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## Finance Committee Summary

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Wednesday, November 5, 2008

1:30 p.m.

3<sup>rd</sup> Floor Council Conference Room

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

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- 1) Denver Employees Retirement Plan (DERP)
  - 2) Denver Health & Hospital Authority audit report (EMS and contractual procedures)
  - 3) 2008 Democratic National Convention financial and community benefits report
  - 4) Special Revenue Fund policies and fund creations
  - 5) 2008 CIP rescissions
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### 1) Denver Employees Retirement Plan (DERP):

#### Committee Discussion

Steve Hutt, DERP, reported that DERP was 98.2% funded at the beginning of 2008 and in 2007 the return was 11.20%. He stated the DERP was ranked in the top 5% of public pension funds nationally and by the 2<sup>nd</sup> quarter of 2008, the return of -2.05% ranked in the top 10% of public pension funds nationally. Mr. Hutt noted that today's equity markets continue to swing back and forth creating unprecedented trading climates and volatility. Councilmember Faatz asked what percentage of the funds is in the market. The assets are diversified over 13,500 holdings and are represented in one market. Approximately 60% are stocks, 26% bonds, 10% real estate (investment only) and 5% alternative investments. DERP manages approximately \$75-80 million and the other investments are managed (contracted) by 19 other money managers. Having a solid organization with a dedicated Board and stable staff are strengths in their favor, stated Mr. Hutt. Another significant development was renegotiating the Denver Health & Hospital agreement to require the hospital to make an annual supplemental contribution to DERP. By December 2008, the hospital will pay the fund \$2,100,976.

The one-time additional benefit payment related to the Cost of Living Allowance (COLA) concerns for all retirees was very well received, reported Mr. Hutt. They received 167 positive comments and one negative letter. Mr. Hutt explained that retirees hadn't had an increase since 2002. Purchasing power has diminished over the past years and three competing goals are attributable to the lack of retiree benefit increases. Getting and keeping retirement benefits fully funded, monitoring the City's goals for contribution amounts, and COLAs are all competing interests. Councilmember Faatz noted that state employees only have the option of taking PERA (state pension plan) or social security benefits, but in the City's case, employees get both. Mr. Hutt concurred, noting that COLA benefits are inherent in social security income.

He added that only 70% of City employees are vested. Half of City employees stay long enough to vest and approximately 54% of employees with less than 10 years of service leave. The question is then, "how much of the active workforce would eventually benefit from a COLA", asked Councilwoman Faatz. DERP (the City) operates under a defined contribution plan. If there is interest to pursue increased benefits it's possible to look into higher contribution rates to get to the additional benefits. The DERP structure is beneficial because of the City's strong Mayoral form of government and its boardmembers are reflective of its members. Councilmember Faatz said she would be glad to revisit the issues of a COLA at a later time.

## **2) Denver Health & Hospital Authority (DHHA) audit report (EMS and contractual procedures):**

### Committee Action

The Committee approved inserting language into the Denver Health & Hospital Authority operating agreement to address medical response standards prior to the completion of the audit report being conducted by the Auditor's Office. The language will read as follows:

- Amend the performance measure for EMS response times in the Operating Agreement to be equivalent to or consistent with the March 2008 amendments to the Denver Fire Code which adopted the National Fire Protection Association (NFPA) or equivalent standard. The City and the Authority will continue to review the appropriate performance criteria to serve the Denver citizens well and provide an interim report to City Council by January 30, 2009. By March 30, 2009, the City and the Authority shall agree whether changes in the performance criteria stated in Appendix A-2 are required, and if so that agreed upon criteria shall then replace the existing language in Appendix A-2. The performance criteria shall include a method of calculating response times, a method of reporting response times, clinically relevant outcome criteria and other issues as agreed upon by the parties.

### Committee Discussion

Councilmember Faatz explained that the City is currently negotiating its annual contract (Operating Agreement) with DHHA and that a performance audit of the City's Emergency Medical Response System is being conducted by the Auditor's Office which is one of the Cores Services outlined in the Operating Agreement. There has been issues associated with emergency response times and Councilmembers wanted to make sure that improvements are included in the 2009 contract. The Councilwoman asked the City Attorney's Office to outline options for Council to take concerning emergency standards and contractual changes. Clay Vigoda, Auditor's Office, said their performance audit would evaluate whether or not the emergency response times are being met under the agreement. Part of what they will be doing is comparing findings against other cities to help establish benchmarks so that Council would have information for policy direction. The Auditor's Office hopes to complete the audit by December 18 and they are estimating about 2,000 staff hours to get it done. The Health Protection and Protection Act (HPPA) requirements will cause some delays in trying to get to specific information and at the same time complying with this law. The 911 call center added another layer for the audit, but the auditing staff will only be focused on the relevancy of the

information and will guard against audit “creep” (those issues connected to the audit, but not necessarily relevant).

Katherine Archuleta, Mayor’s Office, stated that she and Shaun Sullivan from the City Attorney’s Office are the points of contact for the contract negotiations. At this time, they have questions regarding what the standards should be for emergency response and how the agreement should reflect those standards. Ms. Archuleta noted that three options are available to Council to take action on: 1) Council can amend the agreement now to be equivalent to or consistent with the March 2008 amendments to the Denver Fire Code which adopted the National Fire Protection Association (NFPA) emergency standards; 2) Amend the agreement to be equivalent to or consistent with the March 2008 amendments to the Denver Fire Code which adopted the National Fire Protection Association (NFPA) emergency standards and continue with the performance audit and make changes based on the report recommendations of the Auditor by March 30, 2009, if necessary; or 3) Amend the agreement to be equivalent to or consistent with the March 2008 amendments to the Denver Fire Code which adopted the National Fire Protection Association (NFPA) emergency standards and make changes to the agreement, if necessary in the following year’s Operating Agreement.

Councilmember Hancock said he supports recommendation #2 and he prefers that any recommendations from the Auditor’s Office be reconciled to the terms and conditions of the Operating Agreement. Ms. Archuleta said recommendation #2 is supported by the Administration, too. Councilmember Faatz requested that this language be included in the Operating Agreement. She also announced that on November 19, the Finance Committee will be discussing and taking action on the DHHA Operating Agreement.

### **3) 2008 Democratic National Convention financial and community benefits report:**

#### Committee Discussion

Katherine Archuleta, Mayor’s Office, reported that a total of \$133.5 million of direct spending and \$132.6 million of indirect spending for a one-time infusion of money totaling \$266.1 million were experienced by the Denver Metro area as a result of Denver hosting the Democratic National Convention (DNC). The City received \$50 million from the Federal government for security expenses for the convention and has spent 80% of the grant so far. The City used as much money as it could on police and fire equipment/vehicles (Legacy equipment) and is estimating that the City will benefit over the next several years from the equipment purchases because it will delay the need to replace equipment scheduled for ongoing replacement needs. Mel Thompson, Dept. of Safety, said the department is still going through invoices, but feels they might have spent under the \$50 million allocation. The City has up to 90 days after the event to pay bills and the department has asked the Federal government to reimburse for some indirect spending costs (regional insurance coverage for police), and they have.

Patty Silverstein, Development Research Partners, who conducted the economic analysis portion of the 2008 DNC Impact Report, noted that four areas were attributed to direct spending and indirect spending analysis: DNCC (pre-convention activities), Host Committee (pre and post convention activities), Security, and Visitor spending. Denver alone experienced \$80.4 million in direct spending and \$73.5 million indirect spending for total spending of \$153.9 million. Ms. Silverstein explained that the indirect and direct spending flows were

estimated using the Regional Input-Out Modeling System (RIMS II) – multipliers developed by the Bureau of Economic Analysis of the U.S. Dept. of Commerce. She noted that she did not conduct a comparison to the Denver Metro Visitor’s Bureau report because they use their own multipliers based on industry standards. The focus on Denver’s report was on quantitative measures, which meant using the 50,000 attendance figure for the convention and tracing the spending patterns on impacts to businesses, organizations, and individuals affected by the direct spending (for example, party spending or pins purchased were not included in this analysis).

Ed Scholz, Budget & Management, noted that Ms. Silverstein’s report is related to economic impacts which are different than actual fiscal impact. Based on lodger’s tax, sales and use tax, and building permit fees, Denver experienced \$2.7 million of direct spending from fiscal impacts.

Councilmember Faatz questioned how much of the litigation costs (attorney fees) are being recouped from the Federal government. The City Attorney’s Office is still working on the figures, but \$150,000 should be recovered for attorney fees, including other costs related to parades and other safety issues prior to the event. Litigation work after the event is not covered by the Federal government, stated Mr. Thompson. The Councilwoman asked that she be kept informed of the final reimbursement figures. Mr. Scholz noted that indirect revenue would offset the litigation costs.

Ms. Archuleta acknowledged the hard work of many individuals and highlighted the work of Mr. Thompson who did a great job at building a relationship with a Washington DC contact regarding DNC planning in order to get expedited information and reimbursement for all Safety issues related to the convention.

#### **4) Special Revenue Fund policies and fund creations:**

##### Committee Action

The Committee approved the following actions:

- Establishing a new Technology Services Donations Fund to be used by Technology Services Division to receive funding from external entities to Denver for reimbursement of services provided.
- Creating a new Citywide Sports Special Revenue Fund to receive financial transactions from related sports programming and expenditures within the Department of Parks & Recreation.

##### Committee Discussion

Councilmember Faatz said she invited Ed Scholz from Budget & Management and Mel Thompson from the Dept. of Safety to discuss how special revenue fund policy was established historically and what Council should consider when approving the proposals for new special revenue funds. Mr. Scholz explained that special revenue funds account for the proceeds of revenue sources that are restricted by law or administrative action to expenditures

for specific purposes. Primary sources of revenue for these funds are grants, donations, and program user fees. These funds allow flexibility for programs where revenues and expenditures need to grow as the number of users increases throughout the year (for example, Parks & Recreation sports programming). All net revenue goes into the General Fund, but is allocated to the programming for future planning. In addition, these funds are monitored by an internal City board, stated Mr. Scholz.

Mr. Thompson stated his position is unique because he's had experience working with these funds as the former budget director, working on the ASPEN project, and his experience working in the Auditor's Office. He noted that it was challenging stopping agencies from carving out their own purpose from collected fees. His opinion is that special revenue funds should be kept at a minimum and that any leftover balances should be sweep back into the General Fund, but that special revenue funds have a purpose and shouldn't be removed permanently. Mr. Scholz said it wasn't his intention to create more special revenue funds, and that the proposed ordinance requests today are related to specific donations and functions for agency operations.

Councilmember Boigon questioned what activities the special revenue fund for Parks & Recreation would cover. Maintenance of fields would not be covered in this situation, but revenue may be used for field preparation, paying officials, supplies, materials, etc. The amount that is collected depends on the users and the net is usually positive. This fund would not fund other Parks & Recreation needs, stated Mr. Scholz. He added that the budget would be adjusted based on enrollment changes (users). Councilmember Lehmann said she would like to review the outcome of this programming at her Committee in one year.

Darryn Zuehlke, Office of Telecommunications, explained that the Technology Donations Fund would be for Channel 8 and the use of the funds would be restricted and the fund will carry its own balance. The funds in this account would offset costs for providing services for the City and external entities (for example, providing services related to coverage of the state legislative session). Councilmember Boigon asked what policies determined the boundaries for what is done and expended for the activities outside of the City's resources. Mr. Zuehlke stated that the Cable Franchise Agreement speaks to most of these issues, especially the non-commercial purposes. The City would not expend money or create commercials for private entities, for example King Soopers, but there is no written City policy, commented Mr. Zuehlke.

## **5) 2008 CIP rescissions:**

### Committee Action

The Committee approved rescinding remaining balances in various completed Capital Improvement Projects (CIP) totaling \$1,290,860.28. This is a routine annual process in which the proposed rescissions would fund new-year projects.

### Committee Discussion

Ed Scholz, Budget & Management, explained this is the annual clean up request to rescind monies from capital projects that are completed and would fund following year projects. The

funds will be rescinded from completed Public Works, Facilities Planning and Management, Parks & Recreation, Budget & Management, Technology Services, Safety, and Environmental Health projects. The rescissions will fund the 2009 capital budgets as follows (total amount is \$1,290,860.28):

- Capital Improvement Fund: \$1,211,737.01
- Winter Park Fund: \$14,119.50
- SCTF Fund (lottery): \$37,603.77
- Golf Enterprise Fund: \$27,400.00

Mr. Scholz said he will be submitting another request later regarding rescissions. He would like to change the threshold amount to \$20,000.00 or less for asking approval for budget rescissions. For example, he noted there are projects listed for rescission in the amount of \$5 dollars or less. He would like to have the flexibility to rescind those amounts without requiring an ordinance. This suggestion would not impact how agencies spend their budgets because agency goals include efficiencies that would result in under-spending. Councilmember Boigon said she would support this type of concept, but that she would still like to see a list of all projects and amounts being rescinded, so she would suggest language that includes this list. Councilmember Faatz noted a .69 cent rescission and said she would entertain more discussion on this suggestion at a later time.