



Finance Committee Summary

Wednesday, July 18, 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, Lopez, Montero, Nevitt, Robb

Agenda:

- 1) 2nd Quarter financial/budget update
 - 2) Infrastructure Task Force – Mayoral recommendations
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1) 2nd Quarter financial/budget update:

Committee Discussion

Ed Scholz, Budget & Management (BMO), provided an overview of the 2007 budget reflecting revenue and expenditures through June and a budget forecast for 2008 as follows:

2007 Budget:

- Revenue year-to-date = \$334,918,000¹
- Expenditures year-to-date = \$467,720,813²
- The annual contingency is required to be 2% of the estimated expenditures. Currently, the contingency reserve is \$11,258,000 and BMO anticipates that the City will spend the entire amount. Anticipated supplementals such as the District Attorney's Gang Unit expenses and personnel costs will be re-evaluated to determine how these can be absorbed by the agency or by other funding (see attachment).
- The undesignated fund balance – a fund policy where 15% of the total General Fund expenditure budget is maintained for unexpected emergencies or major disasters is expected to end the year with that percentage in tact.
- Expenditures are growing higher as revenues are declining – a potential \$30 million gap between revenues and expenditures before expansions or changes in services is possible by 2008 – the focus will be on sustainable and strategic business goals to create efficiencies rather than eliminating services or employee lay-offs.
- Inflation is expected to increase by 3.35% in 2007, unemployment through April is at 4.2%, rental vacancies are at 4.2% and foreclosures are expected to increase.

2008 Budget forecast:

- Sales tax is estimated to grow at 4.95% and property tax at 4.0%.

¹ Fifty percent of revenue is from sales taxes and they are collected one month in arrears/lag – the \$334,918,000 only reflects revenue collected through May. In addition, seasonal fluctuations (permits, fees, etc.) are reflected in the total.

² Seasonal fluctuations (permits, fees, etc.) are reflected in total expenditures.

- The overall estimated growth for General Fund revenues in 2008 is 2.01%.
- Expenditures are expected to grow by 4.6% to maintain current levels of service.
- Inflation is expected to increase by 3.1% in 2008.

Councilmember Faatz stated the figures in 2007 reflect overspending. The Committee questioned how the City will manage the expenses for next year's Democratic National Convention at the same time the City will be trying to fund services in 2008. Mr. Scholz said Budget will work with agency heads to provide tools such as technology and business process analyses to increase efficiencies and it will be challenging. Chris Henderson, Mayor's Office, said they will be looking at all alternatives including balancing public needs and raising fees to cover costs. The Mayor's Office will be seeking feedback from Council to help determine how to achieve departmental goals and to prioritize needs.

2) Infrastructure Task Force - Mayoral recommendations:

Committee Action

The City Attorney's Office will submit to Councilmembers eight separate bond bills for voter approval for the November 2007 ballot prior to the August 1 Finance Committee meeting. In addition, the attorneys will provide guidelines as to how ballot questions must be legally stated.

Committee Discussion

Chris Henderson, Mayor's Office, said the following final bond recommendations to be placed on the November 2007 ballot reflect goals related to critical infrastructure needs and will minimize the financial impact on Denver taxpayers:

Recommendations:

- A 2.5 mill increase to property taxes to generate \$27 million of annual funding for a pay-as-you-go approach to fund the capital maintenance gap.
- A \$550 million 20-year bond issuance to fund maintenance and critical projects which would require a \$12.41 property tax increase for a median home value of \$255,000.
- Eight separate bond questions would be asked of voters – approximately \$550 million: approval for the 2.5 mill increase, refurbishment of buildings (\$70,896), health and human services (\$48,583), parks and recreation centers (\$93,387), public safety (\$65,195), streets/transportation/public works (\$149,786), libraries (\$51,883), and cultural facilities (\$70,000).
- \$40 million was removed from transportation projects to fund through other regional sources.
- \$13.2 million was removed from downtown projects (streetscape) to seek other funding sources such as the Denver Downtown Partnership
- The Homeless Housing and Firing Range/Traffic Ops recommendations totaling \$32.5 million was removed for consideration of certificates of participation opportunities.
- The cultural facilities proposals were reduced by \$7.5 million.
- Additional projects added include: 1) \$5.4 million for project management costs; 2) Quincy Avenue and 38th Avenue projects (total \$5.5 million); and 3) Berkeley Park was added to the parks list (\$2.9 million).

Councilmember Robb said she appreciates the transparency of all information that was shared with the citizenry, but she noted that the package presented today is different than what has been presented to the public earlier. Councilmember Hancock noted the task force and city staff did a tremendous job on the recommendations, but was surprised that the Mayor was not present today to provide his final comments on the recommendations. Councilmember Lehmann stated the package today sends an awful message to the taxpayer that if they vote yes on question 8 (cultural facilities), it would raise their taxes, almost asking for a no vote. Councilmember Faatz stated that her district was clear that they would not support any increase in taxes. Mr. Henderson explained that City staff conducted various permutations and decided the voter could decide which permutation they prefer. He added that the Mayor intends on promoting all proposals as a package and it was up to Council on how they would promote the bond proposal.

Councilmembers questioned the legality and the obligation as to how bond questions are posed to voters. David Broadwell, City Attorney's Office, explained that case law and TABOR drive how questions are posed, especially as it relates to debt questions.³ There will be eight bills filed based on single subject rules for debt questions. The attorneys continue to work on the bond categories and the appropriate language to identify the categories. The City's bond counsel includes Matt Hogan, Penn Tate, Karen Aviles (City Attorney), and Mr. Broadwell. In addition to the eight bills, companion ordinances will be filed that will state the intent of the use of the money and the projects to be completed with the bond financing.

Councilmember Lopez questioned if the projects represent equity among the districts. Diane Barrett, Mayor's Office, said she would provide a map that shows all projects by district. Councilmember Johnson believes that a larger mill is required to meet all future maintenance requirements once new facilities are brought on board. She suggested that the mill proposal be increased by a ½ mill. It was suggested that the Councilwoman meet with Mayoral staff to consider a compromise and/or amendment to the proposal. Mr. Henderson stated that the ½ mill increase is not supported by the Mayor. The Councilwoman also suggested that language related to Colfax projects be changed to reflect both east and west sides of Colfax.

Councilmember Faatz asked what issues changed regarding the reduction of \$15 million to the Boettcher Hall rehabilitation proposal. Jack Finlaw, Theaters & Arenas, stated that they will continue to fundraise and that an architect will be hired to evaluate the facility and will make suggestions on value engineering in order to cut costs. Twenty million is included under the category of refurbishment of buildings for the hall and \$40 million would be proposed as a tax increase. The Councilwoman questioned if there were plans to fund any of the project from the General Fund. Mr. Finlaw stated that all options are open.

Councilmember Nevitt noted that if the bond proposals are approved a lot of construction employment opportunities would be available. He asked that the City consider collaborating with others to create apprenticeship programs to encourage a more highly skilled workforce.

³ Subsequent to the meeting, Mr. Broadwell provided a memorandum to Council outlining case law from the early 1900s and 1980 and historical background (see attachment).