Finance Committee
Summary

Wednesday, Oct. 7, 2009 1:30 p.m. 3rd Floor Council Conference Room

Committee Members Present: Faatz, Chair; Boigon, Vice-Chair; Brown, Hancock, Lehmann
Other Council Present: None

Agenda:
1) *Resetting Denver Employees Retirement Plan employee contribution rate*
2) *Retail license fees, occupational privilege registration fees, & vendors fee amendments*
3) *Lease-purchase of data network equipment through Chase Equipment Finance*
4) *Qwest service contract*
5) *Supplemental request for unemployment compensation*

1) Resetting Denver Employees Retirement Plan employee contribution rate:

Committee Action
The Committee approved filing the proposed 2% increase in employee contribution to the Denver Employees Retirement Plan (DERP), increasing their total from 2.5% to 4.5%.

Committee Discussion
Steve Hutt, Executive Director, DERP; Robert Strenski, Board Chairman, DERP; Claude Pumilia, Manager of Finance; Ed Scholz, Director of Budget & Management; and RD Sewald, Mayor's Office, presented the proposal and answered questions from the Committee.

Retirement funds need to do three things well:
1. Carefully manage its liabilities. DERP has no lifetime cost of living, no increase in health insurance premiums in seven years.
2. Realize the actuarially-determined needed return on investment; and
3. Receive the Actuarially-Required Contribution (ARC) in full.

In spite of the prudent policies and investment decisions of the DERP Board, the Plan lost 25.05% in 2008 (the median decline of public pension funds that year was 25%). This is an anomaly for DERP, which has had positive earnings in 19 of the past 24 years. Even considering the 2008 losses, DERP's 20-year earnings are at 8.6%.

Mr. Hutt pointed out that several other large public pension plans are in more precarious positions than DERP, including the Colorado State plan, PERA. Overall, at the end of 2008, PERA was 69.8% funded. The local governments division of PERA was funded at 76.4%.

DERP is currently funded at 91.8%, and while the financial markets are improving, they are difficult to predict. It is imperative that the fund be protected as promised to Denver's retirees. Toward that end, the Plan must receive the full calculated Actuarially-Required Contribution (ARC) to cover:

- the "normal cost" of one more year of service credit for all current employees; and
- the amount needed to pay down (amortize) the cumulative unfunded liability for already-earned benefits.

The calculated ARC for 2009 is 13% (the combined employer and employee contribution). Currently, Denver's combined contribution is 11%. DERP proposes to increase contribution to the fund by 2%.

The current <u>employer contribution</u> rate to DERP is 8.5%. The median rate of 91 Social Security-eligible plans nationwide is 9%. Locally, Aurora is 5.5% and Colorado Springs is 6%.

The current <u>employee contribution</u> rate to DERP is 2.5%, making it the 15th from the lowest of 89 Social Security-eligible plans nationwide, which have a median rate of 5.1%. Aurora is 5.5%; Colorado Springs is 6%.

That contributions need to be increased by 2% to ensure DERP's long-term financial commitments has been calculated by the actuary. The policy question is whether the increase comes from the employer, the employees, or is shared by both.

Mr. Pumilia said the Finance Department and the Mayor considered the economic conditions, the City's budget, and number of additional layoffs it would mean if the City's contribution to DERP were increased. The necessary 2% increase equates to $10 million, or 200 jobs. These numbers, plus the desire to move the employee and employer contribution rates closer to the local and national averages, led to the difficult decision that the additional 2% would come from the employees.

Mayor Hickenlooper announced the employee rate increase when he presented the 2010 budget.

The Committee also discussed DERP's investment strategy. The Finance Department is satisfied that DERP's portfolio is sound. While some people are uncomfortable with higher risk financial products and emerging markets, the Plan needs to invest in more than bonds, with rates around 5%, in order to realize the necessary 8% yield to keep the Plan fully-funded. As with any investment plan, it is a balancing act between risk and return.

The Committee also discussed the situation involving Denver Health & Hospital Authority (DHHA) and the 1,100 of its employees who stayed in the DERP plan. All new DHA employees join the DHHA pension plan, so there are no younger people coming into DERP from DHHA. This results in City employees paying more for the retiring DHA employees. DERP and DHHA have an agreement whereby DHHA makes an annual payment to DERP, calculated by the actuary, to compensate DERP. At this point, DHHA owes DERP $3 million, and the two are in settlement negotiations.

Councilwoman Faatz said the highest pension payouts are to DHHA employees. She wants the matter settled before Council has the 2010 Operating Agreement to consider.

2) Retail license fees, occupational privilege registration fees, & vendors fee amendments:

<u>Committee Action</u>
The Committee approved filing the following amendments:

- increase from $20 to $50 the license fee for biennial sales, use and lodger's tax licenses;
- adopt a new biennial $50 license fee for occupational privilege tax license; and
- eliminate the 0.5% vendor discount for timely filing/payment of sales, use and lodger's tax.

The Committee requested exemptions for small businesses and those doing a nominal amount of business in Denver and plans for notification of the required tax licenses.

Committee Discussion
Claude Pumilia, Finance Manager, said that over 50 revenue enhancements are being instituted, and these are the three that require Council approval. These are designed to help ensure cost recovery.

The biennial license fee for sales, use and lodger's tax has been $20 since 1993, and the City does not currently charge for occupational privilege tax (OPT) license. The biennial cost of administering these taxes has risen over the years, and current fees cover only about 15% of the $2.85 million cost every two years. The proposed sales, use and lodger's tax license increases will raise about $900,000 and the new OPT fee will raise $1.4 million for total new revenue of $2.3 million biennially.

The "vendor's fee" is the portion of taxes a business collects from its customers that it is allowed to keep if it reports and remits the tax revenue to the City on time. The proposal is to eliminate the vendor's fee, which amounts to between $1.2 million and $1.5 million. Several area jurisdictions, including Boulder, Glendale, Lakewood, Sheridan and Wheat Ridge, have rescinded vendor's fees.

Councilwoman Boigon was concerned about notification to businesses that these tax licenses are required. Some Committee members were concerned that the tax license fee changes were business-unfriendly. They were particularly concerned about small businesses and any that might have to pay more in license fees than the taxes they remit.

Councilwoman Faatz said she supported the license fee increases but not adoption of the OPT license fee.

Ed Scholz, Budget Director, noted that the 2010 budget anticipates these revenue enhancements.

3) Lease-purchase of equipment for network upgrade:

Committee Action
The Committee approved filing the proposed contracts:

- A contract with Qwest for purchase of equipment needed to upgrade the City's network; and
- A lease purchase contract with Chase Equipment Finances

Committee Discussion
Ethan Wain and Al Rosabal, Technology Services, and Bob Gibson and Lupe Gutierrez of Finance discussed the proposed transaction. The entire City's data network, including all of its fiber optics, is 6 years old, and it has been running constantly. The system is being patched together now, and it must be upgraded before it fails completely. This is the basic backbone of the system with every application riding on it. If not upgraded, all uses will experience more outages. The Police Department is already experiencing dangerous outages.

The equipment cost is $3,961,423. The proposal is to lease the equipment through Chase Equipment Finance Inc. for a total principal and interest cost of $4,310,921 over 5 years at a fixed rate of 2.9%. Annual lease payments would be $862,184, paid from the Technology Services budget (already included in the 2010 budget). After 2 years, the loan can be prepaid without penalty.

Ed Scholz, Budget Director, said the City spends $8-10 million each year on technology. Current needs for technology stand at $30 million. Lease payments on the IBM Mainframe were completed in September. Only the GenTax software for tracking sales tax is currently leased, with annual payments of $737,467.

Claude Pumilia, Finance Manager, said the options were fully analyzed. Costs of maintaining the old system, and the potential failure, outweigh the financing costs. If purchased for cash, it would be a $4 million hit this year. With this lease arrangement, only $1 million is spent this year.

4) Qwest Master Services Agreement

Committee Action
The Committee approved filing the proposed 5-year, $12,850,000 contract with Qwest for telephony services and leased lines.

Committee Discussion
Ethan Wain, Technology Services, said this is essentially the City's phone bill, and it covers phone, long distance and data. Our current contract with Qwest is $140,000 monthly. The proposed new contract is $120,000 per month. Denver Health & Hospital Authority, DIA, and the Colorado Convention Center have the option to enter into agreements with Qwest using the negotiated services and pricing.

5) Supplemental request for unemployment compensation

Committee Action
The Committee approved filing the requested supplemental appropriates of $460,000 for Unemployment Compensation.

Committee Discussion
Richard Sheehan, Budget, said the 2009 budget was $450,000, and the account balance is $13,639. The projected amount needed to finish the year is $460,000. The federal government and the state increased the maximum weekly amount paid to former employees. Calculated at an increase of $32 per week for 500 claims for 27.5 weeks (1/2 year), the needed amount is $440,000.

The funding will come from the General Fund Contingency Fund, which will have a remaining balance of approximately $12.5 million.

For 2010, Unemployment compensation is budgeted at $950,000.

Gretchen Williams
Legislative Services