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The Health of Restaurants in Denver and What a 20% Surcharge Would Mean

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About the Authors

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About Common Sense Institute

Common Sense Institute is a non-partisan research organization dedicated to the protection and promotion of Colorado's economy. CSI is at the forefront of important discussions concerning the future of free enterprise and aims to have an impact on the issues that matter most to Coloradans. CSI's mission is to examine the fiscal impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI employs rigorous research techniques and dynamic modeling to evaluate the potential impact of these measures on the economy and individual opportunity.

Teams & Fellows Statement

CSI is committed to independent, in-depth research that examines the impacts of policies, initiatives, and proposed laws so that Coloradans are educated and informed on issues impacting their lives. CSI's commitment to institutional independence is rooted in the individual independence of our researchers, economists, and fellows. At the core of CSI's mission is a belief in the power of the free enterprise system. Our work explores ideas that protect and promote jobs and the economy, and the CSI team and fellows take part in this pursuit of academic freedom. Our team's work is informed by data-driven research and evidence. The views and opinions of fellows do not reflect the institutional views of CSI. CSI operates independently of any political party and does not take positions.

Contents

- About the Authors1
- About Common Sense Institute.....2
- Teams & Fellows Statement.....2
- Background3
- Key Findings3
- Taxable Food Services and Drinking Places Sales4
 - Denver Restaurants4
 - Denver Restaurants Compared to Other Cities4
- Restaurant Prices and Consumer Choice.....5
 - The Impact of a 20% Rise in Restaurant Prices6
 - The Impact of a 5% Rise in Restaurant Prices7

Background

The City of Denver is considering encouraging restaurants to add a 20% surcharge to restaurant bills in the cityⁱ. Depending upon what type of tipper you are, the suggestion could increase the final bill some customers pay to eat out and lead to a redistribution of what was previously tip income. If implemented on a broad scale, the suggestion will impact the amount paid by customers, the distribution of pay for restaurant workers, taxes collected by restaurants in the city, and restaurants’ bottom line, addressed in the following pages.

Key Findings

- Restaurant sales in the Denver area are struggling, up 1.5% compared to the prior year (November 2024) - weak by historical standards.
- On an inflation-adjusted basis, restaurant sales in the Denver area are down 5.1% as of November 2024, the most recently available filing data.
- Comparing restaurant sales in the Denver area to other cities, restaurants are weak, with Denver ranking 9th of the 13 cities with relevant data.
- A 20% increase in the price at restaurants in the City of Denver leads to a decline in employment of 4,575 individuals, a drop in GDP of \$718 million, and a decline in output (company sales) of \$1.231 billion by 2030.
- A 5% increase in price at restaurants (20% surcharge minus 15% drop in tips) leads to a decrease in employment of 1,122 people, a decline in GDP of \$176 million, and a decline in output (company sales) of \$302 million.

Taxable Food Services and Drinking Places Sales

Denver Restaurants

Restaurants, captured by the NAICSⁱⁱ industry classification 722ⁱⁱⁱ, are struggling, at least when measured by year-over-year change in taxable sales in Denver. As of November 2024, taxable food services and drinking places are up 1.5% compared to the prior year, weak by historical standards (Figure 1).

On an inflation-adjusted basis, taxable sales are down 5.1% (Figure 1)^{iv}.

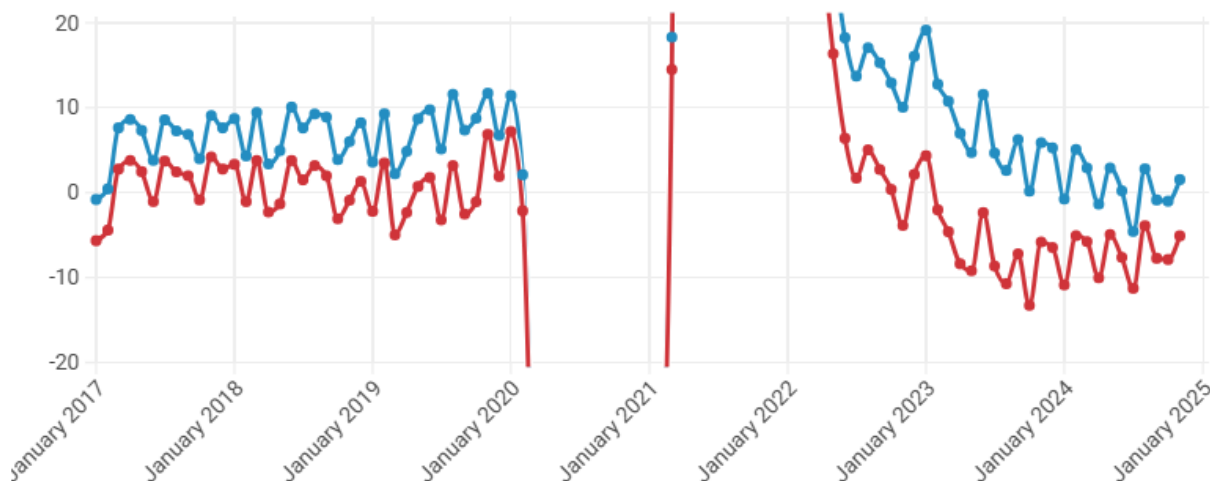
Overall, Denver restaurants are struggling in the competitive industry of food services.

Denver - Food Service and Drinking Places

Year-over-year change in taxable sales

■ Denver, Year-over-Year Change in Food Service and Drinking Places
 ■ Inflation-adjusted Denver Food Services and Drinking Places

Year-over-Year Change



Source: Colorado Department of Revenue, CSI Research, Bureau of Labor Statistics



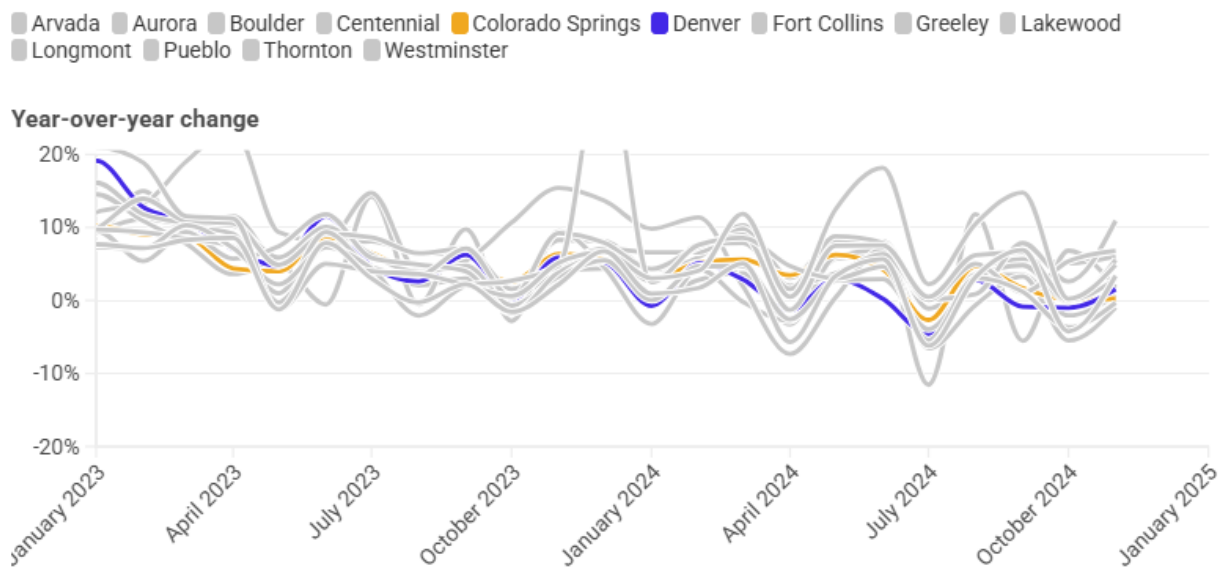
Figure 1

Denver Restaurants Compared to Other Cities

Is the weakness of the restaurant industry consistent across cities in the state? The answer is generally yes, although restaurants in Denver are struggling more than restaurants in other cities (Figure 2). Of the 13 cities reported by the Colorado Department of Revenue with information on Food Services and Drinking Places, Denver has the 9th place growth rate, ahead of Pueblo (0%), Colorado Springs (0%), Aurora (0.7%), and Centennial (-1%).

Denver Compared to Other Cities - Food Service and Drinking Places

Year-over-year change in taxable sales



Source: Colorado Department of Revenue, CSI Research



Figure 2

Restaurant Prices and Consumer Choice

Before going into the impact of a 20% surcharge, it is worth noting that, according to Toast, customers in Denver are among the most generous in the country, tipping, on average 19.8% - close to the proposed 20% surcharge.

What would a 20% rise in restaurant prices mean for consumers, workers, and the economy overall in Denver? The impact depends, at least partly, on how consumers respond to the price increase. Two scenarios follow. The first scenario assumes the 20% surcharge flows through restaurants simply a 20% price increase. The second assumes that tips go down approximately 15% and thereby the cost of a trip to a restaurant in Denver goes up approximately 5%.

The Impact of a 20% Rise in Restaurant Prices

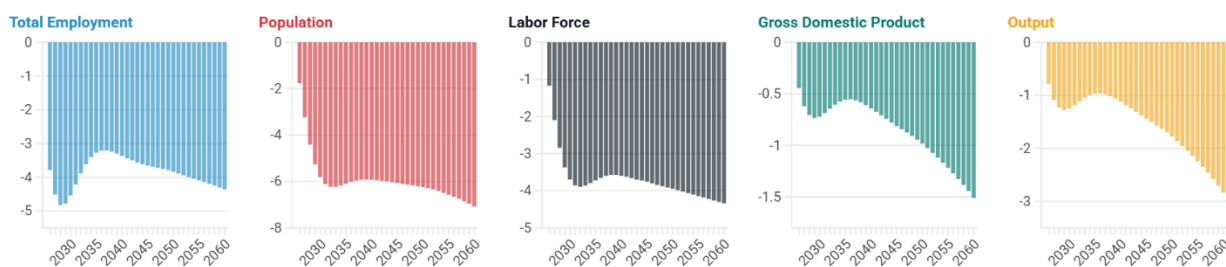
The results for the Denver Metro area, shown in Figure 3, indicate the economic impact by 2030 of:

- A decline in employment of 4,575 people.
- A drop in GDP of \$718 million.
- A drop in output (company sales) of \$1.231 billion.

Economic Impact from a 20% Restaurant Surcharge

Thousands of People or Thousands of Jobs or Billions in GDP or Output

Assumes the complete 20% does not lead to a decline in tips, only an increase in price.



Source: CSI Research and Modeling, REMI, Colorado Department of Revenue

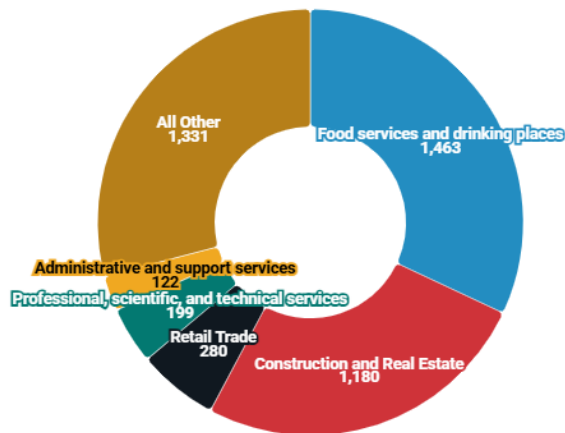


Figure 3

The impact is felt the hardest in the Food Services and Drinking Places sector, accounting for 1,463 of the jobs lost in the Denver Metro area by 2030. The impact on the restaurant sector spills over to other sector, leading to missing jobs in the construction, real estate, professional and scientific, retail trade, and administrative, among others (Figure 4).

Decline in Jobs by Broad Sector from a 20% Consumer Price Increase for Restaurants

The drop in jobs in the Denver Metro area is most prevalent in the Food services and drinking places, with 1,463 fewer jobs in the metro area by 2030.



Source: CSI Research, REMI



Figure 4

The Impact of a 5% Rise in Restaurant Prices

Some may suggest that the 20% surcharge would simply replace most of the tips given to servers today given that Denver customers typically tip 19.8%, on average^{vi}. To acknowledge this possibility, the scenario presented below assumes a 5% increase in restaurant prices, meaning that tips drop by approximately 15%.

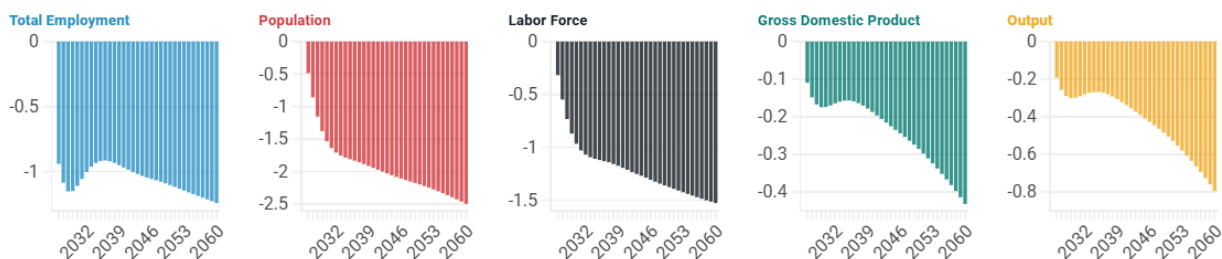
The results for the Denver Metro area, shown in Figure 5, indicate the economic impact by 2030 of:

- A decline in employment of 1,122 people.
- A drop in GDP of \$176 million.
- A drop in output (company sales) of \$302 million.

Economic Impact from a 20% Restaurant Surcharge and a 15% Drop in Tips

Thousands of People or Thousands of Jobs or Billions in GDP or Output

Assumes the 20% decreases tips by 15%, leaving a 5% price increase.



Source: CSI Research and Modeling, REMI, Colorado Department of Revenue

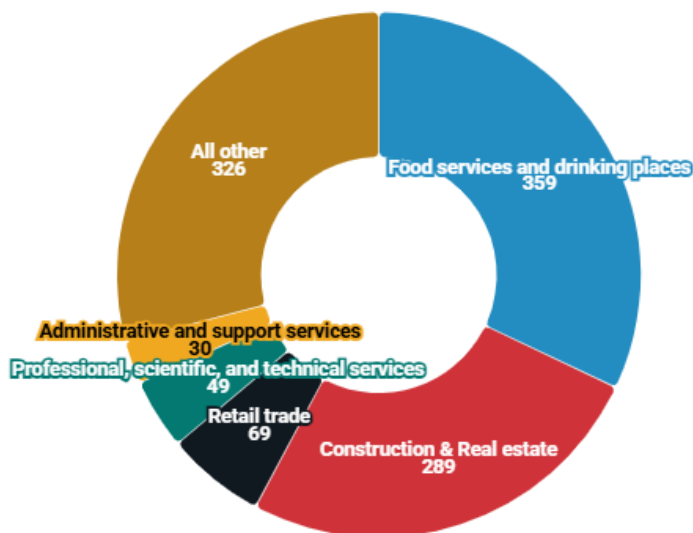


Figure 5

The impact is felt the hardest in the Food Services and Drinking Places sector, accounting for 359 of the jobs lost in the Denver Metro area by 2030. The impact on the restaurant sector spills over to other sectors, leading to missing jobs in the construction, real estate, professional and scientific, retail trade, and administrative, among others (Figure 6).

Decline in Jobs by Broad Sector from a 5% Consumer Price Increase for Restaurants

The drop in jobs in the Denver Metro area is most prevalent in the Food services and drinking places, with 359 fewer jobs in the metro area by 2030.



Source: CSI Research, REMI



Figure 6

ⁱ https://denvergazette.com/news/denver-mayor-service-charge-restaurants-tax/article_2a2395ac-f49e-11ef-8ae3-f382fba26ddb.html and <https://denverite.com/2025/02/27/denver-mayor-mike-johnston-restaurant-service-fees/>
ⁱⁱ North American Industry Classification System (NAICS)
ⁱⁱⁱ NAICS code 722 includes other food service providers in addition to the sit-down restaurant.
^{iv} The Denver-Aurora-Lakewood, CO CPI Index, produced by the Bureau of Labor Statistics
^v <https://www.axios.com/local/denver/2023/03/17/denver-tips-restaurants-survey-toast>
^{vi} *Ibid*