



Finance Committee Summary

Wednesday, December 3, 2008 1:30 p.m.

3rd Floor Council Conference Room

Committee Members Present: Faatz, Chair; Brown, Hancock, Lehmann

Committee Members Absent: Boigon

Other Council Present: Garcia, Nevitt, Robb

Agenda:

- 1) *Miscellaneous announcements – Mayor’s Gala Ball and Council Bill 669 revision*
 - 2) *Citywide fees – policies*
 - 3) *Agency rescissions, re-appropriations and supplemental requests*
 - 4) *Citywide financial management practices*
 - 5) *FAST Enterprises/All American Investment Group contracts (upgraded tax system)*
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1) **Miscellaneous announcements – Mayor’s Gala Ball and Council Bill 699 revision**

RD Sewald, Mayor’s Office, clarified that the Mayor’s Gala Ball is a 25-year tradition and is totally self-funded through ticket sales. There are multiple sponsors including KEZW and the Westin Tabor Center. The event will be held at the Westin Tabor Center located at 1672 Lawrence Street and will begin at 7 p.m. For more information, the public can call 720-865-9072.

Ed Scholz, Budget & Management and Mr. Sewald explained that Council Bill 669 – a supplemental for Parks & Recreation and Career Service Authority (CSA) – was held by Councilmember Faatz to address concerns she had with CSA’s re-organizational costs. After further consideration, CSA changed their supplemental request to \$19,000 instead of \$68,000, eliminating the costs attributable to the reorganization.

2) **Citywide fees - policies:**

Committee Discussion

Councilmember Nevitt, explained that he requested this discussion based on the following question he posed to city staff – “do city fees and charges capture the costs of the services or functions they are meant to pay for? Ed Scholz, Budget & Management (BMO), explained that there are over 800 fees, fines, licenses, permits, and user charges for services. He noted that it is a monumental process to look at all fees and to answer that question timely, but that this project is on their schedule over the next year to look at fees comprehensively and at that time, they will answer that question. Mr. Scholz said it would take approximately one year and that he would create phases in which the analysis would be conducted. Before staff could begin to look at costs, it is important to define what the fees are. Fees are defined as follows:

- Fee: A charge to an individual or business for the provision of services performed by the City (e.g. application processing, inspection filing fees).
- License: Allows individuals or businesses to operate or engage in a particular on-going business (e.g. contractor or liquor licenses).
- Permit: Allows an individual or business to engage in a time-limited activity (e.g. construction, special events).
- Fine: Collected from persons or businesses that violate state statutes or city ordinances (e.g. traffic fines and expired licenses).
- Charge for Service: Charge to individuals or businesses for services performed by the City (e.g. towing, tree trimming).
- Use Charge: Charge for the performance or use of specific services that directly benefit the individual charged (e.g. parking meters, recreation facilities).

Councilmember Faatz asked the City Attorney to explain why fee definitions are important and their relationship to taxes. David Broadwell, City Attorney's Office, commented that the major difference between fees and taxes is that a tax requires voter approval and fees do not. He acknowledged a Supreme Court case analysis where it opined that the rate of fees should have a relationship to the costs that provide the services and that the use of cash funds (fees) is a proper use for business operations.

Mr. Scholz noted that 33 departments have involvement in fees and/or charges and that there is no set schedule for rate adjustments. In some cases, fees have not been adjusted since 1996 and would not reflect costs associated with the rate of inflation. The goals of this project include mapping and prioritizing the fees, and to determine if the full costs of services properly reflect inflation. BMO has started the project and is currently inventorying Excise & License and Environmental Health and should complete their analyses at the end of December 2008. The Clerk & Recorder's Office, County Court, and the Motor Vehicle Division are not included in this study. Permits will be evaluated as part of the Development Services Project. Mr. Scholz noted that the project would help to determine when increases should be implemented instead of increasing the fees everyone 10 years and in one lump amount; which is harder for the public and Council to accept. He added that some Parks & Recreation use charges and fire inspection fee increases have already been built into the 2009 budget. Councilmember Robb said matching costs to fees is a policy discussion and asked when Council input would be included in the policy decision-making. Mr. Scholz stated that fee increases would always come to Council for approval and that they would not propose any increases until they have gotten Council feedback. Councilmember Garcia asked if part of this analysis includes a review of FTEs and the relationship between revenue and the support it requires to provide services. Mr. Scholz said yes, all these factors will be included. Councilmember Nevitt inquired if using CPI was a good measure to determine fees, etc. Mr. Scholz said it would be since it is a measurement for other things such as wages, benefits, etc. Mr. Broadwell added that there was no legal prohibition to use CPI as an indicator.

3) Various agency rescissions, re-appropriations and supplemental requests:

Committee Action

The Committee approved rescissions and re-appropriations in the Public Works (\$1,400,000) and Police Departments (\$700,000) and approved a supplemental from the General Fund Contingency in the amount of \$3,920,000 for the Fire Department (\$2.3 million), Safety Administration (\$220,000), Police Department (\$1 million), 911 Communications (\$150,000),

and the Denver Zoological Gardens (\$250,000) for costs related to personnel, utilities, and fuel.

The Committee approved filing a replacement bill for CB 669 to reflect Career Service Authority's change in its agency re-organizational costs, a reduction of \$49,000.

Committee Discussion

Ed Scholz, Budget & Management, reported that \$14,810,000 will be spent from the contingency reserve leaving a balance of \$2,459,000. The \$14 million includes a supplemental for the Clerk & Recorder's Office related to Presidential Election costs and other miscellaneous costs for various agencies. Mel Thompson, Dept. of Safety, said the Fire Department's \$2.3 million supplemental was due primarily to staffing shortages and under-authorized strength (overtime costs). Councilmember Garcia asked if retirements will impact the department budget next year. Mr. Thompson explained that there are approximately nine officers in the Fire Dept. that will have to retire under the DROP program, but said that type of authorized strength is recognized through attrition.

Councilmember Faatz questioned Safety Administration's supplemental for \$220,000 to hire two employees at higher pay levels. Mr. Thompson said the two positions – Records Coordinator at pay level 812-17 (\$91,000) and an EEOC position - will result in budget savings. Councilmember Garcia said he hopes that the EEOC position would help in eliminating police lawsuits.

4) Citywide financial management practices:

Committee Discussion

Councilmember Faatz asked Finance staff to discuss how the City utilizes its financial instruments and financial policies to consider debt obligations and to explain how financial instruments of the City are affected by the economy and what, if any, could be impacted from current economic bail-out packages.

Margaret Danuser, Dept. of Finance, said that three overriding principles guide the City's debt policies:

- Equity: Those that benefit from the financial item should pay for it;
- Effectiveness: Completed projects accomplish its intended goal and identified revenue source for repayment is adequate to cover debt service; and
- Efficiency: The relative cost of financing is better than competing alternatives.

Ms. Danuser pointed out that Denver has an AAA rating with S & P and almost an AAA rating with Moody's and Fitch. Other debt policy considerations and financial tools include:

- Aggregate debt burden on citizens and General Fund;
- Consideration of opportunity costs vs. true costs;
- Maturity should be no greater than the projected life of the asset(s) being financed;
- Refinancing should take into account net present value savings, absolute dollar savings, and time left on outstanding obligations,
- Charter requires a 3% assessed value (budget) to debt;
- The use of Certificates of Participation (COPs) which requires identification of a revenue stream that is equal or greater than annual lease payments;

- Fixed rate vs. variable rate obligations – the goal is to strive for 20% variable rate obligations. Variable rate obligations are used because of flexibility, cost, and diversification. Currently, fixed rate obligations are 71.9% of the outstanding debt and variable rate obligations are 28.1%;
- Swap transactions are used because they can modify cash flows of an obligation and allow the City to hedge and/or mitigate interest rate exposure;
- To date, the City's outstanding debt equals \$1,328,459,000 (includes Golf Enterprise bonds, but does not include Wastewater Enterprise bonds equaling \$25 million);
- \$1.2 billion of City bonds have been re-financed in 2008 and \$550 million in airport revenue bonds have been re-financed since October.

Councilmember Faatz questioned whether the swap transactions have benefited the City. Ms. Danuser said that swap rates are low, but it is too soon for the final impact analysis. She added that overall many financial relationships have been decoupled and credit markets are unpredictable because of the current economic condition. Personally, she feels that utilizing swap transactions has helped Denver taking into account that interest rates are not going down in municipal markets. Councilmember Robb asked if bonds are issued now what the interest rate is. For General Obligation (GO) bonds, the range would be 5 to 5.5%; whereas it would have been 4 to 5%, stated Ms. Danuser. She explained that GO bonds have longer spending periods, Commercial Paper transactions require spending funds within three years, and Swaps generally have a maturity or termination date. Swap agreements have advisory fees (legal costs) and are paid through the cost of issuance at the time of the transaction. The current economic climate has impacted the City's financing in the following ways:

- Volatility in variable rate debt;
- Fewer investment banking partners – investors are shying away from municipalities because of liquidity issues, they want to keep cash on hand so they are holding onto it;
- Meltdown in the bond insurance industry – Denver used to have three insurers and is down to one AAA bond insurer.

Expectations from the Federal bailout packages would include:

- Lower interest rate volatility;
- Increased investor base;
- Stabilization in credit ratings;
- Additional credit support from financial institutions.

Councilmember Faatz questioned if the City undertook a third party review to determine if the City's policies and transactions are appropriate, for example, an audit or report from a professional entity. If not, who should be providing the City that type of feedback? Ms. Danuser said that the City's investment bankers provide ongoing opinions regarding the City's transactions, but asked if she could have some time to think about the Councilmember's question and get back to her.¹ Councilmember Garcia said he is confident in the decision-making of City staff and suggested that periodic updates continue for City Council regarding these issues.

5) FAST Enterprises/All American Investment Group contracts - upgraded tax collection system (TCS):

¹ Subsequent to the meeting, Ms. Danuser noted that the City's rating agencies, e.g. S&P, provides an assessment on overall financial management strength and compares Denver's activities to historical practices while evaluating the City's policies and decisions.

Committee Action

The Committee approved the following contracts related to the City's purchase of a new upgraded tax collection system:

- Authorized a capital lease purchase agreement with All American Investment Group (AAIG) in the amount of \$4.1 million (including interest \$4,904,512.66) for purchase of the FAST LLC Version 7.0 Gen Tax software.
- Approved a vendor agreement with FAST Enterprises LLC (FAST) to obtain, install, and configure FAST Version 7.0 Gen Tax software. This is a companion lease purchase agreement with the vendor who will be paid by AAIG for the tax collection system.
- Authorized a maintenance and support contract with FAST Enterprises LLC (FAST) in the amount of \$4,850,000 to provide services and maintenance for five years for the FAST Version 7.0 Gen Tax software for the City's Tax Collection System.

Committee Discussion

Molly Rauzi, Technology Services, stated that the City's Sales & Use Tax system was implemented in 1999 and is no longer supported by the vendor and that the system is difficult to support and there is significant concern for risk if the system incurs an outage. In addition, this system has problems changing the tax rate types, which causes delays. The new system was approved in the 2008 budget from a Revenue Study conducted in 2007, which recommended replacing the old system with a tax package that is based on tax industry's best practices. The funding for this was acknowledged in the Long Bill, stated Lauri Hedyman, City Attorney's Office. The new Sales Tax System (STS) will be stable, easy to configure and will be capable of expanding functionality to include on-line access to taxpayers over the internet in the future. The agreements will be for five years, but staff will evaluate after three years for possible upgrades.

Councilmember Garcia asked if there was confidence in the vendors for implementation. Ms. Rauzi stated that migration capability was important and she thought the selected vendors would be able to handle the project. Steve Ellington, Treasury, stated that 25 other jurisdictions have signed agreements with FAST Enterprises, LLC, showing that there is confidence in the software and support from this organization.

Ms. Rauzi said the project is scheduled to begin in the first quarter of 2009. The implementation will take 12 to 15 months and maintenance is planned for five years. She will plan on coming back to Council periodically to provide updates on the implementation phases. Councilmember Faatz asked if sales tax information would be expedited by this new system. Unfortunately, it is a matter of timing, explained Ms. Rauzi. There is always a 4 to 6 week lag from businesses reporting their information, but the new system would be able to do other analyses for specific information.