative or constitutional changes.

2021 Budget Overview

2021 Budget Timeline – Key Dates



2021 Overview

- Current revenue projections anticipate some recovery, which early estimates show total approximately **\$106M** in y/y growth.
- However, this revenue growth is not sufficient to fund the projected 2021 expenditures.
- Agencies have received cumulative reduction target of **\$185M**
- In addition to agency submitted reductions, the Department of Finance continues to evaluate options on citywide savings measures: i.e. Capital transfers
 - The SLP is one example of a citywide savings proposal that was implemented in 2020, to allow for savings in 2021

2021 Revenue Projections

- The public health crisis is the overarching influence
- Economic and financial conditions are continuously changing
- The revenue forecast will be officially revised in September
- Particularly sensitive to visitor-related revenue: lodgers, food and beverage, short-term car rental
- Constraints on gathering are a significant factor in revenue projections



Questions?