



Dennis J. Gallagher
Auditor

SPECIAL ADVISORY REPORT

Progress on Structural Finance Task Force Recommendations Accepted by the Mayor's Office

SUMMARY

Work for this Special Advisory Reports (SAR) was conducted within a larger audit of City fiscal sustainability and was completed in compliance with generally accepted government auditing standards. In addition to this SAR, two audit reports emanated from the larger audit: *Fiscal Sustainability: Financial Condition and Transparency*, which was issued in December 2013, and *Fiscal Sustainability: Debt Management*, which was issued in February 2014.

KEY ISSUE

The objectives of this review were to determine the extent to which the City is formally tracking its implementation efforts for Structural Finance Task Force (Task Force) recommendations that were accepted by the Mayor's Office, as well as understanding the implementation status of those recommendations.

BACKGROUND

The Task Force was created by Mayor Bill Vidal in 2011 to review the City's ongoing structural budget deficit, which was caused by revenue growth that failed to keep pace with expenditure growth. The Task Force, which comprised City officials and private sector stakeholders, met over the course of 2011 and issued its final report on January 23, 2012. The report contained forty-two specific recommendations in categories such as *Compensation, Economic Growth,*

*Efficiencies, Fees and Fines, Health Insurance, Taxation, and Pensions.*¹

The Mayor's Office issued its response to the Task Force report on July 16, 2012. In the response, the Mayor's Office combined some of the Task Force recommendations to create a list of twenty-seven recommendations. Of these twenty-seven recommendations, the Mayor determined he would pursue implementation of sixteen.

METHODOLOGY

To address the audit objectives, the audit team reviewed the final report of the Task Force, identified recommendations formally accepted for implementation by the Mayor, reviewed the Mayor's Proposed 2014 budget, reviewed an internal tracking document provided by the City Budget Director, and spoke with City management and staff about the implementation process for Task Force recommendations. The audit team did not attempt to validate the reported implementation status for each of the sixteen recommendations, but in some cases we developed additional documentation in the course of the larger fiscal sustainability audit to substantiate the City's assertions.

¹ City of Denver, *Structural Finance Task Force Report*, January 2012, [Task Force Final Report](#). See pages 33-38 of the report for a full list of the recommendations as well as ideas the Task Force considered but chose not to recommend.

CONCLUSION

The team concluded that officials within the executive branch of the City are aware of the implementation status regarding the Task Force's recommendations, and the Budget Director is formally tracking the ongoing implementation status. In addition, the Budget Director provided information showing the City has implemented six of the sixteen accepted recommendations, and ten of the sixteen recommendations are in the process of being implemented.

Of these recommendations, the greatest financial impact came from the passage of Measure 2A in November 2012, which resulted in citizens' approval for the City to permanently remove revenue growth limitations. According to the Mayor's proposed 2014 budget, the increased tax revenues for 2013 totaled \$35.5 million. Additional financial savings were derived by shifting some of the costs for health insurance to employees and setting the employee share of the 2014 pension contribution increase at 60 percent. According to the Mayor's proposed 2014 budget, these actions will generate an estimated \$2.9 million of annual savings.

During the review of Task Force recommendation implementation, we noted that while the City reports on some implementation efforts in its budget document, it has not yet made public its full internal tracking regarding implementation status. The new [Transparent Denver](#) website, which provides an even higher level of public transparency and accountability, is an excellent forum to allow the public to see the ongoing implementation progress regarding Task Force recommendations. While we provide an overview of the implementation status in Appendix A, we suggest that the Chief Financial Officer make any additional updates to the Task Force implementation status tracker available to the public on the Task Force pages within the City of Denver website. As of January 6, 2014, the main

Department of Finance page had a prominent link to a wide variety of Task Force information, which could be used to link to the implementation status updates.²

Appendix A provides additional detail regarding the City's progress toward implementing Task Force recommendations.

SAR TEAM

Audrey Donovan, Deputy Director, CIA, CGAP, CRMA
Chris Horton, Audit Supervisor, PhD, CGAP, CCSA, CRMA
Marcus Garrett, Audit Supervisor, CIA, CGAP, CRMA
Anna Hansen, Lead Auditor
Robyn Lamb, Lead Auditor

² The Department of Finance page is located [here](#) as of January 6, 2014.

APPENDIX A – STATUS OF SIXTEEN ACCEPTED TASK FORCE RECOMMENDATIONS³

Recommendation	Reported Status	Comments
Create a Process of Continuous Improvement	Implemented	The Mayor has implemented the Peak Performance team, which works with City agencies to improve process efficiency and, thereby, overall effectiveness.
Increase Employee Contribution to Pensions	Implemented	Pension contributions have begun to be shifted to employees. In 2014 the budget reflects a 60/40 (Employee/City) split of the new 0.5 percent contribution rate increase.
Keep Furlough Days Temporary	Implemented	Furlough days were discontinued for 2013 and 2014.
Permanently de-Bruce all Revenue Sources	Implemented	Measure 2A, passed in November 2012, permanently removed the City's Taxpayer Bill of Rights-related revenue-growth limitations. According to the Mayor's 2014 Proposed Budget, Measure 2A resulted in an estimated \$35.5 million in additional City revenue in 2013.
Reduce Employee Health Insurance Costs (That Are Borne by the City)	Implemented	In 2013 and 2014 employee share of the City's HMO plans costs have increased by 5 percent each year.
Streamline the City Charter	Implemented	The Mayor has created a Good Government (G2) committee, which has made some recommendations to streamline the City Charter. Several of these recommendations were approved within Referred Questions 2B and 2c in the November 2013 election.
Appoint Economic Development Policy Review Committee	In Progress	The Executive Director and Board of the Office of Economic Development (OED) evaluate the City's economic policies. In addition, participants in the Denver Economic Summit were tapped to provide input. While no formal Economic Development Policy Review Committee has been created as of January 14, 2014, OED projects to have the committee established and operational by the end of the first quarter of 2014.

³ The information in this Appendix is based on self-reported information from City documents and officials. In some cases the audit team has observed outcomes, both during the fiscal sustainability audit and other audits, which support these assertions. The placement of a (1) in the recommendation column signifies a recommendation for which we had did not have observed outcomes to validate the City's reported information, and for which we did not further validate information that was reported.

Build Inventory Database of Vacant / Undeveloped Land (1)	In Progress	OED has established a first draft set of opportunity sites, which has been presented to potential national and international investors. OED is currently working on refining this information and adding information about underdeveloped sites.
Consolidate Agencies and Departments	In Progress	The Mayor has created a Good Government (G2) committee, which has made some recommendations for agency consolidation. The G2 committee's recommendations regarding agency consolidation, such as the recommendation to create a Department of Finance and Administration to consolidate appropriate City functions, were not accepted by the Mayor's Office and were not referred to the ballot by the City Council for the November 2013 election. For more information about the G2 recommendations see http://www.denvergov.org/mayorhancock/MayorsOffice/Newsroom/tabid/442244/mid/504977/newsid504977/7837/Mayor-Hancock-to-Propose-Charter-Changes-to-Create-21st-Century-City/Default.aspx .
Create Efficiency through Technology	In Progress	Peak Performance has conducted a technology strategic resource alignment study to identify opportunities to invest in technology that would make the City more efficient.
Develop Expanded Retail Strategy (1)	In Progress	OED and the Department of Finance are developing a recommended retail development strategy and tools to grow Denver's retail markets for review by Mayor Hancock.
Explore Fee-Based Program Options (1)	In Progress	Agency managers consider fees where they are appropriate to fund programs. The latest example is the City's composting program. With the expansion of the program, a fee for service is being implemented to financially support the program.
Review Internal Services for Efficiency	In Progress	The Mayor has implemented the Peak Performance team, which works with City agencies to improve process efficiency and, thereby, overall effectiveness.
Review All City Fees and Fines	In Progress	In the first and second quarter of 2013, the Mayor convened a Citywide group to review current fee and fine policies. The 2014 budget process included the Citywide submission of all fees and fines to be placed in a singular schedule.
Seek Outsourcing Opportunities	In Progress	Service delivery methods are reviewed by agency management periodically for both outsourcing and insourcing opportunities.

Tighten City Management (1)	In Progress	The Mayor has ordered an efficiency review of all management positions. A position review committee has been and continues to review management positions as they are vacated to review span of control before each position is filled.
-----------------------------	-------------	---