



Denver City Council

Summary Joint Finance & Safety Committee

Date: Wednesday, June 21, 2006 1:30 PM Council Conference Room

Committee Members Present: Boigon, Faatz, Lehmann, Wedgeworth
Committee Members Absent: Brown, Garcia, Johnson, MacKenzie, Linkhart, Montero, Robb

Finance Committee

1. Lessons learned from 1998 bond process

Summary of Discussion

Marilyn Miller, Capital Projects Director, presented information about management of the 1998 bond process as requested by Councilwoman Faatz who had concerns that any future capital bond requests provide realistic cost estimates. (See attached.) Ms. Miller emphasized that managing public projects is always more difficult than managing private projects because the values of the City are embedded in the projects, such as:

- public engagement in goal-setting and decision-making;
- payment of prevailing wages;
- equity for small, women, and minority-owned business;
- geographic equity across the City;
- provisions for public art; and the like.

Ms. Miller explained that about every 10 years, the City issues bonds for larger infrastructure improvements that are beyond the capacity of the yearly budget. She compared this to how individual households finance large, appreciable items like the mortgage and pay cash for ongoing household expenses. In 1998, there were 139 projects in the Neighborhood Bond project, divided into five separate ballot questions, and totaling \$98.64 million. Most of the projects were completed within budget. About a dozen are still in process.

About 10% of the projects needed substantial additional funding due to a variety of factors and these projects were large ones—notably the recreation centers and new police stations. The recreation centers faced costly delays caused by the public process itself according to Ms. Miller. For example, at the Ashland Swimming Pool, community members, the landowner, and the councilmember wanted to put low-income housing above the pool. This idea needed to be investigated and that process delayed the project and increased its costs. Similarly, the

Montbello Recreation Center was not remodeled, but rebuilt. Ms. Miller said the shortfall in the budget for the police stations was a deliberate decision on the part of the Bond Task Force. She noted that 20 million of the \$44 million shortfall was associated with the police stations. Councilwoman Boigon concurred that the police station bond budget was only intended to provide partial support for the build out of the stations. Councilwoman Faatz questioned whether this strategy was adequately conveyed to voters. She noted that the current City budget is much tighter than it was in 1998, precluding the possibility of diverting general fund dollars to bond projects.

Embedded in the presentation that Ms. Miller provided were the following ideas (presented here in the affirmative) for improving the capital projects bonding process in the future:

- identify the root causes of the problem or need
- evaluate the feasibility and extent of the solution required to solve the problem or need
- develop firm, detailed scope for each proposal that addresses on-site specifics
- develop in-depth project cost estimates, with peer review
- identify early the potential conflicts and obstacles in implementing the project
- increase contingency funding
- develop bond funding using detailed program plans based on rigorous cost benefit analysis followed by prioritization based on the analysis

2. Revenue Sharing Agreement between the City and DPS

Committee Action

The Committee approved both an intergovernmental agreement so that Denver Public Schools (DPS) can receive previously agreed-upon payments in lieu of taxes from the Colorado Convention Center Hotel Authority (CCCHA) and a corresponding supplemental appropriation of about \$279,000 for 2006 to facilitate the payment.

Summary of Discussion

Bob Gibson, Treasury, and David Broadwell, City Attorney's Office, explained that when a private developer could not be found to develop a convention center hotel in conjunction with the opening of the new convention center, the City stepped in to build a hotel through the tax-exempt Convention Center and Hotel Authority. To assure that DPS and the City would not be adversely affected by removing the valuable property from the tax rolls, the authority agreed to make payments in lieu of taxes based on the tax value of the property (Mill levy X assessed valuation for prior year). The arrangement is for the City to pass on the school district's share of these payments in lieu of taxes, once the City's obligations under its economic development agreement with the authority are met.

These proposed ordinances provide the mechanism for completing the transactions by which the hotel authority passes on \$279,000 for 2006 to DPS. The payments in lieu of taxes are expected to increase in the future as the property appreciates providing DPS with potentially more future funds than the district would have received from a private hotel developer with a tax increment financing (TIF) arrangement.

Joint with Safety

3. Justice Center Bonds Hedge Agreement

Committee Action

The Committee approved an ordinance to authorize the Manager of Revenue to negotiate and enter into one or more financial agreements to lock in current interest rates for the General Obligation Bonds to be issued for the Justice System Facilities Project.

Summary of Discussion

Bob Gibson, and LaCharles Keese, Treasury, explained the proposed hedge transaction for the Justice Center bonds. There are \$308 million bonds yet to be issued in 2006 and 2007. Since the Project budget was approved by the voters, short term interest rates in the financial markets have steadily increased and long term interest rates are expected to follow suit in the near future. Because TABOR requires that maximum repayment and interest costs be established at the time bond issuance is approved, increased interest costs could reduce the funds available for actual construction of the Justice Center. The proposed "hedge" transaction protects against impacts of increased interest costs by locking in the interest rate through an agreement with one of more investment banks. The City will then receive that fixed rate when it issues the remainder of the bonds in the future. The City has successfully undertaken a number of hedge transactions on behalf of DIA, but this is the first one for non-DIA related City projects. The Committee urged staff to proceed with the transaction quickly.