



Finance Committee Summary

Wednesday, June 6, 2007

1:30 p.m.

3rd Floor Council Conference Room

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

Committee Members Absent: Boigon

Other Council Present: Garcia, Hancock, Johnson, Linkhart, Robb

Agenda:

- 1) *Police Administration supplemental*
 - 2) *Infrastructure Task Force – project estimations and financing options*
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1) Police Administration supplemental:

Committee Action

The Committee approved an additional \$70,000 supplemental for the third floor remodeling project of the Police Administration building.

Committee Discussion

Stephanie Iwanski, Budget & Management, explained the additional supplemental would finalize the remodel of the 62 workstations and offices for staff located on the third floor of the Police Administration building. The remodel project will provide better working conditions for 42 detectives and other safety staff. In addition, construction costs for copper increased by \$16,000 which added more expense to the project. Councilmember Faatz noted that this cost overrun was not included in the last update for items coming out of the Contingency Fund and requested that Budget make sure that all items being considered be included. Ed Scholz, Budget & Management, assured the Councilwoman that they would make every attempt to include all potential supplementals on the contingency list. If this request is approved, the revised contingency reserve balance would be \$11.2 million.

2) Infrastructure Task Force – project estimations and financing options:

Committee Discussion

Chris Henderson, Mayor's Office, stated the City has historically under-funded annual maintenance needs and has used periodic bond issues to catch up on deferred maintenance. After reviewing the City's infrastructure and amenities condition, the Infrastructure Task Force (ITF), created in 2005 to review these issues, determined that a gap of \$27 million was needed to fund annual maintenance requirements. In addition, the ITF found that the City's assets are below minimum standards and that it would require \$390

in new investment to bring them up to standard. Mr. Henderson outlined the Finance Subcommittee/IFT preliminary recommendations to fund the maintenance gap and necessary improvements by utilizing general obligation bonds and increasing the current mill levies as follows:

- Increase the current mill levy by 2.5 mills to fund the \$27 million gap of annual maintenance needed and establish a “pay-as-you-go” strategy;
- For first-tier projects (\$390 million) use existing general bond capacity with no tax rate increase – projects represent deferred maintenance and other critical needs and would be funded by existing mill levies as debt is retired in 2007;
- For second-tier projects (\$227 million) use new debt through a property tax increase of 1.93 mills to fund new facilities and other infrastructure needs;
- Mill levy impacts are based on an average home value of \$255,000 – the property tax per \$1,000 value would cost \$5.68 – this cost to the Denver taxpayer is still lower than other metro area cities (see attachment);
- There are five scenario’s being considered which proposes varying mill levies for each of the second-tier projects (see attachment).

Questions and Comments:

- 1) Based on state legislative proposals and issues regarding Denver Public School levies, what implications will these recommendations have on those proceedings? The attorneys are meeting with the Governor’s staff to determine next steps for the school levy freeze and at this time it is anticipated that litigation would occur.
- 2) What would be the cost to the taxpayer if debt is not renewed? Each \$50 million of new general obligation debt requires \$4.5 million of annual debt service, this represents an increase of .42 mills to fund each \$50 million – based on that formula, taxpayer’s will incur a reduction of approximately \$55.
- 3) Who will be providing this information to Denver constituents? Meeting information and community feedback is posted on the infrastructure website. Community meetings are currently being conducted in all quadrants of the city with the last meeting being scheduled for June 15.
- 4) It was being reported that various cultural amenities are behind on certificates of participation (COPs) and Council wants assurances that these amenities are keeping their commitments to the city. It was reported that the Zoo has made payments from parking garage surcharges, and the Museum renegotiated its contract in 2004 so that the city would recapture its money through ticket sales.
- 5) Councilmember Faatz does not support using COPs for the Decatur Facility project. Projects are going through a consolidation project and evaluating them against various revenue streams and this project should be part of that process.
- 6) Who was involved in estimating the proposed projects? The projects were estimated by Tom Hawkey (Parks & Recreation), Ken Johnston (Public Works), Peter Knowles (consultant), and Marilyn Miller (consultant and former Denver Director of Capital Maintenance).
- 7) What are lessons learned comparing this process to the 1998 bond project? The 2007 process was improved and included the following:
 - projects were reviewed by a neighborhood/city process;
 - the process took more than one week to evaluate costs and critical nature of a project (almost 2 year process);
 - evaluation criteria did not limit projects to \$1 million;

- the process recognized there was a difference between vertical and horizontal and concrete versus green projects;
 - environmental studies, conceptual plans, design plans, guidelines, and master plans were considered to arrive at construction costs;
 - the Denver Regional Council of Government (DRCOG) model for value engineering was utilized to calculate contingencies – generally 10% contingency, and includes cost escalators of 15% for inflationary costs – staff could consider increasing the contingency, if necessary, because the goal is to avoid budget overruns;
 - a “PIPP” form was prepared for most projects – this form identifies a list of potential project costs such as: land acquisition, artwork, fixtures, equipment, permits and fees, design, construction, off-site infrastructure, square footage, and programmatic plans to provide a total anticipated project cost.
- 8) Will project costs be adjusted before going to the ballot? Once decisions are made as to what projects are approved for the ballot a vigorous cost review will be conducted.
- 9) Lack of labor resources was part of the problem in the past to get projects done in a timely manner, has that changed? City staff has learned what it takes to implement projects and other agencies such as Community Planning & Development have been included to add more assistance.
- 10) Has a decision been made on the future use for the Sheriff’s PADF facility? The Police Property Bureau needs to be enlarged and PADF might be a better fit for that space and the Bureau’s needs were removed from the Infrastructure Task Force evaluation because of that anticipated use. Facility Planning & Management staff – Derek Brown – could answer more thoroughly regarding this issue.

Mr. Henderson stated the Executive Committee plans on finalizing its recommendations to the Mayor by June 15. City staff and task force members are completing meetings with the public to educate them on the various proposals and seeking input from citizens. Staff wants to be assured that citizens understand the financing options and they want to make sure that the City has captured the critical needs and community priorities correctly. Councilmember Faatz said she will schedule the ranking priorities and recommendations at the next Finance Committee.