MF POLICY COMMITTEE MEETING
May 24, 2022

Members Present: Council Member Gardner – Chair, Council Member Murillo, Council Member Zvonek

Others present: R. Venegas, T. Velasquez, G. Hays, L. Perry, W. Levine, R. Lantz, T. Sedmak, R. Allen, H. Hernandez, M. Crawford, D. Hudson, M. Stamp, J. Ehmann, D. Brotzman, J. Bajorek, K. Claspell, S. Newman, A. Jamison, D. Sisneros, T. Hoyle, B. Lewandowski, R. Wobbekind, and R. McNown,

INTRODUCTIONS AND MINUTES
April 26, 2022 Minutes were approved.

APRIL2022 SALES TAX CHART
Summary of Issue and Discussion

Bill Levine gave an update on the April 2022 Sales Tax which showed a 10.9% growth compared to the 8.5% inflation. According to the CPI index, the area of highest growth and inflation is Energy. In March, inflation on electricity was 11.9% while it was 21.6% for utility piped gas. This would correlate to the sales tax growth in utilities. Building materials were up 22.7%. Auto dealers were up 18.6% with the inflation on new cars up 12.5% and 35.3% for used cars. Eating and drinking places were also up with food away from home per inflation up 10%. This would potentially indicate that people are eating out more. Data shows that inflation is a big driver to large growth in sales tax collections.

Outcome

Information only.

Follow-up Action

No follow-up needed.

SUMMARY OF THE CITY'S OUTSTANDING DEBT AS OF JANUARY 1, 2022
Summary of Issue and Discussion

Teresa Sedmak gave a summary of the city's outstanding debt. The Analysis of Outstanding Debt lists all debt as of the first of the calendar year. It shows any debt issued and any refunding activity in 2021. Last year, two transactions were made in May for the same facility. This was a split between water and sewer for a total of $171.7 million. The total interest cost is 2.36% with a final maturity of 2051. On the sewer revenue bonds related to SEAM, there was a total interest cost of 2.658% maturing in 2051. Prior bonds issued for water were successfully refunded on a taxable basis given that IRS regulations did not allow it to go through a tax-exempt basis. $218 million was partially refunded for the 2016 water bonds. The Series 2021B Bonds refunded $218,535,000 of par and resulted in a net present value (NPV) savings of $31.9 million (14.6%). This translated to $1.7 million in cash savings to the water utility through 2046. Water went fixed rate on some of its prior issued 2018 bonds. $8.3 million were issued for rolling stock with an interest rate of 1.06%. Unfortunately, the market is not as attractive this year, but the city is still going with a rolling stock lease. 2014 bonds that will be fully matured in 2024 will be used for the repayment of the $35 million in road maintenance certificates of participation (COPs).

A loan was made on the Hyatt Conference Center and parking garage at Fitzsimmons with a balloon payment in 2024 that needs to be refinanced. A few issues related to this are the rise of interest rates and the decrease of hospitality credits due to COVID. However, Debt can still be paid on the property. Staff is gathering ideas for the takeout of the loan. The credit is tied to Tax Increment Financing (TIF) revenues. Therefore, it has a different investor base. People are now traveling more, and the staff are hoping that this will allow the city to find a good investor base. The city put the Hyatt House on the market last year but did not get a response from the 8 institutions surveying the property. This is an urban renewal deal in which the debt will be repaid through TIF revenues. However, since there is no debt, the TIF revenues are going back to the Urban Renewal Authority to repay the investment. The market is improving and the extended-stay model that the Hyatt House is using is doing better than the conference center's model. Staff will come back to the Committee for approval should they go back to the market with the property.

Outcome
Information only.

Follow-up Action
No follow-up needed.

AURORA SALES AND USE TAX FORECAST (CU LEEDS SCHOOL OF BUSINESS)
Summary of Issue and Discussion

Robert McNown, Richard Wobbekind, and Brian Lewandowski from the University of Colorado Leeds School of Business presented the Aurora Sales and Use Tax Forecast. This project, in conjunction with the city of Aurora, is meant to provide an econometric model to project sales and use taxes and property taxes. Economic data is gathered from federal and state agencies along with Aurora's revenue data. Data from Moody's Analytics is also used to project the general economy. This data is being used by the Colorado Legislative Council, Office of State Planning and Budgeting, State Demography Office, and the Department of Transportation. Moody's Analytics also has optimistic and pessimistic alternative scenarios to consider. As shown in the US Real GDP, it was a negative in the last quarter which indicated to people that the country will be going into recession. However, this was driven by inventories and exports which are not the primary focus. Looking at the GDP rating, both consumption and business investment growths were strong. GDP recovered after a drop and got back to the previous level of GDP of 2021 as shown by the V-shape recovery. Employment, however, shows a check wave recovery and is taking longer for workers to come back. As of April 2022, the US is still 1.2 million workers down compared to February 2020 which is prior to the COVID recession. It is expected that towards the end of summer 2022, the numbers will be back to 152.5 million. As of

April 2022, Colorado has the 13th highest growth rate in employment recovery since the recession began.

The Federal Reserve Board (Fed), at their September 2021 meeting, suggested that 2022 would have a 50 basis-point move and rates will move up in 2023 or 2024. When they met in December 2021, they realized that the inflation was persisting instead of transitory, and they raised their expectation numbers. As of the recent March 2022 meeting, they are anticipating that rates are going up close to 2% in 2022 and roughly in the 3% range the following year, and even higher in 2024. The Fed is moving into a more aggressive stance causing people to question their ability to help the inflation situation and cause the economy a more recessionary impact. As for inflation, there has been a slowdown in some numbers such as energy. However, the rise in inflation has persisted for a longer period than forecasted. There is concern that if this continues, it could create a wage-price spiral wherein workers demand higher wages due to the inflation rates and the high wages would rive higher prices. So far, the data does not show causality, but it could likely become the norm if the high inflation rates last. Compared to other states, Colorado is doing well overall and has regained its former level of employment. Personal income and per capita income which are important drivers of retail sales remained strong.

As of 2019, there are approximately 113,000 people commuting to Aurora, 138,000 commuting out, and 41,000 people working and living within Aurora. Should people stop commuting to their jobs, the community would benefit. The inflow-outflow analysis shows that Aurora is part of a regional economic system. Retail and food sales have recovered from the COVID steep drop and jumped to much higher levels and created a new trajectory. Transfer payments were major drivers of the increase in consumption. These include the three stimulus checks, state and federal unemployment benefits, and childcare credits. Data shows that people shifted spending money from services to goods consumption during COVID. According to more recent consumption data, people are going back to more normal patterns of spending between goods and services.

There is concern that consumers will slow down their consumption due to higher inflation and falling stock market prices. Housing prices, however, are appreciating nationally despite people's stock portfolios dropping since November or December of 2021. In Colorado, net taxable sales vary by the county in relation to industry composition, tourism, commuters, retail mix, amount of development, and population growth. Boulder, with a high number of high-tech businesses, sees downtown retailers and restaurants suffering because workers are not coming back into the buildings. Denver shows less than 5% net taxable sales growth from 2019 to 2021.

The national economy and economic indicators are the underlying drivers that lead to changes in the Colorado economy. However, Colorado has a degree of independence which is captured by the state economy's model. Following this, the Colorado economy drives the local economy. Equations in the Colorado economy are used to drive the use tax revenue equations in Aurora and ultimately the Aurora sales tax revenues. Sources include Moody's Analytics which provides long-range forecasts and different assumptions and scenarios. In normal times, Moody's baseline scenario which is the middle-level forecast wherein there is a 50-50 chance of the national economy could be stronger or weaker is used. However, upon review, Moody's forecasts at the national level were too optimistic and cannot be revised on the spot. In anticipation of economic weaknesses not covered in the baseline, they used a slightly pessimistic scenario, which is the S2 scenario, that became the current baseline. As per the developments in the economy in March, this was the correct path. In 2022, personal income at the national level is projected to fall. This reflects the stimulus packages from previous years no longer being distributed. This could reflect consequences that weaken consumer sales. In 2022, Moody's is projecting a 6.1% inflation rate and the inflation rate projects Colorado's to be higher. It is projected to run to 8.8%. Personal income is projected to grow by 2.5% which is different compared to what is projected of the national economy due to Colorado's economy being more independent of the national.

Total sales tax revenues are projected to grow at 8% in the current year and peaking ahead into 2023 with a more modest growth of 3.2%. This reflects the tightening of monetary policy by the Fed, supply chain shortages, plummeting stock market, and being aggravated by the war in Ukraine. Overall, revenue growth is expected at 7% for 2022 and 3.5% for 2023. When compared to the inflation rate expected, more than 100% of the growth in sales tax revenues and total revenues is wiped out by inflation. The current projection is that Aurora is not going to have positive growth in real sales tax revenues. The data presented is based on Moody's Analytics' original slightly pessimistic scenario. Their original baseline scenario is considered the optimistic scenario. Moody's is also projecting a significant recession given that the revenue forecast in 2023 is lower than the end of 2021. Based on statistical analysis, there is a 33% chance that the revenue forecast could be higher than the high forecast and lower than the low forecast.

Based on the medium-term forecast, the pessimistic forecast is close to what was in the baseline or optimistic forecast. According to the baseline, there is a modest positive slope from 2022 to 2023 which represents slow growth in revenues and then a slight acceleration. This baseline forecast from 2021 to 2027 calls for a 37% increase in revenues over this period, and that amounts to about a 5.5% percent annual rate of growth in total revenues for the city of Aurora.

The forecast used is built on a model that satisfied the statistical econometric criteria needed to justify the equations used. This does not incorporate "add factors" or subjective adjustment of the model forecast. The data used reflect the most current economic situation. Forecasts may be too high or too low which reflects the uncertainty in the economy. Clients choose to err on the side of caution and choose the more pessimistic scenario.

Committee Discussion:

Council Member Gardner: I have a question. We've all heard stories or seen examples of shortage of workers restaurants everywhere you go there's a lot of job openings. So, where did all those people go?

R. Wobbekind: So, I think the good answer to that is, there's a couple of different data sources that indicate that people 55 and older have left the workforce. So, they're gone gone. And the question is will they come back? In 2008 downturn they did come back on the job when the jobs came back. But housing and their stock portfolios had been pretty much decimated. But this time around at least the first year the stock portfolios were way up housing prices way up. Now that we've seen some temperament in the stock market obviously. Some of those people don't come back or maybe retire early than they had hoped too.

The second thing, which Brian has documented on a number of slides, has been the number of people holding two jobs has gone down substantially since the COVID recession. It's about 750,000 people who are working now that are only working one job, who will work two jobs prior to the recession. And it isn't counting people, it's counting jobs. So, the chunk of those people who maybe work two jobs are only working one or moved into a totally different profession such as transportation, warehousing for Amazon, and then no longer working in a restaurant. And we certainly see that in terms of demand for workers, but we know we don't see the whole supplier of workers.

Council Member Gardner: Appreciate that. Thank you.

Council Member Zvonek: So, Council Member Murillo, I think Council Member Gardner had to leave. I think since you're the Vice-Chair of this Committee, you might be driving at this point.

Council Member Murillo: Thanks for flagging that, I know he mention that he might have to leave.

Council Member Zvonek: Yes. I knew he had mentioned before that he had to leave at 2:30 and I just looked at the time. .

Council Member Murillo: Yes. Thank you for the extensive presentation. I will open the floor. Council Members Zvonek, if you had any questions, I will defer to you to begin that process.

Council Member Zvonek: Yes. You mentioned this, that any time we do these types of forecasts, there's lots of variables that are in the unknown, and I just am curious, as we look back, I know we've been doing these for some time. In the approach that we take, have we been overly pessimistic? Have we been overly optimistic? Looking back at what we've done historically, looking at our forecast for the city, where have we fallen?

R. McNown: You're asking about the forecast that we've produced for the city of Aurora?

Council Member Zvonek: Yes.

R. McNown: Yes. Well, so as with, I think, virtually every economic forecaster, we didn't anticipate the COVID crisis or the pandemic. So, clearly, the forecast during the initial year of the pandemic were too optimistic. In addition, we did not anticipate the recovery to be as strong as it was. And the reason for that is that there was nothing that we could incorporate in our model that would capture the rapid and really powerful response that was made at the federal level, in terms of fiscal stimulus, and the rescue packages that were passed both under the Trump Administration and then the Biden Administration. So, yes, complicated answer to a difficult question. Over the pandemic, we were first too optimistic and then pessimistic. I think, prior to the pandemic, I think the city of Aurora has performed a little more strongly than our model anticipated. But I think, more or less, we were in the ballpark. Brian's been pretty good at keeping track of our forecast performance, at least for some of the projects we've been working on. I don't know if you have anything specific about Aurora.

B. Lewandowski: I was just trying to open that file. I'm not seeing it right in front of me, but I'll send it along because it is something that we measure. But if I recollect, I think Robert's right where we ended up overestimating as the pandemic started because it wasn't foreseen and the market sort of fell out. But as the pandemic started, us and nearly everyone else were really pessimistic about the outlook for sales taxes based on how sales taxes usually respond during a recession. And so many things about this recession were different than prior recessions, not only just the magnitude of stimulus that went out but the shift in behavior. We've never seen sort of the cut-off of purchases of services like we did in this recession and the shift to goods. And it just has never happened. On a positive side, it was really nice to see sales taxes rebound so quickly because of that human behavior, because of that shift to consumption. And I think that ended up staving off a lot of problems for state and local government that, otherwise, would have persisted based on other recessions. But once things stabilized, I think we're back to sort of a normal error in our projections, after we got through that initial steep fall and rebound from the pandemic.

T. Velasquez: I just also want to mention that the one thing that was not really accounted for in our modeling, which occurred, I think, during the pandemic, was the marketplace facilitator ordinance that we put in place, and that really helped us capture some of the online sales that we had not been capturing. So that actually helped us in a quick rebound much sooner than we had anticipated. So that was a big piece as well of our quick recovery. So just wanted to point that out. But in general, I agree, from our Budget Office perspective, we've been pretty much in line outside of the pandemic with the forecast that's been provided.

B. Lewandowski: City staff was exceptionally helpful during the pandemic because the model that we used to use for forecasting revenue relied on only a few components of sales taxes. But as we noticed, as we were walking through the pandemic and Robert talked about this a little bit, there was a divergence in revenue growth by component, for instance, restaurant sales went way down in the early days of the pandemic, but grocery sales thrived. So that led us to forecast out more individual components of sales taxes and use taxes. And we would not have been able to do that without the help of city staff to actually separate out those revenues for us. And then we could match those revenue streams with other economic variables and revenue variables that we have at the national and state level.

Council Member Zvonek: And this is just as we plan forward and work with Greg and the team and for our budget next year, are there particular areas where we should be extra attuned to, from an inflation standpoint, like for instance, gas prices, right? It seems like when gas prices go up, it really hits discretionary spending. But are there other things that we should be really watching for and mindful of that could give us maybe a little -- an early indication that we might see a decrease in consumption in other places? And, again, I use gas prices just because I remember in ’08 that seemed to correlate that as prices went up, then all of a sudden, you saw that eating out and other types of consumption really fall down because it just had the necessity of you to fill your gas tank up with so much more. Is that indication true? And then, are there others like that that we should be watching for?

R. McNown: I don't really have a good answer to that in terms of particular sectors or components of sales tax revenues to follow. But I would say that I would be concerned that most of the projections that you're hearing about inflation and inflation coming down are a little too optimistic. I think we could be in for a serious episode of stagflation. That's not really captured in the national forecasts that I'm seeing. But that's kind of a personal observation that lies outside my expertise in building models.

R. Wobbekind: What you said is absolutely accurate, that gasoline is the biggest single impact on people's discretionary spending. So right now, there's a lot of modeling at the national macro level on what it's going to mean to discretionary retail sales spending in particular. So I don't know the other components, which was the larger part of your question, but we clearly know that with gasoline, from past episodes, that this is something that people don't give up their gas and they need it for work or whatever reason. And so they do pull away from other types of more discretionary retail.

B. Lewandowski: Yes. And I would just add housing to that. I don't know if Rich would agree, but housing isn't really discretionary, so as we see higher prices, especially on rents, that squeezes that other disposable personal income that they could be spending on taxable goods.

Council Member Zvonek: That's all I had, Council Member Murillo.

Council Member Murillo: Great. I think there's a lot of information. I recall a slide where you were talking about the number of jobs in or people coming in and then out forward for jobs. It made me curious and to wonder if there is, I don’t know, an optimal mix of industry that we should be trying to attract to the city of Aurora. I guess I'm trying to think of like, how do we create kind of more of an insular economy. I feel like that's a loaded question, almost, like that is the question, right? But if you have any additional context or insight on there, that would be helpful.

B. Lewandowski: Sure. I'll jump in first and then Rich can correct me. So your Economic Development Team would really be attuned to this and can probably answer it better than I can. But one way that we look at this is in terms of primary employers, and primary employers are those that are more location-neutral, they tend to sell nationally or globally, and then in turn bring investment into the community. They also tend to be higher-paying jobs. Therefore they are supporting other jobs in the community. So we talk about secondary employers as those that are more dependent on the local customer. So think of grocery stores or dentists or even your local financial advisors, education, K-12 education, they're all there because the people are there. So as you build those primary employers, the rest of those will sort of naturally follow.

And the spending from those primary employees also ends up supporting a lot of those other secondary jobs in the community. So it's having a healthy mix of those two. And there's ways to measure that, that you can build a Hirschman-Herfindahl Index to take a look at the diversity of your economy compared to the overall economy. There's ways of sort of benchmarking Aurora to see maybe areas that you could be underperforming or outperforming and those places that you want to be outperforming. So that's where we end up measuring key industry clusters, if that's an aerospace cluster or a biotech cluster or a transportation cluster, those are often things to celebrate. You can sell that concept to the next company to relocate to Aurora. So that's sort of a short answer is what we look for.

R. Woobekind: So one of the things that this is highlighting is people who could work remotely did work remotely. So, if you think about this, I don't know if you feel this way and you know your community much better than I do, but I kind of consider Aurora an affordable alternative. Some parts of the Denver Metro area are super pricey. So to the extent that people can work from their home at this point in time, if you have very strong internet and reasonably priced internet and all of those types of things, you could probably try to build up more people working from their residents, as one example. What Brian said is absolutely accurate, primary employers are good employers in general, and we look forward to that, but they also, to the extent that their workforce is, needs to be there, like a manufacturer or a warehouse, then they're spending money in the community, too, even if they're commuting out at the end of the day, they're spending money during the day when they're there. If you have some of these high-tech companies, like I was mentioning in the beginning, that have their software programmers and they don't even have to be in the country, much less in the community, then it's more difficult to sort of set up that relationship, again unless you actually get these people to work remotely from Aurora. So sort of thinking about that. But you have been positioned pretty nicely in that regard, just because people did cut down commuting quite a bit in this downturn.

Council Member Murillo: Yes. We definitely benefited from that. Okay, thank you for that. And what was it called? The Hirschfield benchmark on the optimal mix; is that the right word?

B. Lewandowski: It's a way of indexing many different things. We've applied it to employment in the past just to see the diversity, basically, of your economy compared to other economies.

R. Wobbekind: Yes.

B. Lewandowski: But there's other ways of doing it. You can look at location quotients just to see where you have over concentrations or under concentrations of activities. There's a few ways to measure it.

Council Member Murillo: Awesome. Thank you. And then I guess the only other comment, I think you're kind of alluding to it, right? Like the relationship between different industries, I guess, or not just industry, but when there's an impact to a budget in this way, what are other areas, like what is the relationship to other parts of our budget? I think that Council Member Zvonek's example was a good example, in terms of gas. I guess understanding the relationship helps us plan in the event that we don't know what's going to happen, but how do we understand that really strong connection and try to plan accordingly?

R. Wobbekind: The components.

Council Member Murillo: So, yes. That's all I have in terms of questions and observations from the presentation. Council Member Zvonek, one more opportunity, while we have this group on the line, if you have any other questions.

Council Member Zvonek: No. I'm all set. Thank you, and thanks for the presentation.

Council Member Murillo: Yes. Thank you all. Thank you so much. And I hope that we will use this information wisely.

Outcome
Information only.

Follow-up Action
No follow-up needed.

MISCELLANOUS MATTERS FOR CONSIDERATION
Summary of Issue and Discussion
The next meeting is on Tuesday, June 28, 2022 at 1:00 PM (WebEx)

ADJOURNMENT

THESE MINUTES WERE APPROVED AS SUBMITTED

8/18/2022
Date