



Finance Committee Summary

Wednesday, December 5, 2007

1:30 p.m.

3rd Floor Council Conference Room

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

Agenda:

- 1) *2008 estimated mill levy*
 - 2) *Denver Employee Retirement Board (DERP) – code amendments*
 - 3) *Financial transaction related to the Wellington E. Webb building*
 - 4) *End of year agency rescissions, re-appropriations, and supplementals*
 - 5) *Final legislation related to the Department of Finance and Auditor transition*
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1) 2008 estimated mill levy:

Committee Discussion

Steve Ellington, Treasury, stated the final mill levy for taxes due in 2008 does not require City council approval. Today's announcement is to provide to the public what Denver citizens will pay in taxes from the mill levy which is based on a residential home value of \$255,000. The City has until December 10 before announcing its final mill because additional changes could occur between now and that date. To date, if no changes occur, the estimated mill levy would be 27.217. This figure also includes the most recent voter approval to dedicate a portion of property taxes to the Capital Projects Fund. Mr. Ellington reminded the Committee that the taxes are assessed from the 2007 assessment.

2) Denver Employee Retirement Board (DERP) – code amendments:

Committee Action

The Committee approved various technical changes to Chapter 18 of the Revised Municipal Code related to the Denver Employees Retirement Plan. The revisions add clarifying language to definitions, gives applicants 36 months to complete their disability retirement process, and adds language that will extend employee benefits to committed partners and spousal equivalents related to the death of a deferred member.

Committee Discussion

Steve Hutt, Denver Employee Retirement Board, provided highlights and goals of the retirement plan as follows:

- As of January 1, 2007 the funded status of DERP is at 98.6% - a top ranking nationally compared to other public pension funds.
- The median return on investment performance in 2006 was 14.33% compared to the City's rate of 13.88% for the same period.
- Many factors contributed to the solid position of the retirement fund including the additional 1% pay contribution from employees and the elimination of COLA's or health benefit increases for the past five years.
- Various demographic trends have impacted the market volatility such as the retirement of baby boomers and longer life expectancies of retirees.
- Goals to reach in the future include ending the five-year freeze on COLA's and health insurance benefits and returning to a 10% pay contribution.
- In 2007, Denver Health & Hospital will make their annual contribution in the amount of \$928,539.
- Competitive bidding for health insurance saved Medicare-eligible members a savings in the amount of \$1.9 million – split between DERP and retirees (60/40).
- DERP negotiated a separate settlement from a fraud class action against Qwest Communications and received \$332,870.

Mr. Hutt noted that the proposed revisions to the Revised Municipal Code are to remove obsolete language, add clarifying language to definitions in compliance with other areas of the Code, and provides for consistent benefits for committed partners and spousal equivalents. He stressed that the changes do not change retirement benefits or pay contributions.

3) Financial transaction related to the Wellington E. Webb Building:

Committee Discussion

Councilmember Faatz explained that the proposed swap agreement (mortgage tool) between the Trustee entity of the original Certificates of Participation (COPs) agreement for the Wellington E. Webb Building transaction and a mortgage entity does not require Council approval. She felt it was important that the public have information regarding the execution of this type of mortgage deal, but also has legal concerns as to why the City is providing financial and legal advice to a third party (Trustee). She's asked Department of Revenue staff to explain the proposed transaction and why this type of transaction in the long term may or may not be a good deal in 2010.

Margaret Danuser, Department of Revenue, explained that the proposed Constant Maturity Swap (CMS) would diversify the swap portfolio of the City and would utilize a 10-year LIBOR as the benchmark index rather than the short term one month LIBOR index. The City's current swap portfolio is 100% indexed to short term rates, but this transaction would index approximately 23% of the portfolio to long term rates (see attachments). The transaction would be structured to take advantage of the present slope of the yield curve (market interest rates) to create opportunities for the City to receive higher payments in the future from swap counterparties should the yield curve revert to a more normal and/or increased shape. Ms. Danuser indicated that their regression analysis shows that the risk of the City owing payments to counterparties is outweighed by the benefits achieved by the diversification. Basically, the City currently pays a variable rate to bondholders and the City issues variable rate debt. When the City enters into a swap agreement with a counterparty the net effect is that the City will now pay a fixed rate.

Bob Gibson, Department of Revenue, said the COPs for the Webb Building transaction in 2000 were fixed rates. Concerned with rising rates, the City in 2003 reduced its rates through a swap refund variable agreement which reduced the debt service and the City incurred savings. Denver Capitol Leasing (DCL) was the original counterpart. When this entity refinanced the agreement is now with Zion Bank (Trustee). Now, the City has flexibility to hedge into financial markets in different ways. Based on the City's position to protect its investments, the City monitors transactions of its counterparties and encourages opportunities where transactions would benefit the City.

Councilmember Faatz cited an opinion from Tucker Hart Adams, a Colorado economist, where she herself indicated that she does not "have a clue" as to what the next few years will provide in interest markets (national and international) and could not say if investments would return to more normal configurations. Given the unpredictable nature of the future, the Councilwoman is concerned that any wrong guess now could impact the General Fund later in this forward starting transaction beginning no earlier than December 1, 2010. Claude Pumilia, Manager of Revenue, stated that City staff looks at every obligation and makes decisions that would result in zero impact, including spreading out transactional impacts by using various financial instruments to lessen interest and debt service.

David Broadwell, City Attorney's Office, indicated that the Charter invests the authority to make certain financial decisions with the Manager of Revenue/the Department of Finance (CFO) and in this case, since there is no need to amend the lease agreement, the transaction does not require Council approval since the transaction is between the Trustee and mortgage entity, not the City.

4) End of year agency supplementals:

Committee Action

The Committee approved various agency rescissions, re-appropriations, and supplementals from the General Fund contingency reserve including \$600,000 from the Technology Services Capital Improvements Fund and re-appropriation to the Replacement of User Components Capital Project Fund for the purchase of equipment city wide and a \$1,553,640.50 rescission from the completed Stapleton Police Academy Project. In addition, a \$3.1 million appropriation in the Wastewater Management Enterprise Fund was approved for snow related costs.

Committee Discussion

Ed Scholz, Budget & Management (BMO), stated the proposed rescissions, re-appropriations, and supplementals should finalize the changes for 2007, including compensation appropriations (see attachment). He noted that BMO does not budget for the "annual pay bumps" associated with compensation. He reminded the Committee that pay bumps are recommended by Career Service Authority after the annual Pay Survey is completed and that they are not able to predict what the market outcome will be so the pay bumps are covered by supplementals each year. The Compensation Committee is considering new policies regarding this issue so that there is a common date and better planning to project earlier for budget purposes.

Significant changes to the supplemental requests includes the Police Department in the amount of \$2.5 million for staffing over authorized levels and for the Fire Department in the amount of \$2.6 million from overtime and backfilling for positions on modified duty. Mel Thompson, Safety, explained that authorized strength and budgeting for positions is the same and that some of the factors contributing to the overstaffing of police officers now is related to the 2003/2004 budgets where there were no academies and understaffing. Accelerated hiring occurred in the last few years to cover the low staffing and over the same period of time attrition from retirements did not occur as anticipated which resulted in the over authorized levels. Conversely, the Fire Department did not have sufficient staffing over the past few years to cover modified duty impacts and vacation coverage and utilized overtime to backfill for these vacancies. Mr. Thompson noted that the new bargaining contracts have resulted in higher morale and better communications between the City and unions, and that it was unusual for both departments to be in the same position at the same time. Councilmember Boigon asked how many officers have retired in 2007. Chief Marco, Police Department, estimated that 45 to 50 individuals have retired, but he would provide the actual numbers.

Mr. Scholz reported that the City will end the year with a contingency reserve in the amount of \$226,000 (see attachment). In addition, a rescission and re-appropriation of \$600,000 for the purchase of user equipment, and a rescission from the completed Stapleton Policy Academy project is requested for approval. Councilmember Boigon asked if the Technology Services request for equipment would result in a better server. Mr. Scholz said he would check into it. He added that a \$3.1 million appropriation in the Wastewater Management Enterprise Fund for snow related costs is included in the final legislation.

5) Final legislation related to the Department of Finance and Auditor transition:

Committee Action

The Committee approved the final transition processes from the 2006 Charter amendment that created the Department and Finance. The bill outlines the reassignments of various functions formerly performed by the Department of Revenue and the Auditor's Office, and creates the new seven-member audit committee that will perform certain duties as outlined by ordinance effective January 1, 2008.

Committee Discussion

Laurie Hedyman, City Attorney's Office, said the final ordinance reflects the 2006 Charter amendments approved by voters in November 2006. The ordinance renames the Department of Revenue to be known as the Department of Finance, revises the responsibilities of the Manager of Finance and Auditor, and creates a new audit committee. The most notable changes begin on pages 44 through 47 regarding performance audits (internal and external) and structure of the new audit committee (see attachment). Currently, there is no reference to performance auditing or an audit committee so the added definitions and reference of performance auditing strengthens the position of the City relative to these functions. An important elimination relative to travel rules is being removed from ordinance and placed into regulation. The committee will be subject to open meetings and final reports will be public record.

RD Sewald, Auditor's Office, described the audit committee as a self-governing seven-member body that would review and create policy that would last into the future. This committee would have two appointees each representing the Auditor's Office, the Mayor's Office, and City Council and would be chaired by the Auditor. Councilmember Garcia questioned if language pertaining to prevailing wage approval from the Auditor is included in the legislation. Ms. Hedyman explained that the Charter requires that the Manager of Finance hold sign off approval for prevailing wage if the Auditor chooses to review or has issue with any item related to prevailing wage payments, but it is not in this legislation. Mr. Sewald indicated that an ordinance could come back to Council later, if necessary, to formalize that policy. Chris Henderson, Mayor's Office, said the Department of Finance won't plan on releasing payments until the Auditor's Office reviews the information.

The Auditor's Office publicly acknowledged the work of Ms. Hedyman in negotiating and finalizing the transition process.