



Denver City Council

**Joint Meeting
Economic Development and Public Works Committees
Agenda**

Wednesday, July 19, 2006

10:30 a.m.

Council Conference Room

Economic Development Committee Members Present: Hancock, Chair; Wedgworth, Vice-Chair; Brown, Faatz, Linkhart

Economic Development Committee Members Absent: Garcia

Public Works Committee Members Present: Brown, Chair; Montero, Vice-Chair; Hancock, Johnson

Public Works Committee Members Absent: Lehmann, Robb

1) Denver International Airport - DIA Technical Working Group Recommendations:

Committee Discussion

Councilmember Hancock explained that the Technical Working Group came out of the Mayor's task force in 2004 to evaluate and to make recommendations on whether or not the airport should transition into its own authority or some other form of governance to enhance its operations. Throughout 2005, various regional partners, including Aurora, Commerce City, and Adams County met with Denver officials and staff to look at areas of concern including personnel, contracting, procurement, financing, regional partnerships, and DIA's ability to respond to changing business/airport environments quickly. A final report to the Mayor recommended that possible Charter changes and other internal City processes could be changed to assist the airport in achieving enhanced business practices. The Mayor proposed that a working group be established to examine these systems to make specific recommendations for DIA's business practices. Councilmember Hancock took on the task of looking into these issues and chaired the Technical Work Group. Members included: Vicki Braunagel, Former DIA Co-Manager of Aviation; Peter Kellogg, President/CEO Kellogg Organization, Inc.; Del Hock, Retired CEO, Public Service Co.; John Huggins, Director of Economic Development; Mike Cheroutes, Attorney, Hogan and Hartson; Joseph Aragon, President, ProServe Corporation; Happy Haynes, Denver Public Schools; and Tom Healy, CEO/Third Party Insight. Today, the Working Group is presenting its recommendations based on the evaluation of City processes and its impact to DIA. Councilmember Hancock stressed that it is not the intent of the report to relinquish Council's authority in some of the recommendations to streamline DIA's ordinance processes. What is inherent in the recommendations are ways the airport can utilize financial strategies and business opportunities to increase their success for airport management.

Alan Ochsenbein, DIA, outlined the following impacts to DIA from City policies and processes (June 30, 2006 Technical Working Group Final Report is available for review in City Council Office for the entire impacts and recommendations report):

- Contracts increase in cost from .5 to 1% for each month a contract is delayed (i.e. in 1998 construction plans for the Westin Hotel project were estimated at \$80 million, today, the same project would cost \$130 million) ;
- City Council processes take 30 to 45 days which adds significantly to the costs of projects;
- DIA's interface with the City's PeopleSoft program has proven to be costly for purchasing transactions – best practices are not always utilized - reliance on state bids has caused increased inventory and maintenance costs;
- DIA's turnover in 2005 was 11.4%, 26% of non-exempt employees and 32% of exempt employees are at the top of their pay ranges;
- Out of twenty-seven upper-level managers, twelve are eligible within the next three years to retire which could represent 50% turnover for positions that are challenging to recruit for because of compensation issues – based on airport staff, the pay is not competitive nationally;
- Denver's marketing strategies are limited because global markets are extremely competitive and DIA does not have appropriate budget and staffing to leverage advertising for direct consumer marketing – additionally, City fiscal rules inhibit marketing efforts and can cause protocol problems;
- The airport must modify its state-of-the art financial accounting transactions in order to integrate them into the City's PeopleSoft financial system and DIA is billed significantly for costs from other agencies for performing services related to the integration which do not add much value to the work product;
- Duplicative efforts regarding voucher processing through the Auditor's Office and paying approximately \$125,000 per year for ASPEN and other Auditor's services are impacting vendor services and prompt payments – the airport incurs over \$25,000 in labor and prompt payment penalties annually.

The Working Group concluded the following:

- DIA competes globally and needs to be able to respond to changing business environments quickly to be competitive;
- City policies and processes impede DIA's ability to maximize revenue and to reduce operating costs;
- DIA must be able to capitalize on its concession concepts to avoid lost opportunities;
- The City must view the airport as a business rather than a governmental entity.

Councilmember Faatz questioned how the airport's turnover rate compared to other City agencies, i.e. CSA. Councilmember Garcia pointed out that compensation for the Aviation Manager was a decision of the Mayor to have two people share joint ownership of those responsibilities, including pay. Mr. Ochsenbein said he did not have the entire City turnover statistics, but would provide that information. Councilmember Hancock stated that the final recommendations should result in increased accountability and operational efficiencies. He noted that parallel to the recommendations, City Council is also proposing changes to its processes for streamlining ordinance requests that would positively impact DIA in its contracting processes. The Councilman indicated that between 2004 and 2006, DIA created 330 contracts, amendments, and license agreements and that Council action

was required on 268 of these. It was suggested that a reduction of these types of reviews by Council could decrease the contract processes by 30 to 45 days thereby reducing DIA's costs. Some of DIA's recommendations for streamlining ordinance requests include:

- Construction contracts \$10 million and below;
- AIP, AAIA, or DHS grants not requiring matching general funds;
- Farm leases;
- Various concessions licenses;
- Licenses for utility lines, roads, and pipelines.

Tom Healy, CEO/Third Party Insight, stated that DIA competes globally and must be able to react quickly to changing environments. He noted that DIA is different than the Denver Health Medical Center model. He explained that the airport is more able to leverage its debt and that it falls under the designation of an enterprise fund, which helps with its financial planning. Councilmember Faatz said when she was a state legislator, she helped carry the legislation for Denver Health and noted that leveraging debt and procurement issues, similar to DIA's conclusions, is what necessitated the need for Denver Health to move to an authority. She suggested that any proposed changes to Charter or enterprises should be applied broadly and not just to DIA. Councilman Hancock explained that final recommendations include looking at all the city's enterprise funds, and that the intent is not to separate the airport from the City to its own authority. The following are the final recommendations:

- Establish a special exemption for enterprises that would allow certain qualified and designated large agencies/departments to operate more efficiently and better to accomplish business functions that are currently controlled by normal government policies/procedures;
- The Mayor should convene, at least annually, an intergovernmental forum which would include elected officials of several cities and counties near DIA;
- On-Airport Group recommendation: establish an advisory group;
- Technical Working Group recommendation: no Charter, ordinance, or executive order change is necessary;
- The Manager may convene, at his option, an Ad Hoc Advisory Task Force on an as-needed basis.

2) Mayor's Office - Solar plant construction:

Committee Discussion

Woods Allee, DIA, explained that this discussion is a follow up to the Public Works meeting on June 28 and was in reaction to the passage of the Renewable Energy amendment to the Colorado Constitution by voters in November 2004. The amendment gave Xcel Energy the authority to collect up to 1% of each customer's annual electrical bill for acquisition of renewable energy. The City is contemplating a third party revenue contract with Renewable Ventures that would construct solar capacity on behalf of the City, on City property, and would share net revenues from the project. A third party financing entity – Global Solar – would be utilized to maximize financing and tax credits and incorporate the benefits into the City's financing rates (see attachment).

Helen Raabe, City Attorney's Office, explained that the Renewable Ventures contract is a lease agreement – a turnkey installation – where there is no cost to the City. Prevailing wages would be required, but she stressed that this is a pre-fabrication, small construction project. Laurie Heydman, City Attorney's Office, said they were working with outside bond counsel to determine all the uses for bonds – especially related to the Convention Center – to assure that the bonds don't become taxable based on how the City may use the bonds on this transaction. Ms. Raabe noted that the third party – Renewable Ventures – submits its bid to Xcel Energy. This contractor is at risk, not the City. Daryl Winer, General Services, explained that the revenue produced by the Renewable Energy Certificates (RECs) from the solar plants flow from Xcel Energy to the financing entity. The financing entity uses the revenue from the REC to pay for all costs of construction, operations, maintenance, and financing, and the remainder of the revenue goes back to the City. At the end of six years when the credits are expended, the City would own the facilities. When that time is near, it would be a policy decision for the City to determine a new financial arrangement and/or new contractors. Andrew Hudson, Mayor's Office, reiterated that only two sites are being considered; Denver International Airport and the Convention Center. The Smith Road site – County Jail – is on hold and not being considered at this time.

The next steps include the financing entity making its final proposal to Xcel Energy by July 25, and Xcel Energy is expected to contract with successful bidders by August 2006.

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