Finance Committee
Summary

Wednesday, July 15, 2009 **1:30 p.m.** **3rd Floor Council Conference Room**

Committee Members Present: Faatz, Chair; Boigon, Vice-Chair; Brown, Hancock, Lehmann
Other Council Present: Linkhart

Agenda:
1) *Budget update*
2) *Agency pre-budget discussions: Dept. of Finance, Dept. of Human Services, Mayor's Office of Education & Children, Office of Economic Development*

1) Budget Update:

Committee Discussion

Ed Scholz, Budget & Management, reported that the projected deficit through the end of 2010 is increasing to $120 million from the initial $70 million reported in April. Additional sales tax data shows that collections were down an average of 14% from 2008, and 2009 revenues were down 5% on average based on the last six months actual collections, stated Mr. Scholz. The lower sales tax collections have attributed to the $22 million shortfall in 2009 and $98 million anticipated in 2010.

Initially, the budget estimate for 2010 was $864 million in total revenues, a 1.5% increase over the April 2009 revenue projection of $851 million. Unfortunately, the new data shows total revenues projected to be at $840 million, which assumes only a 2.4% growth above the 2009 budget projection. (See attachment.) Mr. Scholz noted that General Fund core collections (sales and use tax) have fluctuated over the years and in 2004 the City recorded the lowest collections since 2000. He thought that the lowest budget collection year was in 2007, but was going to recheck that information. Strong policy changes and good financial decisions have helped the City endure tough budget years since the 1970s, stated Mr. Scholz. The City bases it decisions on a balanced approach and maintaining 10% in contingency. Major revenue sources to the City are still being finalized and a handful are estimated to incur conservative increases. County Courts have contracted with a company that is actively collecting back fines which may increase these revenues 11%. Other revenue impacts include:

- Lodger's Tax: 2009 estimate down by 17% ($2.6 million), and 2010 may reflect an additional 2% decrease;
- Excise Tax Transfer: 2009 estimate $1.7 million lower than expected (7% decrease), and 2010 estimates a 9% decrease or $2 million loss;
- Investment Income 2009 estimate is being revised down by 41% or $3.2 million;
- Construction/Excavation Permits: 2009 revised estimate is 60% or $3.9 million lower, 2010 estimate shows growth of 6% or $150,000;

- ➢ Plan Review: 2009 estimate revised down by 65% or $3.1 million, 2010 preliminary estimate reflects growth of 5% or $80,000; and
- ➢ Street Occupancy Permits: 2009 estimate is $800,000 lower than projection (22%), 2010 is estimated to be flat.

Councilmember Faatz questioned staff if they would approach the budget differently long-term. Claude Pumilia, Manager of Finance, said no and he explained that the budget is built on assumptions taking into consideration recovery and negative growth. The Councilwoman asked for clarification regarding how vacancy savings are being reported. Mr. Scholz said that departments have been told that proposed savings need to be permanent, including vacancy savings. Currently, the City is experiencing a hiring freeze on some positions, and there is on-going evaluation for options and impacts for vacant positions, stated Mr. Pumilia. Councilmember Brown asked if the 2009 July revenue figures would be included in the analysis for the proposed 2010 budget. Mr. Scholz stated that probably not, but that one month would not impact the budget assumptions for the final budget recommendations.

2) Agency pre-budget discussions:

<u>Committee Discussion</u>

Councilmember Faatz invited agencies to Finance Committee to discuss pre-budget planning for 2010. The discussion with each agency is based on the following questions:

1) What is your current budget? What do the reductions to your budget equate to in dollars? What is your anticipated budget for 2010?

2) What are your top three priorities? With those priorities in mind, how will your agency assure that they are carried out within the current fiscal conditions? Define your core services. At this point in the budget process, what projects, programs, staffing, etc. are you planning on reducing? How do you intend on maintaining core services that your agency provides to Denver citizens?

3) Is your agency a recipient of any federal stimulus monies? If so, how will this money assist your organization with services, projects, or staffing?

4) Do your organizational objectives correlate with the City Council's top five goals and priorities (Economic & Environmental Sustainability, Neighborhoods, Safe & Clean City, Children & Families, and Well-Planned City)?

5) What is your long-term financial planning if the economic climate changes and additional money becomes available by 2010? What are the immediate services or priorities that you would allocate to, if money is available? Conversely, if the economic climate worsens, where would you begin to reduce services, projects, or staffing?

<u>Dept. of Finance:</u>

Claude Pumilia, Manager of Finance, stated that the 12% reduction is not accurate. City agencies are being asked to reduce their budgets, but the percentage amount will vary. He noted that the total budget reduction is 14% city-wide. The following are the responses from Finance regarding the questions:

1) 2009 budget is $39.87 million, $2.9 million is the estimated reduction, and there are 800 employees in the department.
2) Priorities include: assure that revenue is collected, make fiscal decisions – evaluate the resources, allocation of resources, and help policy-makers with tough choices.

3) Dept. of Finance is not a direct recipient for stimulus monies, but they are tracking money into Denver and will be reporting on that financial information.
4) All organizational objectives support their role to meet Council priorities.
5) Improvements and prudent financial planning may require difficult reductions.

Councilmember Faatz asked who from the Mayoral Administrative staff is paid for from the Dept. of Finance budget. Mr. Pumilia said he was not sure, but will get an answer to her question. Amber Callendar, Mayor's Office, said she thought Diane Barrett and David Roberts were paid out of this department budget.

Dept. of Human Services (DHS):

Jay Morein, Dept. of Human Services (DHS), explained that agency staff has made significant strides in reducing its spending, but continues to spend beyond its revenues because of high demand exceeding its allocations. The deficit position they are in is attributed to over-spending in Child Welfare, County Administration, Child Care, and homelessness services. In March of this year, agency staff conducted a briefing for Council to outline its financial condition and the plan to address its deficit spending. The department is primarily supported by mill levy, state, and federal funding sources, and the budget may be subject to further reductions based on the state's need for budget reductions. (See attachment.) To address the Human Services budget deficit they have:

- Instituted a hiring freeze (added 72 new vacancies);
- In-sourced Child Care eligibility (child care program was supported by City Council appropriation early 2009 and monies to be received from ARRA in the amount of $5 million);
- Implemented a freeze on child care enrollment;
- Increased child care parent fees;
- Reduced child care paid absences;
- Reduced reliance on residential placements (monthly placement costs average $4,500 per youth, youth placements reduced by 100);
- Reduced Family-to-Family contracts by 50% (cumulative savings equaled $1.05 million);
- In-sourced the Customer Service call center (utilizing existing employees); and
- Reduced spending on homeless services contracts (department reduced $1.5 million of its spending of mill levy funds on homeless services).

DHS is monitoring its spending trends in relation to its reduction plan and working with the Budget & Management Office. Councilmember Faatz questioned if the high use of food stamps was indicative of job loss? Valerie Brooks, DHS, said it could be. The Councilwoman asked if it would be cheaper to buy COBRA instead of paying for Medicaid. Mr. Morein reported that DHS does not pay for those costs.

Councilmember Boigon pointed out that Denver only receives one quarter of the state's allocation for Child Welfare and she continues to be concerned about the financial strategies that would impact families. She requested a more thorough financial review of the budget, expenditures, and family impacts at NCBR Committee.[1] As of June 30, 2009 DHS lessened the Child Welfare deficit by approximately $4 million, stated Mr. Morein. He explained that length of stay at treatment facilities means less staffing which results in savings. Pat Wilson-

[1] Subsequent to the meeting, this discussion was scheduled to the August 11, 2009 NCBR Committee meeting.

Pheanious, Manager of Human Services, stated that courts use the criteria of “child’s best interests” and that does not always consider budget opportunities. Ms. Wilson-Pheanious noted that Human Services was able to secure $18 million in excess TANF funds from other counties, which required a local match and was met through an appropriation from the General Fund. The program is measured by the Work Participation Rate which reported the highest rate ever in 2009 (36.8% increase), but the TANF caseload increased by 33%. Ms. Wilson-Pheanious added that DHS will not be able to purchase future TANF reserve. She stated that they will continue to work with staff and residents to move forward with services to meet the high demand.

Mayor’s Office of Education & Children (MOEC):

Maria Guajardo, Director of the MOEC, reported that the 2009 budget is $11.7 million. A Human Services grant in the amount of $8.7 million was awarded so they are operating under a $9 million budget. The agency was asked to reduce its budget by 7% or $74,000. They are anticipating a budget of $9 million for 2010. Their priorities are to strengthen and enhance the development and education of Denver’s children, youth, and families. Unfortunately, the planned reduction will impact school-age programming (After School Lights Program). Out of 90 schools participating in this program, only 50 will remain. She explained that when multiple levels of funding sources such as federal and state are reduced, their funding and activities begin to shrink too. She has begun to bring providers together to work on how everyone could leverage the limited funding streams. Councilmember Boigon requested a detailed budgetary impact discussion at NCBR Committee.[2]

Ms. Guajardo announced that the agency just received $409,000 in COLA ARRA stimulus funding for the Head Start program. They have applied for a second round of funding for $1 million in expansion funding. If approved, they could receive the additional funding within 60 days. She added that ARRA funding cannot be used for afterschool programming. Councilmember Hancock asked what type of relationship MOEC has with the Denver Preschool Program (DPP). Susan Gallo, MOEC, said their agency has oversight responsibility over this program and contract. They work collaboratively on program strategies and efficiencies. DPP provides quality improvement programming/training which MOEC does not. She will evaluate the overlapping of work, but both entities work to provide services for the underserved and help each other to leverage resources.

Office of Economic Development (OED):

Andre Pettigrew, Director of Economic Development, stated that three divisions of OED are paid from the General Fund: Business Assistance Center, Small Business (Construction Empowerment Initiative), and Business Development. He noted that OED core priorities include business retention and expansion services, neighborhood sustainability, and employment services for adults and youth. OED budget is primarily composed of federal and grant monies. Only 7% of its budget is General Fund ($4,752,800). The current and proposed budgets are: total budget is $62,824,970, reduction target is $346,000, anticipated 2010 General Fund budget is $4.4 million.

The goal is to manage operational costs, not fill vacancies, and scaling back program activities to get to the target reduction, stated Mr. Pettigrew. Councilmember Boigon asked what

[2] Subsequent to the meeting, this discussion was scheduled to the August 25, 2009 NCBR Committee meeting.

activities were scaled back. Mr. Pettigrew said that until this year they were able to provide youth employment services year round, but with funding cuts, this funding will not be available after 2009 and the program will go back to summer employment only. Chiquita McGowin, reported that OED helped 1,000 youth, but the funding reductions will impact approximately 200 youth. In addition, 2009 ARRA funding helped to sustain youth activities this year. Councilmember Boigon requested a detailed budgetary impact report for OED activities at an NCBR Committee meeting.[3] She is concerned that reductions from agency budgets will severely impact the populations that need the most assistance. Ms. McGowin noted that $140,000 of General Fund is directed for youth.

Mr. Pettigrew said their “wish list” would still focus on economic and environmental sustainability. They would continue to invest in targeted growth sectors, increase economic prosperity for children and families, make improvements in the Inclusionary Housing Ordinance program, and create more opportunities for affordable housing and business creation. Councilmember Faatz asked who from Mayoral Administrative staff is paid for from the OED budget. Mr. Pettigrew indicated that Dave Ferrill and Heather Barry are paid from the General Fund portion of the OED budget.

Debra Bartleson
Legislative Services

[3] Subsequent to the meeting, this discussion was scheduled to the August 25, 2009 NCBR Committee meeting.