

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management of the City and County of Denver (City) offers readers of the basic financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2007. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal. The focus of the information herein is on the primary government.

FINANCIAL HIGHLIGHTS

- The City's assets exceeded its liabilities at the close of the fiscal year by \$2,943,159,000 (net assets). Of this amount, \$502,329,000 (unrestricted net assets) may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$138,136,000.
- As of close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$650,486,000, a decrease of \$51,995,000 from the prior year. Approximately 69.5% of the fund balance (unreserved fund balance) is available for spending at the government's discretion.
- At the end of the current fiscal year, unreserved/undesignated fund balance of the General Fund was \$154,774,000 which represents 18.8% of total General Fund expenditures, including transfers out.
- The City's total bonded debt increased by \$267,008,000 during the year. Decreases occurred in general obligation bonds and revenue bonds ended the year higher than in the previous year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended as an introduction to the City's basic financial statements. The basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. In addition to the basic financial statements, also provided are required and other supplementary information.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities reports how the City's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation and sick leave).

The governmental activities reflect the City's basic services, including police, fire, public works, sanitation, economic development, and culture and recreation. Sales and property taxes finance the majority of these services.

The business-type activities reflect private sector-type operations, such as Wastewater Management; the Denver Airport System, including Denver International Airport (DIA); and Golf Courses, where fees for services typically cover all or most of the cost of operations, including depreciation.

The government-wide financial statements include not only the City itself (referred to as the primary government), but also other legally separate entities for which the City is financially accountable. Financial information for most of these component units is reported separately from the financial information presented for the primary government itself. A few component units, although legally separate, function essentially as an agency of the City and, therefore are included as an integral part of the City.

Fund financial statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the long-term focus of the government-wide statements, additional information is provided that reconciles the governmental fund financial statements to the government-wide statements explaining the relationship (or differences) between them.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Human Services special revenue fund, and Bond Projects capital projects fund, each of which are considered to be major funds. Data from the other 19 governmental funds are combined into a single aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the General Fund and Human Services special revenue fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

The City maintains two different types of *proprietary funds*: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Wastewater Management, Denver Airport System, Environmental Services, and Golf Course funds. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its fleet of vehicles, workers' compensation self-insurance, paper and printing supplies inventory, and asphalt plant operations. The internal service funds provide services which predominantly benefit governmental rather than business-type functions. They have been included within governmental activities with an adjustment to reflect the consolidation for internal service fund activities related to the enterprise funds in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Wastewater Management and the Denver Airport System, both of which are considered to be major funds of the City. Data for the other two enterprise funds and all of the internal service funds are combined into their respective single aggregated presentations. Individual fund data for the nonmajor enterprise funds and all of the internal service funds is provided in the form of combining statements elsewhere in this report.

The City uses *fiduciary funds* to account for assets held on behalf of outside parties, including other governments. When these assets are held under the terms of a formal trust agreement, a private-purpose trust fund is used.

Agency funds generally are used to account for assets that the City holds on behalf of others as their agent. Pension trust funds account for the assets of the City's employee retirement plans.

Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The *notes to the basic financial statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information in addition to the basic financial statements and accompanying notes is presented in the form of certain required supplementary information concerning the City's budgetary comparison schedules.

The combining statements supplementary information referred to earlier in connection with nonmajor funds, internal service funds, and non-major component units are presented immediately following the budgetary comparison required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$2,943,159,000 at the close of the most recent fiscal year.

A portion of the City's net assets, \$502,329,000 (17.1%), is unrestricted and may be used to meet the City's ongoing financial obligations. These are net assets that are not restricted by external requirements nor invested in capital assets.

Net assets of \$1,487,984,000 (50.6%) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net assets of the City also include \$952,846,000 of restricted net assets. These are assets representing resources subject to external restrictions as to how they may be used by the City.

As discussed in Note IV.H, Denver International Airport's 2006 financial statements have been restated to correct certain capital asset and aviation fuel tax revenue accounts.

Table 1 reflects the City's net assets (dollars in thousands) as of December 31, 2007 and 2006:

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006 As Restated	2007	2006 As Restated
Current and other assets	\$ 1,034,379	\$ 1,057,199	\$ 1,694,321	\$ 1,402,558	\$ 2,728,700	\$ 2,459,757
Capital assets	2,206,531	2,134,848	3,960,366	3,893,809	6,166,897	6,028,657
Total assets	3,240,910	3,192,047	5,654,687	5,296,367	8,895,597	8,488,414
Long-term debt outstanding	1,338,974	1,416,253	4,058,210	3,739,855	5,397,184	5,156,108
Other liabilities	342,234	310,259	213,020	217,024	555,254	527,283
Total liabilities	1,681,208	1,726,512	4,271,230	3,956,879	5,952,438	5,683,391
Net assets						
Invested in capital assets, net of related debt	1,170,496	922,261	317,488	304,488	1,487,984	1,226,749
Restricted	274,159	168,361	678,687	586,880	952,846	755,241
Unrestricted	115,047	374,913	387,282	448,120	502,329	823,033
Total net assets	\$ 1,559,702	\$ 1,465,535	\$ 1,383,457	\$ 1,339,488	\$ 2,943,159	\$ 2,805,023

At December 31, 2007, the City reported positive balances in all three categories of net assets for both the government as a whole and the separate governmental and business-type activities.

Table 2 reflects the City's Changes in Net Assets (dollars in thousands) for the years ended December 31, 2007 and 2006:

Table 2

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006 As Restated	2007	2006 As Restated
Revenues						
Program revenues:						
Charges for services	\$ 217,028	\$ 212,217	\$ 622,674	\$ 596,600	\$ 839,702	\$ 808,817
Operating grants and contributions	211,580	188,010	97,515	94,076	309,095	282,086
Capital grants and contributions	26,016	57,906	12,332	36,390	38,348	94,296
General revenues:						
Property tax	227,188	217,119	-	-	227,188	217,119
Sales tax	455,436	420,693	-	-	455,436	420,693
Facilities development admission tax	10,092	9,761	-	-	10,092	9,761
Lodgers tax	49,651	43,258	-	-	49,651	43,258
Motor vehicle ownership tax	16,963	15,884	-	-	16,963	15,884
Occupational privilege tax	42,751	41,502	-	-	42,751	41,502
Public Service	20,578	18,890	-	-	20,578	18,890
Specific ownership tax	1,434	60	-	-	1,434	60
Telephone tax	9,918	11,074	-	-	9,918	11,074
Investment income	39,990	26,287	87,885	62,814	127,875	89,101
Convention Center revenue	13,930	-	-	-	13,930	-
Other revenues	26,379	35,442	33	66	26,412	35,508
Total revenues	1,368,934	1,298,103	820,439	789,946	2,189,373	2,088,049
Expenses						
General government	262,209	214,976	-	-	262,209	214,976
Public safety	475,728	435,094	-	-	475,728	435,094
Public works	79,496	103,687	-	-	79,496	103,687
Human services	132,535	112,754	-	-	132,535	112,754
Health	45,345	47,776	-	-	45,345	47,776
Parks and recreation	63,778	64,003	-	-	63,778	64,003
Cultural activities	89,967	86,490	-	-	89,967	86,490
Community development	47,098	31,964	-	-	47,098	31,964
Economic opportunity	26,280	20,362	-	-	26,280	20,362
Interest on long-term debt	54,592	55,772	-	-	54,592	55,772
Wastewater management	-	-	76,298	66,488	76,298	66,488
Denver airport system	-	-	679,022	631,617	679,022	631,617
Other enterprise funds	-	-	18,889	13,355	18,889	13,355
Total expenses	1,277,028	1,172,878	774,209	711,460	2,051,237	1,884,338
Increase in net assets before transfers	91,906	125,225	46,230	78,486	138,136	203,711
Transfers	2,261	2,073	(2,261)	(2,073)	-	-
Capital Asset Transfer	-	(30,571)	-	30,571	-	-
Increase in net assets	94,167	96,727	43,969	106,984	138,136	203,711
Net assets - January 1, as restated	1,465,535	1,368,808	1,339,488	1,232,504	2,805,023	2,601,312
Net assets - December 31	\$ 1,559,702	\$ 1,465,535	\$ 1,383,457	\$ 1,339,488	\$ 2,943,159	\$ 2,805,023

Governmental activities increased the City's net assets by \$94,167,000 for the year ended December 31, 2007. Key elements of the increase are as follows:

- Property tax and sales and use taxes totaled 81.8% of all tax revenues and 49.8% of all governmental activities' revenues. Property tax recorded in the General Fund, special revenue funds and debt service funds totaled \$227,188,000 for an increase of \$10,069,000 (4.6%). Sales and use tax revenues of \$455,436,000 were up \$34,743,000 (8.3%) compared to 2006, reflecting a growing economy.

- The City received \$23,570,000 more in operating grants and contributions in 2007 compared to 2006.
- General government expenses in 2007 were \$262,209,000 (20.5%) of total expenses. Public safety expenses were \$475,728,000 (37.2%) of total expenses. Public works' expenses were \$79,496,000 (6.2%) of total expenses.
- Human services' expenses were \$132,535,000 (10.4%) of total expenses. The remainder of the governmental activities expenses is comprised of health with \$45,345,000 (3.6%), parks and recreation with \$63,778,000 (5.0%), cultural activities with \$89,967,000 (7.0%), community development with \$47,098,000 (3.7%), economic opportunity with \$26,280,000 (2.1%), and interest on long-term debt of \$54,592,000 (4.3%).

Chart 1

Expenses and Program Revenues - Governmental Activities
expressed in millions

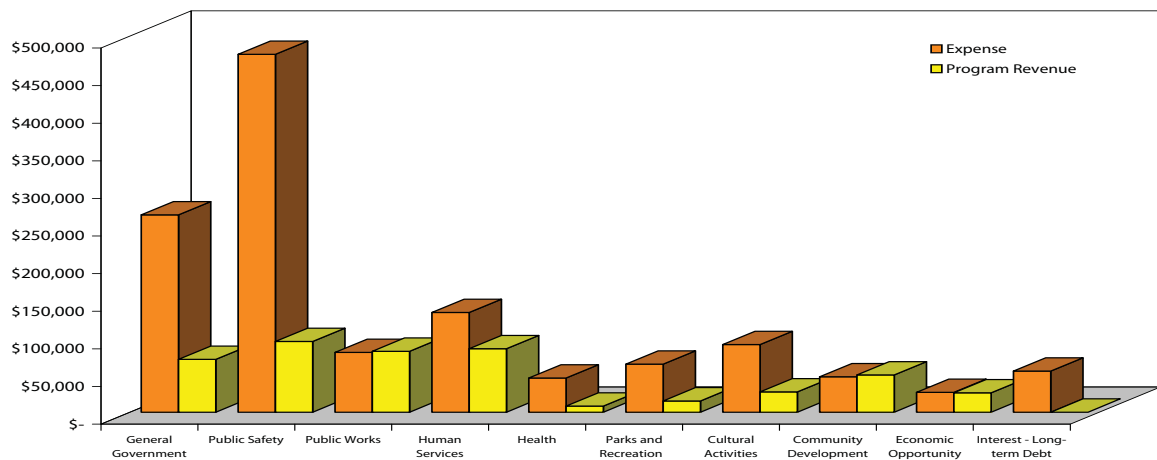
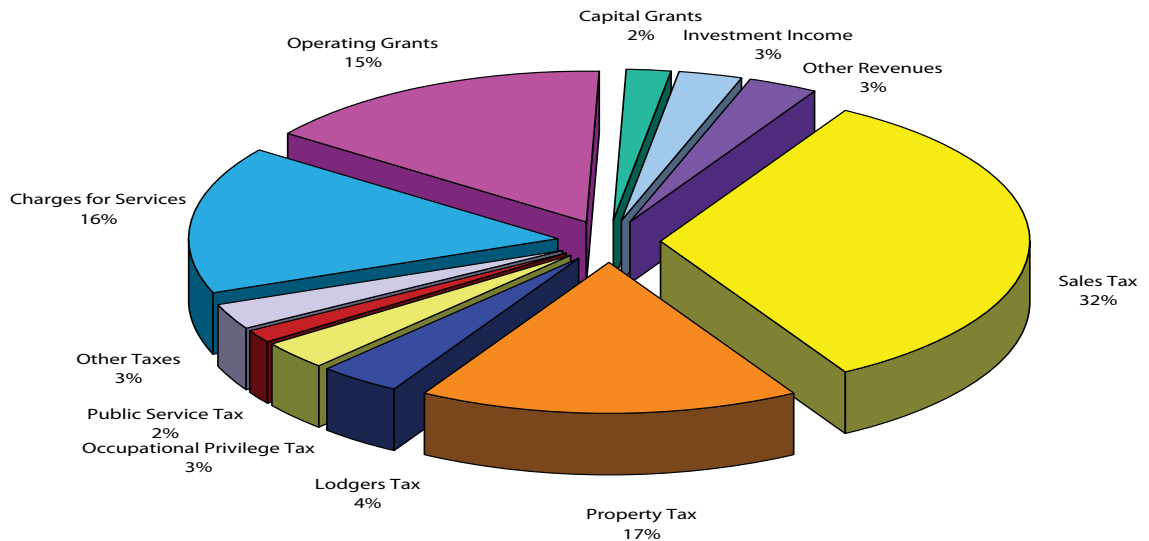


Chart 2

Revenues by Source - Governmental Activities



Business-type activities increased the City's net assets by \$43,969,000. Key elements of this increase are as follows:

- Total revenues of \$820,439,000 were \$30,493,000 (3.9%) higher compared to prior year amounts primarily due to increases in charges for services in the Denver Airport System fund and increases in investment and interest income.
- Total expenses of \$774,209,000 increased by \$62,749,000 (8.8%) when compared to the prior year, mostly due to higher expenses in the Denver Airport System fund of \$47,405,000 during 2007. Wastewater Management expenses in 2007 totaled \$76,298,000 (9.9%) of total business-type activities. Denver Airport System expenses totaled \$679,022,000 (87.7%) of business-type activities. The remaining \$18,889,000 (2.4%) of expenses in business-type activities were related to Environmental Services and Golf activities.

Chart 3

Expenses and Program Revenues - Business-Type Activities
expressed in millions

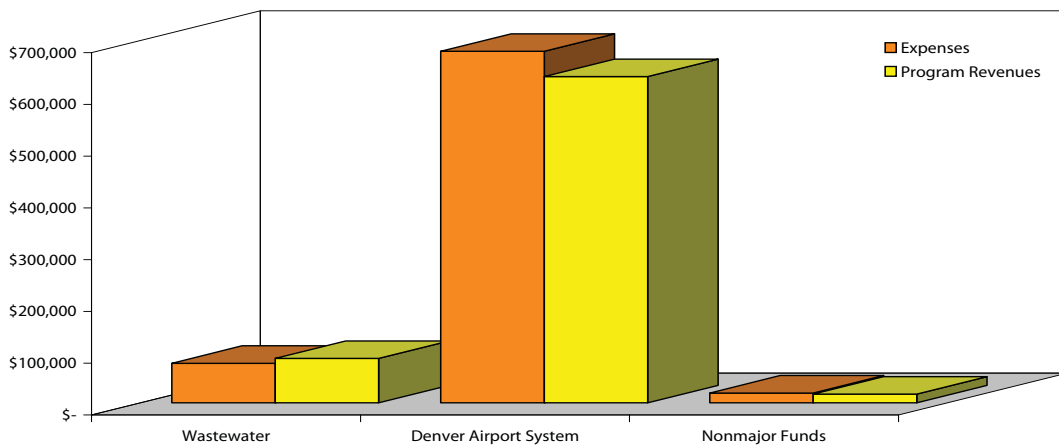
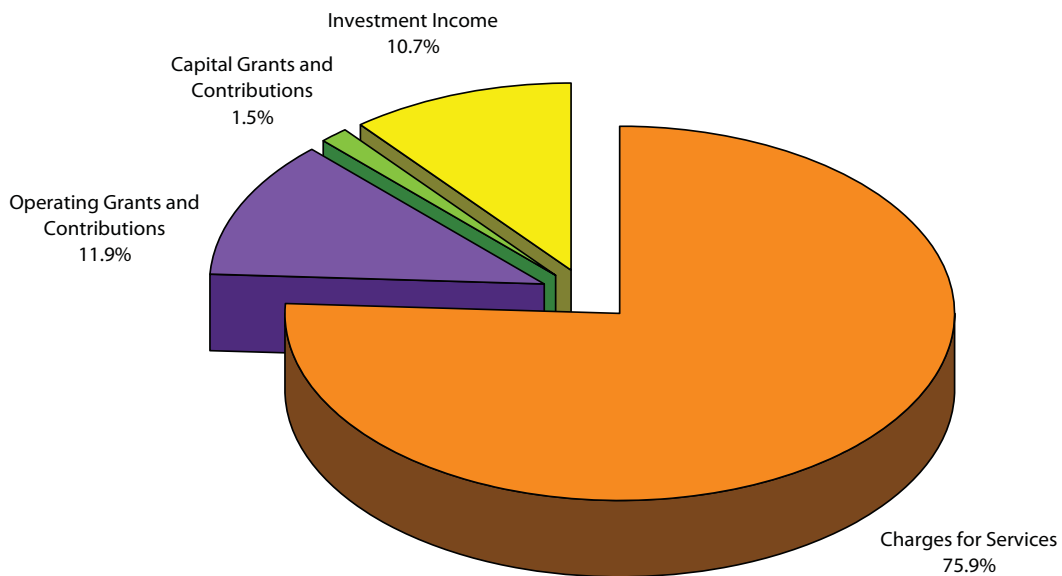


Chart 4

Revenues by Source - Business-Type Activities



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on current year revenue, expenditures, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of December 31, 2007, the City's governmental funds reported combined ending fund balances of \$650,486,000, a decrease of \$51,995,000 in comparison with the prior year. Approximately 69.4% (\$451,731,000) of the total fund balance amount constitutes unreserved fund balance, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$80,052,000), 2) for emergency use (\$31,240,000), 3) for notes receivable (\$80,546,000), and 4) for a variety of other purposes (\$6,917,000).

The General Fund is the chief operating fund of the City. As of December 31, 2007, unreserved fund balance of the General Fund was \$154,774,000 while total fund balance was \$195,591,000. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 18.8% of total General Fund expenditures including transfers out, while total fund balance represents 23.7% of the same amount.

The total fund balance of the City's General Fund increased by \$9,935,000 (5.4%) during the year ended December 31, 2007. The key factor in this increase is total revenues, including transfers in, were higher than expenditures, including transfers out, by \$9,921,000.

Certain revenues in the General Fund that increased from 2006 to 2007 include:

- Property tax revenues increased by \$4,074,000. The TABOR amendment to the state constitution limits municipal property tax revenue growth to the sum of prior year inflation plus growth in the current year.
- Sales and use taxes earned were higher by \$21,014,000. The increase in sales and use tax reflects stronger growth in economy-driven tax collections for 2007.
- The motor vehicle ownership and registration tax collections were higher by \$1,079,000 due to an increase in the tax rate and fees charged.
- Investment and interest income increased by \$7,146,000 primarily due to higher interest rates and increased equity.
- Transfers in increased by \$7,608,000 primarily due to increases in the Convention Center transfer to the General Fund. Portions of revenues from Lodger's tax, short-term car rental and prepared food and beverage taxes are used to repay the debt on the Convention Center. Excess funds are transferred to the General Fund. Strong activity in these areas has led to this growth.

Significant revenues in the General Fund that decreased from 2006 to 2007 include:

- The Highway User Tax Fund collections were lower by \$936,000 due to lower fuel excise tax collections in 2007.
- Recorder fee revenue decreased by \$552,000 due to lower mortgage refinance activity and increased foreclosures in 2007.

The Denver economy grew slowly in 2007. The City saw increases in employment, construction, tourism, and conventional travel. Other areas of change in the General Fund included:

- Public safety expenditures increased by \$25,640,000, primarily as a result of collective bargaining increases averaging three percent for uniformed officers, increases in jail medical costs, and the City's continuing efforts to hire new police recruits.
- Public works expenditures increased by \$10,847,000, primarily due to almost \$10 million in increased costs related to major snowstorms in January, 2007 and December, 2006 snowstorms that resulted in 2007 expenditures.
- General government increased by \$11,040,000 primarily due to the consolidation to technology services operations into one department from several other areas and the consolidation of functions into a new department of Finance.

The Human Services special revenue fund had a total fund balance of \$20,993,000, of which \$2,044,000 is reserved for long-term debt and the Human Services share of the TABOR reserve. The net decrease in fund balance of \$3,635,000 during the current year in the Human Services special revenue fund was mainly due to an increase of \$17,339,000 in Human Services operating expenditures. This increase in expenditures was partially offset by an increase of \$1,473,000 in property tax revenues related to Human Services, and an increase of \$6,051,000 in intergovernmental revenues.

A decrease in fund balance in the Bond Projects fund of \$40,064,000 primarily reflects the capital outlay for the new justice center and parking garage. Capital outlays increased by \$23,848,000 in 2007.

Proprietary funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Total net assets of Wastewater Management were \$480,469,000 and those for the Denver Airport System were \$873,990,000. Net assets for all enterprise funds increased \$44,151,000. Other significant factors concerning the finances of the enterprise funds can be found in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the General Fund original budget and the final amended budget include a revision to both the projected revenues and expenditures.

Original revenue estimates for 2007 were based on moderate growth in the economy. The projection was for modest sales and use tax growth of 3.9% above 2006 amounts and an overall growth rate in the General Fund of 5.4%. The revenue forecast was revised upward slightly by a total amount of \$5,745,000 (0.7%) during 2007. The major revisions by individual revenue type are listed below.

Major upward revisions in the revenue estimates include:

- No revisions were made to the original 2007 sales and use tax estimates of \$145,200,000. At the time, collections were reflecting a 4.6 % increase over 2006 actual collections, right on target with what was originally budgeted.
- An increase in lodgers' tax forecast of \$1,775,000 (14.9%) due to projected rate increases and occupancy rates over original 2007 projections.
- There were no revisions made to the original estimate for property tax collections, which represented a 5.3% increase over 2006.
- An increase in the Highway User's Trust Fund revenues of \$704,000 (3.6%) to reflect actual collections halfway through 2007.
- An increase for licenses and permits revenue of \$387,000 (1.8%) due to modest increases in parking meter sacking permits and street occupancy permits.
- An increase in the estimate for internal services and indirect cost reimbursements of \$3,424,200 (5.3%) to reflect the increased reimbursement from the Wastewater fund for the extraordinary snow removal costs in 2007.

Major reductions to the 2007 revenue estimates include:

- A decrease in the estimate of fines and forfeitures revenues by \$707,000 (1.9%), mainly due to reductions in expected photo radar traffic fine collections and parking fines.
- Fees were revised downward by \$2,287,700 (3.9%) due to revised projections in Public Service Franchise fees.

In 2007, the original projection anticipated a use of fund balance of \$6,432,000, after assuming that approximately \$14,000,000 of appropriations would be unspent at the end of the year. Because revenues increased moderately in conjunction with continued strong internal restrictions on spending, the projected fund balance for 2007 was revised to show a use of only \$3,096,000, again after accounting for the \$14,000,000.

Differences between the final amended budget and actual revenues and expenditures are briefly summarized in the following paragraphs. The final amended General Fund budget includes revenues that are reimbursements from other funds for expenditures spent on their behalf (such as utility payments). These expenditures and revenues totaling \$17,018,000 have been eliminated from the General Fund revenue and expense actuals amount for analysis purposes.

General Fund revenues, including transfers in, after accounting for the \$17,018,000 elimination entry discussed above, were approximately \$15,173,000 higher than the revised budget primarily due to higher than anticipated revenues in several areas. Specific major variances to budget included:

- Revenue from sales and use tax collections were above the revised forecast by \$2,977,000 (.7%).
- The transfer of excise tax into the General Fund was \$3,938,000 (18.2%) above forecast due to higher than expected revenues, as well as a one-time transfer of the excess revenues after debt obligations on the Convention Center were paid.
- Public service tax revenues of \$20,578,000 were budgeted in the Charges for Services category while actual revenues were posted to Taxes.

After elimination of the \$17,018,000 in internal expenditures, General Fund budget basis expenditures including transfers out were approximately \$26,479,000 less than the final amended budget. This amount includes the \$14,000,000 of expected unspent appropriation. Other major components of this variance include larger than expected vacancy savings in technology services, savings resulting from a re-negotiated contract mid-year in public works, savings in utility costs, and savings in annual rental payments due to lower than budgeted lease payments.

CAPITAL ASSETS AND BONDED DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of December 31, 2007, were \$6,166,897,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and other, park facilities, and infrastructure (including streets, alleys, traffic signals and signs, and bridges) of governmental activities. Infrastructure-type assets of business-type activities are reported as buildings and improvements. The City's capital assets by activity at December 31, 2007 and 2006, are shown in **Table 3** (dollars in thousands):

Table 3

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006 As Restated	2007	2006 As Restated
Land and construction in progress	\$ 348,010	\$ 291,890	\$ 561,324	\$ 493,598	\$ 909,334	\$ 785,488
Buildings and Improvements	1,533,493	1,495,345	4,574,411	4,441,609	6,107,904	5,936,954
Equipment and other	241,380	224,135	620,376	600,478	861,756	824,613
Collections	75,094	75,422	-	-	75,094	75,422
Infrastructure	1,007,409	956,679	-	-	1,007,409	956,679
Less accumulated depreciation	(998,855)	(908,623)	(1,795,745)	(1,641,876)	(2,794,600)	(2,550,499)
Total	\$ 2,206,531	\$ 2,134,848	\$ 3,960,366	\$ 3,893,809	\$ 6,166,897	\$ 6,028,657

Major capital asset activity for the year ended December 31, 2007 included the following:

Governmental Activities:

- Completion of the Justice Center Parking Garage – \$10,600,000
- Completion of the Stapleton Fire Station South – \$4,100,000
- Completion of the Zoological Bird Prop Center – \$5,100,000

Business-type Activities:

- Additions to the Storm Collection system - \$44,100,000
- Additions to the Sanitary Collection system - \$11,400,000

Additional information on the City's capital asset activity for the year can be found in Note III-D in the notes to basic financial statements.

Bonded Debt

At December 31, 2007, the City had total bonded indebtedness of \$4,957,789,000. Of this amount, \$422,924,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt, \$4,534,865,000, represents bonds and commercial notes secured by specified revenue sources (i.e., revenue bonds of the Denver Airport System, Wastewater Management, and excise tax revenues bonds). Outstanding debt by activity at December 31, 2007, and 2006, was as follows (dollars in thousands):

Table 4

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$ 422,924	\$ 473,671	\$ -	\$ -	\$ 422,924	\$ 473,671
Revenue bonds	304,105	313,920	4,230,760	3,903,190	4,534,865	4,217,110
Total	\$ 727,029	\$ 787,591	\$ 4,230,760	\$ 3,903,190	\$ 4,957,789	\$ 4,690,781

The City's general obligation debt is rated AA+ by Standard & Poor's and Fitch rating agencies and Aa1 by Moody's Investors Service.

During 2007, the City issued \$8,860,500 in General Obligation Mini-Bonds, Series 2007, for the purpose of financing a portion of the City's new Justice System Facilities.

The Denver Airport System's senior lien debt is rated by Standard & Poor's, Moody's, and Fitch at A+, A1, and A+, respectively.

During 2007, the Denver Airport System had the following bond and commercial paper activity:

- On November 14, 2007, the Airport issued \$208,025,000 and \$148,500,000 of Airport System Revenue Bonds Series 2007F1-F4 and 2007G1-G2 bonds in auction rate mode and variable rate mode, respectively, for the purpose of current refunding a portion of the 1997E bonds.
- On October 4, 2007, the Airport issued \$31,950,000 and \$47,400,000 of Airport System Revenue Bonds Series 2007D2 and 2007E in a fixed rate mode for purpose of funding new money for capital improvement projects.
- On October 3, 2007, the Airport substituted the Letter of Credits for the 1992F, 19992G and 2002C Airport System Revenue bonds.
- On August 29, 2007, the Airport issued \$188,350,000, \$24,250,000, and \$34,635,000 of Airport System Revenue Bonds Series 2007A, 2007B, and 2007C in a fixed rate mode for purposes of refunding Commercial Paper Notes, advance refunding of the 2003B bonds and new money for capital improvement projects.

- On August 29, 2007 the Airport issued \$147,815,000 of Airport System Revenue Bonds Series 2007D in a fixed rate mode for the purpose of funding new money for capital improvement projects.
- In April of 2007, the Airport drew on the Airport System Subordinate Commercial Paper 2006A notes with an outstanding principal of \$30 million and was refunded on August 29, 2007, with the 2007A and 2007B bonds

Additional information on the City's bonded debt for the year can be found in Note III-G in the notes to the basic financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The 2008 budget assumes moderate growth in the local economy. The 2008 forecast for General Fund revenues are to increase by \$26,478,600 (3.2%) from 2007 estimated revenues. Highlights of the 2008 General Fund budget are as follows:

- Total 2008 General Fund expenditures are budgeted at \$867,831,000, which is \$27,008,000 (3.2%) more than the revised 2007 expenditures.
- Sales and use tax revenue is projected to grow \$21,120,000 (5.1%) from 2007. This growth figure reflects expectations that the economy will continue to grow in Denver but at a slower pace than 2007.
- The General Fund portion of the 2008 lodger's tax is forecast to increase by 15.2% from the revised 2007 estimate. Tourism, the major driver of Lodger's Tax, is expected to stay strong in 2008.
- The excise tax convention center transfer for 2008 is \$3,825,000 (17.7%) lower than the revised 2007 estimate. This is primarily due to a one-time transfer of excess fund balance in 2007 that won't occur in 2008.
- Personnel costs include an estimated 2.25 percent salary increase for most Career Service employees for 2008 at the time of their performance evaluation.
- The 2008 budget also includes \$2,623,102 for the third year of a bonus program for Career Service employees. This was reduced by City Council during the budget approval process and the difference applied to merit.
- In addition to the projected increases for police, fire, and sheriffs due to the approved collective bargaining agreements, the 2008 budget includes an increase for the Crime Prevention and Control Commission as required by ordinance and funding to operate the new district courtroom being added by the State.
- The budget for 2008 also contains an increase of \$3 million to fund the 2008 primary and general elections in the Clerk and Recorder budget.

During 2007, unreserved and undesignated fund balance in the General Fund increased to \$154,774,000. In addition to revenues being higher than anticipated, the primary reason for the increase was the change in the way open encumbrances are accounted for at the end of the year. These open encumbrances were closed in 2007 and will be re-encumbered in 2008, reducing the fund balance by an equal amount in 2008.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Controller's Office, 201 West Colfax Avenue, Dept. 1109, Denver, CO 80202. The report is available online at www.denvergov.org.



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