



Finance Committee Summary

Wednesday, April 15, 2009

1:30 p.m.

3rd Floor Council Conference Room

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

Committee Members Absent: Hancock, Lehmann

Agenda:

- 1) *City budget and financial update*
- 2) *2009 property tax evaluations*

1) **City budget and financial update:**

Committee Action

The Committee approved a request to establish various fund numbers for the purpose of receiving and accounting for federal grants associated with stimulus monies on the next Finance Consent Agenda.

Committee Discussion

Ed Scholz, Budget & Management (BMO), reported there is mixed news everyday concerning the financial stability of the economy. Although Denver and its regional partners are fairing better than the national average for unemployment rates, the Denver metropolitan area has experienced 32 consecutive months of negative growth. The national unemployment rate increased from 8.1% in February to 8.5% in March. In the Denver metropolitan area the unemployment rate increased to 7.9% in February. Home prices in the Denver region decreased by 5.1% in January compared to the same month last year, February lodging/room rates decreased by 4.3% compared to the same month last year, consumer confidence fell to an all-time low in February and remained flat in March, and at the national level, year-over-year retail sales fell 11.5% in February and 10.6% in March.¹ Core sales and use tax is down 9.9% for the month of February and was down 10.3% in January. Mr. Scholz said there is a one-month lag on tax reporting. He noted that the City won't feel the strong effects of the current financial conditions until 2011, but that BMO is planning for long-term strategies and tightened budgets. It is critical to get employment going to get to financial recovery, stated Mr. Scholz. Councilmember Faatz questioned if the statistics consider job loss and asked if the indicators pick up reductions in salaries. He

¹ Economic indicators provided by S&P Case-Shiller Home Price Index, Rocky Mountain Lodging Report, The Conference Board, and U.S. Census Bureau. The Conference Board was established in 1967 and maintains information about consumer confidence.

said he is not sure, but would look at salaries and salary ranges and get back to her. Councilmember Boigon asked if bond projects are being tracked for trending and impact. Mr. Scholz said the projects are just beginning and there is not a noticeable effect now, but he would be glad to do that. Major categories for sales tax and their impact to the City's budget include: restaurants, drinking establishments, etc. (15%); motor vehicles/auto parts (9%); clothing and accessory stores (4%); and furniture and home furnishings (2%). Fifteen percent of Denver's sales tax comes from restaurants, stated Mr. Scholz, supporting small business is important to the City because of these factors.

The plan is to maintain a balanced budget approach which may include using reserves, operational savings, and across the board personnel savings (vacancies and furloughs). Budget policies allow for use of the Fund Balance for hard times and to date there hasn't been any impact to core services. The 2008 budget ended with approximately \$1 million more in Fund Balance than anticipated and will help to offset the budget in 2009. Currently, revenues and expenditures are on target from projections last summer, but Budget is anticipating that revenue collections will be down by another 2% in 2009, which means a total decline in core sales of 5-6% over 2008 or a total loss of revenue in the amount of \$10 to \$15 million. Mr. Scholz pointed out that their approach is to evaluate over the next 18 months what is needed in savings and to solicit ideas and identify ways to get savings through 2010. Budget & Management will continue to monitor the monthly revenue performance and will be providing to agencies budget targets for 2010. He stated that employee lay-offs are never off the table as a consideration, but is considered a last resort. There are currently 650 vacancies throughout the City now where they could eliminate the positions and move responsibilities around to other positions. The City only grew by five employees in 2008, due to early recognition of recession signs. Councilmember Faatz said she is always concerned about the liability the City covers for benefits (compensated absences for sick leave and vacation pay) which equals approximately \$110 million, a debt that could be disastrous to the City. Historically, retirements tend to be evenly spaced between decades and the City has not paid out all at once for these kinds of expenditures, stated Mr. Scholz. The budget office looks at the make up of the employee population to forecast what is possible through attrition and budgets accordingly. Mr. Scholz said that Career Service Authority and the Compensation Review Committee are analyzing this information. The Councilwoman suggested that the City look into creating some type of reserve to pay for these things. Mr. Scholz said it could be a consideration for future discussions, especially as the City begins its planning for the 2010 budget discussions. He said that they will continue to monitor growth and that it was challenging to bring revenues in line with expenditures, since everyone is living with less now and that the City has cut approximately \$60 million in the 2009 budget.

2) 2009 property tax evaluations:

Committee Discussion

Paul Jacobs, Assessor's Office, explained that the Assessor is required to send a property Notice of Evaluation by May of each year, but the re-evaluation of real property is conducted every odd-numbered year and is reflective of an 18-month lag period of time. He stressed that the home evaluations are reflective of the period of time between January 1, 2007 to June 30, 2008, when valuations were higher and the foreclosure impact was just beginning.

When the re-evaluations begin again this year (odd-numbered year) property owners will see the difference in home values in the 2011 cycle of Notice of Evaluations.

Mr. Jacobs noted that not all properties have fallen since the economic recession. Residential growth experienced a steady increase since 1997, while commercial grew at a slower pace with less value. He outlined the changes as follows between the years of 2007 to 2009 (see attachment):

- Warehouse/manufacturing = +16%
- Large office = +29.2%
- Small office = +13.1%
- Hotels = +14.3%
- Retail = + 17.1%
- Large apartments = 0%
- Small apartments = -11.1%
- Condominiums = - 2.1%
- Residential = -3.2%

He explained that the mortgage situation caused prices of homes in the low-priced ranges to appreciate the most and then fall the most in value; home prices in higher ranges appreciated the least and fell the least. Home prices in the lower-priced ranges have fallen between 50% to 57% in value. Councilmember Faatz asked if the legislature still plans on putting on hold the Seniors Homestead Exemption tax. The legislature is still deciding on that issue, but the Assessor's Office will get the calls, stated Mr. Jacobs. The Councilwoman encouraged citizens to contact their state senators and representatives to give them feedback about this tax decision because if the legislature approves this proposal seniors will incur a large expenditure to their income. Keith Erffmeyer, Assessor's Office, indicated that commercial property experienced health growth from June 2008 and noted that commercial property taxes represent 40% of the City's tax revenue. Between the years of 2006 to 2008, office rents increased by 30%. Denver has 185 commercial buildings in the city and 50 of those buildings have been sold in the last five years, and 80% of them are in primary corridor areas (e.g. I-25). Councilmember Boigon asked if there was a cycle of variation between residential and commercial. Mr. Erffmeyer said in Denver there is a lag between the two, but due to the current economic climate, commercial is slowly catching up to higher valuations. Mr. Jacobs added that business and jobs encourage commercial pricing and that investors make decisions about locating or purchasing property in the City based on this type of information. Long-term, this equates to a brighter future, stated Mr. Jacobs.

Ben White, Assessor's Office, reported that predominant foreclosures (lower-priced properties) occurred mostly in southwest and northeast Denver and represent the most in jeopardy of experiencing value changes (see map). Central and southeast Denver properties (parcels) held their value and in some cases increased. He explained that the 2009 density analysis conducted with the Public Trustee's foreclosure information is based on raw numbers and is a measure of various home activities occurring within parcels of land (i.e. communities).

Councilmember Brown is concerned that with so much change occurring that there will be many people calling to question the valuations and asked Mr. Jacobs if he had appropriate

staffing. Mr. Jacobs said they were and that they are working with the 3-1-1 Office who will be assisting with the many questions from constituents in addition to the Assessor's website which will have information and the appeal form online.

Mr. Jacobs said their office will be mailing the valuations on Friday, May 1, and that constituents should be getting their notices by May 4. He stressed that property owners remember that deadlines are important and outlined the following measures to consider when receiving the valuations:

- Read the valuation carefully.
- If you find errors you can appeal in writing – **PLEASE NOTE – your objection must be postmarked no later than June 1, 2009.** Mail to: Assessor's Office, Attn: Real Property Appeal, 201 W. Colfax Ave., Dept. 406, Denver, CO 80202.
- Submit your appeal document from the 18-month based period (January 1, 2007 to June 30, 2008) – this could be an appraisal or market sales information. **PLEASE NOTE – by state statute current market data cannot be considered in your 2009 appeal.** Retain a copy of your appeal for your records.
- You can appeal in writing – go to: www.denvergov.org/onlineprotest.
- You can appeal in person by June 1. After May 1, you can call 720-913-4164 to arrange an appointment. Please bring all pertinent information.
- The Assessor will mail a decision regarding your appeal on or before August 31.