



Finance Committee Summary

Wednesday, June 4, 2008

1:30 p.m.

3rd Floor Council Conference Room

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

Committee Member Absent: Robb

Other Council Present: Garcia, Hancock

Agenda:

- 1) 2nd quarter financial update and 2009 financial projections
 - 2) Denver Health Authority contract supplemental
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1) 2nd quarter financial update and 2009 financial projections:

Committee Discussion

Ed Scholz, Budget & Management, provided an economic overview stating that the Gross Domestic Product (GDP) in 2007 had only increased by 2.2% compared to 2.9% in 2006. National unemployment trends show Denver lower compared to other cities, but employment still increased to 4.8%. Denver continues to be impacted by foreclosures and the state reports a 15% increase in foreclosures and ranks 5th highest in the nation. As of March 2008, building permits are down 43% in the Denver metro area. Councilmember Boigon asked if the GDP information includes services. Mr. Scholz said he thought services were included, but would get back to her.

Mr. Scholz said 2007 revenues were 1.3% higher than expected and 2007 expenditures were 0.3% lower than expected. He explained that the way they handled encumbrances was changed this year. To reflect accurate fund balance, operating encumbrances will remain open and rolled into 2008 (or the following year) along with supporting budget. The new approach would provide accurate budget ledgers, less confusion in paying vouchers, and will represent accurate year-end reporting. The City may use its undesignated fund balances for one-time expenditures or emergency situations, and maintains at least 10% of its budget for these situations. Councilmember Boigon requested a report on the fund balances and asked that the report show balances without the encumbrances. She also asked for undesignated fund balance averages over the past few years.

The top 20 revenue sources account for 88.6% or \$848,636,737 of the 2007 General Fund (see attachment), reported Mr. Scholz. He noted that interest rate cuts impact the City and would represent at least \$6 million that would come out of the 2009 budget. It is forecasted that expenditures would grow by 5% in 2009, but revenue is anticipated to grow by only 2.8%. For every 1% drop in sales tax, revenue decreases by \$4 million. Between 2008 and 2009 there is approximately a \$35 million difference between expenditures and revenues. The goal is to close the gap between expenditures and revenues and City agencies have been asked for

solutions and options to close the gap. The budget process will focus on strategic citywide results and initiatives to help prioritize where the allocation of resources would be. Councilmember Faatz asked if internet sales provide sales tax revenue. Mr. Scholz said he was not sure and that he would get that information.¹ Councilmember Brown asked if residents who are renting their homes for the Democratic National Convention would be exempted from collecting lodger's taxes.²

Councilmember Faatz announced that she is scheduling city agencies to Finance Committee meetings throughout the summer to address budget reductions and agency expansions. In addition, she will ask them to come prepared to discuss how their agency initiatives and strategic planning will correlate to City Council goals and priorities.

2) Denver Health Authority contract supplemental:

Committee Action

The Committee approved a supplemental in the amount of \$1,286,926 for Denver Health Authority to reconcile the 2007 operating expenditures for inmate medical care at the hospital.

Committee Discussion

Peg Burnette, Denver Health Authority, said the primary reason why a supplemental is requested at this time is attributable to inmates who have complex medical conditions or trauma requiring hospital care. There were 39 cases requiring multiple surgeries or long stays in the hospital and these cases involved gunshot wounds, kidney failure, infections, and antibiotic therapy. The costs of these cases amounted to a \$1 million increase in care. The 2007 budget for inmate medical care but the actual costs were \$6.9 million. Denver Health netted surpluses in other budgets and applied the surpluses to this budget to arrive at the final total of \$1.2 million. Councilmember Hancock requested clarification of when a person is considered a prisoner. Undersheriff Lovinger stated it was at the point of arrest. Since it includes the Denver Police Department they are also part of the hospital costs, but they are working to take them out of this process to streamline the costs.

Councilmember Faatz asked if the hospital was trying to reduce the utilization and questioned if they were attempting to collect payments from third party entities. Dr. Kelly O'Brien stated that they have been working closely with the Sheriff's Department to release inmates sooner. Ms. Burnette said the hospital collects insurance information and invoices any insurance carrier that is found for the patient for services rendered. In addition, Denver Health bills individual prisoners for medical care. In 2007, the hospital collected \$221,916 from third party payments (including individual payments). Undersheriff Lovinger said he was not aware of inmates abusing hospital care. He stated that the MAXOR Group was hired to provide services that would assure that inmates would be moved to the appropriate level of medical care. The MAXOR Group is a utilization management service and has helped to collect \$221,000 in fees. The contract has provided for better services and a better system for the mentally ill. The agreement is funded in part by the Crime Prevention Commission. Ms. Burnette said the contract cost is \$350,000; but the costs are being offset by savings incurred in different health care areas, including Denver Cares. Councilmember Faatz noted that since the savings at the hospital have been spent there should be no proposal to use these savings for anything related to a Certificates of Participation (COPs) recommendation.

Debra Bartleson, Legislative Services

¹ Subsequent to the meeting, the Treasury Division responded to the internet sales tax question (see attachment).

² Subsequent to the meeting, the Treasury Division said no, the lodger's tax definition does not extend to individual residences.