



Denver City Council

**Finance Committee
Summary**

Wednesday, September 20, 2006 1:30 p.m. Council Conference Room

Committee Members Present: Faatz, Chair; Brown, Vice-Chair;
Boigon, Lehmann, Rodriguez

Agenda:

- 1) **Denver Employees Retirement Plan update**
 - 2) **Appropriation and land/building purchases – Police District 6 Station**
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1) Denver Employees Retirement Plan (DERP) update:

Committee Discussion

Steve Hutt, Denver Employees Retirement Plan (DERP), was pleased to report that by 2005 year end the retirement plan was experiencing a 9.98% return on investment and as of January 1, 2006 the plan was 100% fully funded. He noted that factors contributing to the success of the program include:

- The approval in January 2005 to increase the pay contribution an additional 1%;
- A reduction in future retirement benefits for employees hired after September 2004; and
- There was no cost of living or health insurance benefit increases for retirees for four years.

Mr. Hutt indicated the various steps taken by DERP to slow down the benefit growth helped to increase the funding capacity. Unfortunately, noted Mr. Hutt, there are challenges facing DERP including lower investment returns. Currently, the investment return for 2006 is estimated at 6% down from 9.98% in 2005, and recently the Federal Reserve voted not to increase interest rates. Other demographic trends impacting retirement funding are “baby boomers” retirements, longer life expectancies of retirees, and the “Denver Health Effect”. Mr. Hutt explained that the Denver Health Effect refers to the Denver Health Authority. In January 2001 the hospital became its own authority. There are 1500 hospital employees in DERP. As new employees are hired they are offered their own retirement plan and that means that there are no more new employees contributing into DERP to replace/fund the current employees participating in DERP. In addition, existing employees have the right to leave DERP at any time, and maintain their accrued benefit. As a result, DERP is potentially anticipating a deficit in the future in the amount of \$42 million. An actuary compared salaries of CSA versus Denver Health employees and found that on average, Denver Health employee’s salaries were 31% higher than CSA employees. The study included doctors, nurses and other high-level administrative salaries.

Mr. Hutt indicated that the Mayor, Budget and Management, and other City staff are currently negotiating with Denver Health regarding these issues and discussing options for how the hospital would cover their share into DERP. Councilmember Faatz indicated that the state program – PERA – contains a disaffiliation statement in its provisions and asked if that could be done in the contract with Denver Health. She noted that this is something that the City Attorney’s Office should consider including in all its contract language for other agencies considering separation from the City, for example, Denver International Airport. It is something to consider for the negotiations under the operating agreement, but DERP needs to address how to get the provisions now for the future, stated Mr. Hutt. He outlined the following steps that could be taken:

- City Council could approve a set contribution for Denver Health and amend annually;
- Denver Health would begin to flow money into DERP every paycheck or once a year on December 31; or
- Modify the operating agreement – this is the least desired alternative.

Councilmember Faatz requested a 30-year program projection analysis utilizing industry standards. Mr. Hutt said he would provide the information. He noted that if the program were to earn 8% for at least three years, it could lower the contribution amount. Irving Hook, DERP Boardmember, said the lack of cost of living increases for retirees has been difficult and wants to proceed with setting the contributions and funding appropriately. Bonney Lopez, DERP Boardmember, noted that various educational programs have been established and that ongoing seminars for retirement planning are provided to employees. Councilmember Faatz asked that Council be kept informed of the plan to keep DERP funded appropriately from Denver Health.

2) Appropriation and land/building purchases – Police District 6 Station:

Committee Action

The Committee approved the following requests related to the District 6 Police Station Acquisition Project:

- Appropriate and transfer \$5,030,000 from the General Fund to the Capital Improvements Fund for purchase of the buildings and land currently occupied by Police District 6;
- Approve purchase of land from North Capital Colfax, LLC located at 701 Colfax Street;
- Approve purchase of land from North Capital Colfax, LLC and Colorado and Santa Fe Partners Parfet, a Colorado General Partnership located at 1521 Clarkson Street.

In addition, Councilmember Faatz announced that any issues scheduled for Finance Committee requiring any legislative approval must have the draft bills before or by the Committee meeting.

Committee Discussion

Richard Warren, Office of Economic Development, stated the City was presented with the opportunity to purchase below market land/real estate property and to permanently place the District 6 Police Station in its current location. He noted the City would save over \$2.7 million in future rent payments over the next nine years. In addition, the Police and Planning Departments support the location because it re-enforces the plan to redevelop the East Colfax area in conjunction with the Main Street Zoning plan. The acquisition process includes two separate contracts with sellers controlled by one individual. Because of the

type of transactions these are the IRS code permits certain deductions (tax benefits) to the seller. The tax benefits and transactions are time sensitive so the City is anticipating closing the deal by December. Commander Deborah Dilley, Police Station 6, said the department supports the central location. She noted the department has outgrown its current facilities and said that projections indicate that 67% growth is anticipated by the year 2020 including 34% more in service calls. Currently, the police have not been able to hold community meetings at this facility, but with the additional land, they would be able to include this purpose in the planning. Also, the additional land would provide additional parking.

Marilyn Miller, Budget & Management, stated that it is Budget's intent to appropriate and transfer \$5,030,000 from the General Fund to the Capital Improvements Fund to purchase the buildings and additional land surrounding the currently leased District 6 Police Station. She indicated that any funding differences would be made up from other operating alternatives such as the sale of other city assets or unspent capital. Mel Thompson, Budget & Management, confirmed that there would be more than 2% contingency left in the fund balance (see attachment) which includes the capital improvement transfer. He stated he would provide the draft ordinance to Council staff as soon as possible. Councilmember Brown stated the plan represented good business and financial planning.

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City Council Legislative Services