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# City and County of Denver Debt Presentation

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Presented by the Department of Revenue

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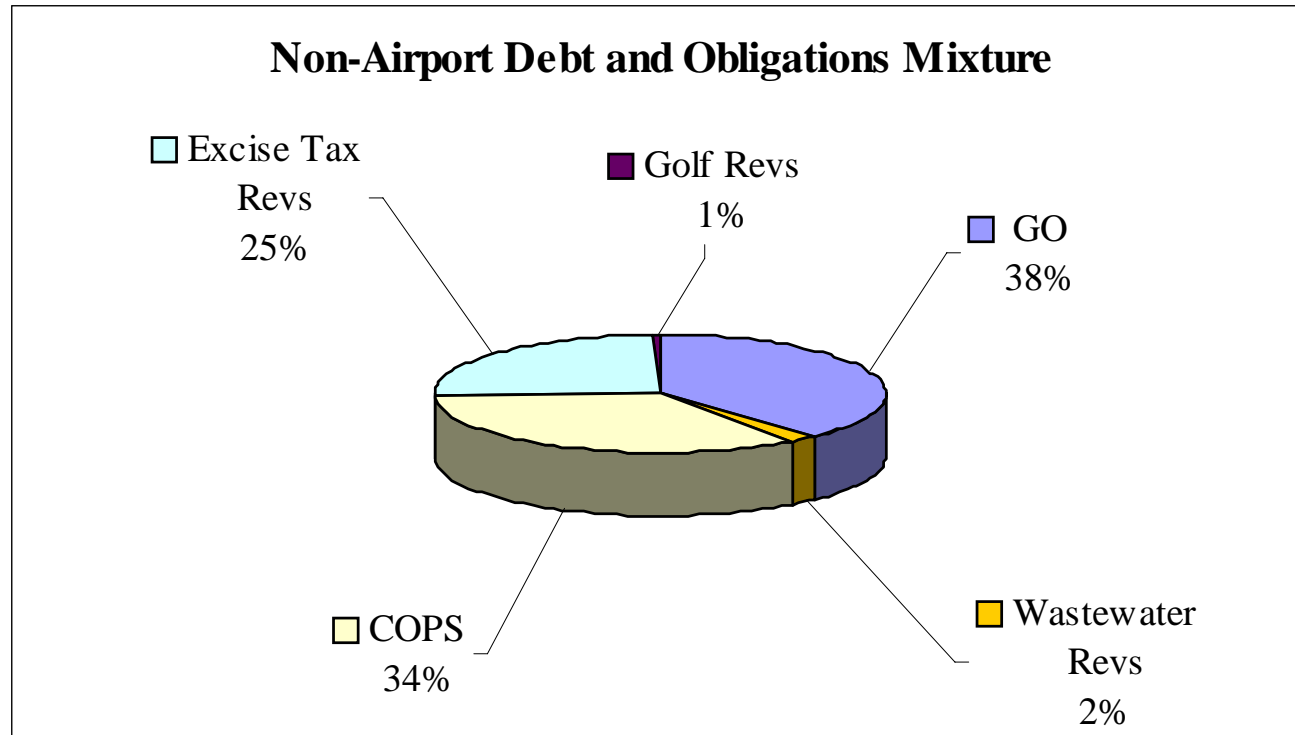
## TYPES OF DEBT AND SOURCES OF REPAYMENT

<b>Types of Debt</b>	<b>Sources of Repayment</b>
General Obligation (GO)	Ad valorem taxes
Revenue Bonds (i.e. DIA, Excise Tax Bonds)	New or renewed special taxes or fees (seat, lodgers, food & beverage, car rental, occupational privilege)
Certificates of Participation (COPs)	Existing revenues; new fees, new revenue increment, program savings





# Composition of Denver's Debt





# Debt Policies and Principles

**In determining the type of financing to be used, the Debt Policy requires the consideration of the following:**

- Equity- Those who benefit from the item financed should pay for it.
- Effectiveness- Once the transaction is completed, it accomplishes its intent and the identified revenue sources for repayment are adequate to meet debt service.
- Efficiency- The relative cost of obtaining funds, including the cost of financing and collecting pledged revenue, is better than competing alternatives.





# Key Factors Supporting a Financing

1. Debt shall not be issued to fund operations, only capital items with a substantial economic life.
2. The City will maintain a high degree of creditworthiness.
3. The life of the obligation should be no greater than the projected life of the asset(s) being financed.
4. Total annual lease payments (COP transactions) shall not exceed 5% of the annual revenues of the acquiring fund.





# Due Diligence Factors

- Revenue streams for repayment are identified.
- A feasibility study is undertaken to support project assumptions and repayment security.
- Rigorous testing of the financial model is performed using median and worst-case scenarios.





# Credit Rating Agencies

The City's ability to repay its outstanding debt is periodically reviewed by the rating agencies. New debt issues undergo comprehensive reviews at the time of issuance.

Denver is considered to have a "moderate" debt burden at present.

## Ratings:

Moody's

Aa+

S & P

AA1

Fitch

AA+





# General Obligation Bonds

- GO bonds are backed by the full faith and credit of the City and are payable from ad valorem (property) taxes and other general revenues.
- No GO bonds shall be issued without the approval of the majority of voters.





# Current GO Debt Outstanding

Purpose	Issue	Original Principal	Remaining Principal	Coupon Range
Justice System Mini Bonds	Series 2007	\$8,860,000	\$8,860,000	4.75% (capital appreciation)
Justice System	Series 2006	\$125,000,000	\$125,000,000	4.25%-5.00%
Justice & Zoo	Series 2005	\$77,000,000	\$67,120,000	4.00%-5.00%
Medical Facilities	Series 2003B	\$148,000,000	\$114,695,000	4.00%-5.00%
Auditorium Theater and Zoo	Series 2003A	\$35,000,000	\$32,800,000	2.50%-5.50%
Art Museum	Series 2002	\$52,500,000	\$38,540,000	4.00%-5.00%
Various Purpose	Series 2000	\$29,000,000	\$17,930,000	4.75%-5.10%
Various Purpose	Series 1999B	\$95,505,000	\$41,845,000	5.625%-5.75%
Library Mini Bonds	Series 1999A	\$3,133,500	\$3,133,500	4.75% (capital appreciation)
	<b>Total</b>	<b>\$722,429,500</b>	<b>\$422,924,500</b>	





# Pending GO Bond Transactions

- Remaining \$174 million in Justice Facility GO bonds authorized in 2005. Expected issuance is in early 2008.
- Remaining \$26.5 million in Zoo GO bonds authorized in 1999. Issuance expected in 2009.
- \$550 million Better Denver bonds. We expect to issue about \$195 million of this authorization in late 2008.





# Excise Tax Revenue Bonds

*There are 2 types of Excise Tax Bonds in Denver's debt portfolio:*

## 1. Convention Center financing

Supported by a Portion of:

- Lodgers Tax
- Food & Beverage Tax- Sales Tax Surcharge
- Short-term Car Rental Tax- Sales Tax Surcharge

## 2. Theaters and Arenas

Supported by:

- Seat Tax
- Occupational Privilege Tax (OPT)





# Current Excise Tax Debt Outstanding

Purpose	Issue	Original Principal	Outstanding Principal	Coupon Range
Refunding (CC)	Series 2005A	\$149,190,000	\$149,190,000	3.25%-5.25%
Refunding (T&A)	Series 2003	\$28,245,000	\$21,245,000	2.914%-5.25%
Convention Center Expansion	Series 2001B	\$75,000,000	\$74,000,000	Variable
Convention Center Expansion	Series 2001A	\$186,500,000	\$21,550,000	4.00%-5.00%
Refunding (CC)	Series 1999A	\$74,340,000	\$46,935,000	5.00%-5.50%
	<b>Total</b>	<b>\$513,275,000</b>	<b>\$312,920,000</b>	





# Capital Lease Transactions

Capital Leases are “Rent to Own” transactions. They are legally not considered as debt as they are subject to annual appropriation and therefore not multi-year obligations.

## Types of Capital Leases:

1. **Certificates of Participation-** usually for larger scale projects (Webb Building, Human Services campus)
2. **Capital Lease-** for smaller acquisitions (software, crime lab equipment)





# Certificates of Participation

- A lease/purchase transaction subject to annual appropriation by City Council.
- An asset serves as the collateral for the transaction. If the City fails to appropriate the lease payment, the trustee takes possession of the asset for the benefit of the COP holders.

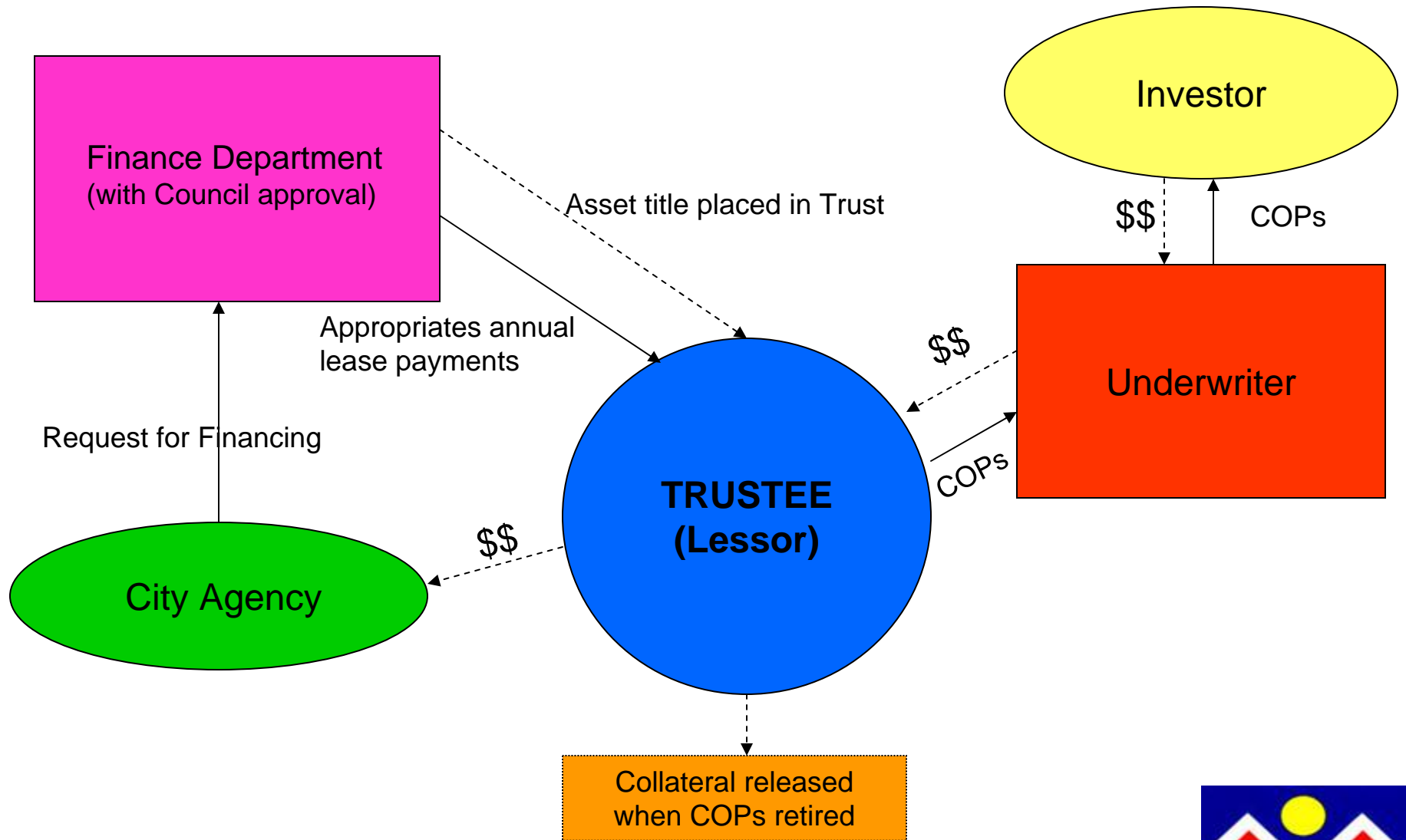
## Debt Policy Requirements for COPs

1. Minimum cost and life of capital equipment should be \$500,000 and no less than 7 years.
2. Annual lease payments shall not exceed 5% of projected revenues of the acquiring fund (i.e. General Fund, Human Services).
3. An identified new revenue stream or decrease in expenditures due to the financed project must exist that is greater than or equal to the annual lease payments.





# COPs Diagram





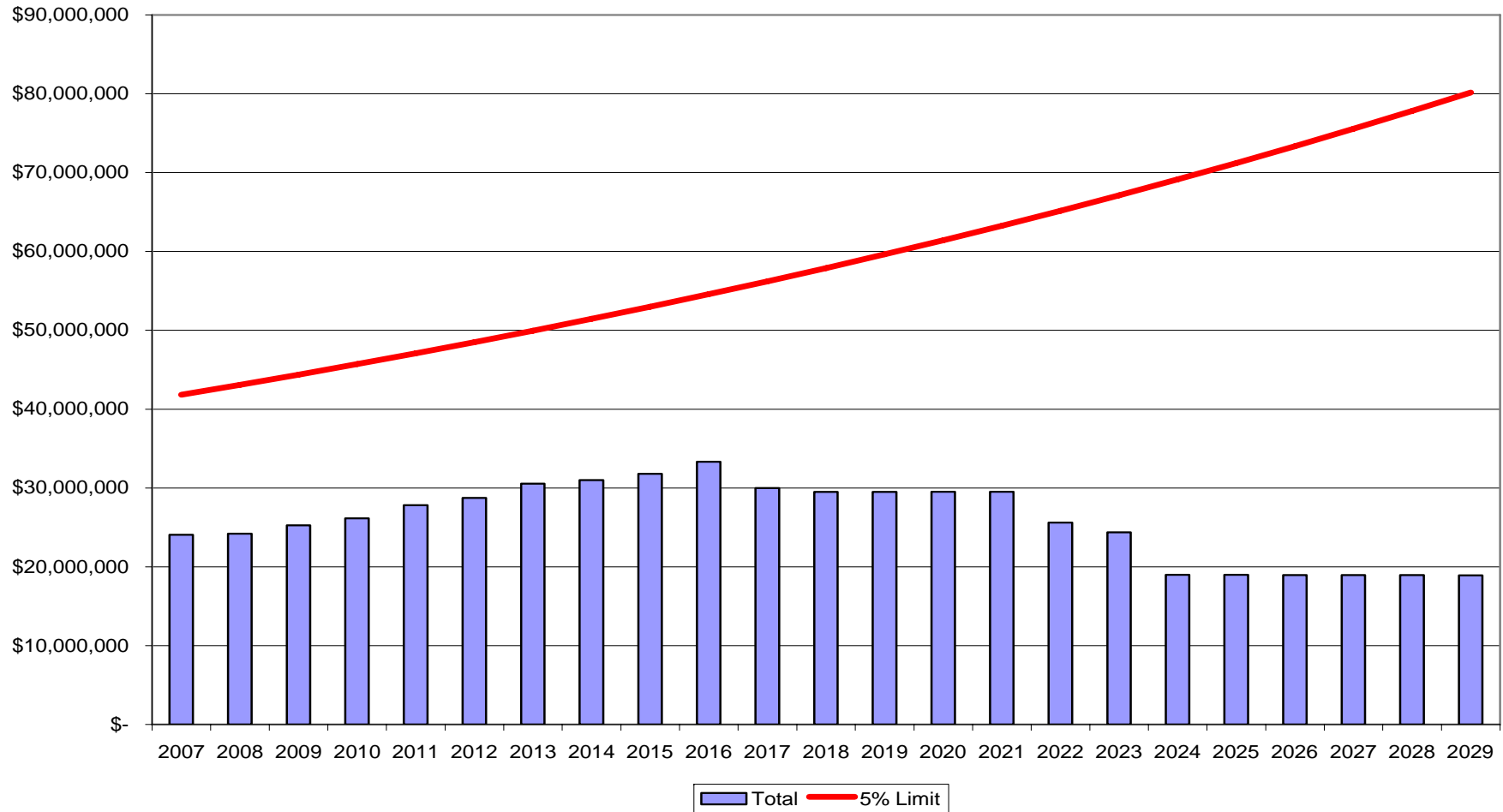
# Structure of COPs

- The City identifies an “essential” necessary project and new revenue streams or decreased expenses due to the project.
- Finance Dept. structures the proposed COPs transaction and helps select the City asset of comparable value for collateral and brings to City Council for consideration.
- Upon approval, a single-purpose, third party entity, (usually through a bank trust department) will be established to be lessor and execute transaction.
- The entity will cause to have COPs issued and delivered to investors and the proceeds will be provided to the City’s project.
- At the same time, title to the assets serving as collateral will be placed in trust. Once the COP obligation is entirely redeemed, title to the assets reverts to the City.
- Annual appropriations by Council must be made to support COP repayment. Should Council fail to appropriate funds, the trust can liquidate the collateral to repay the COP holders.



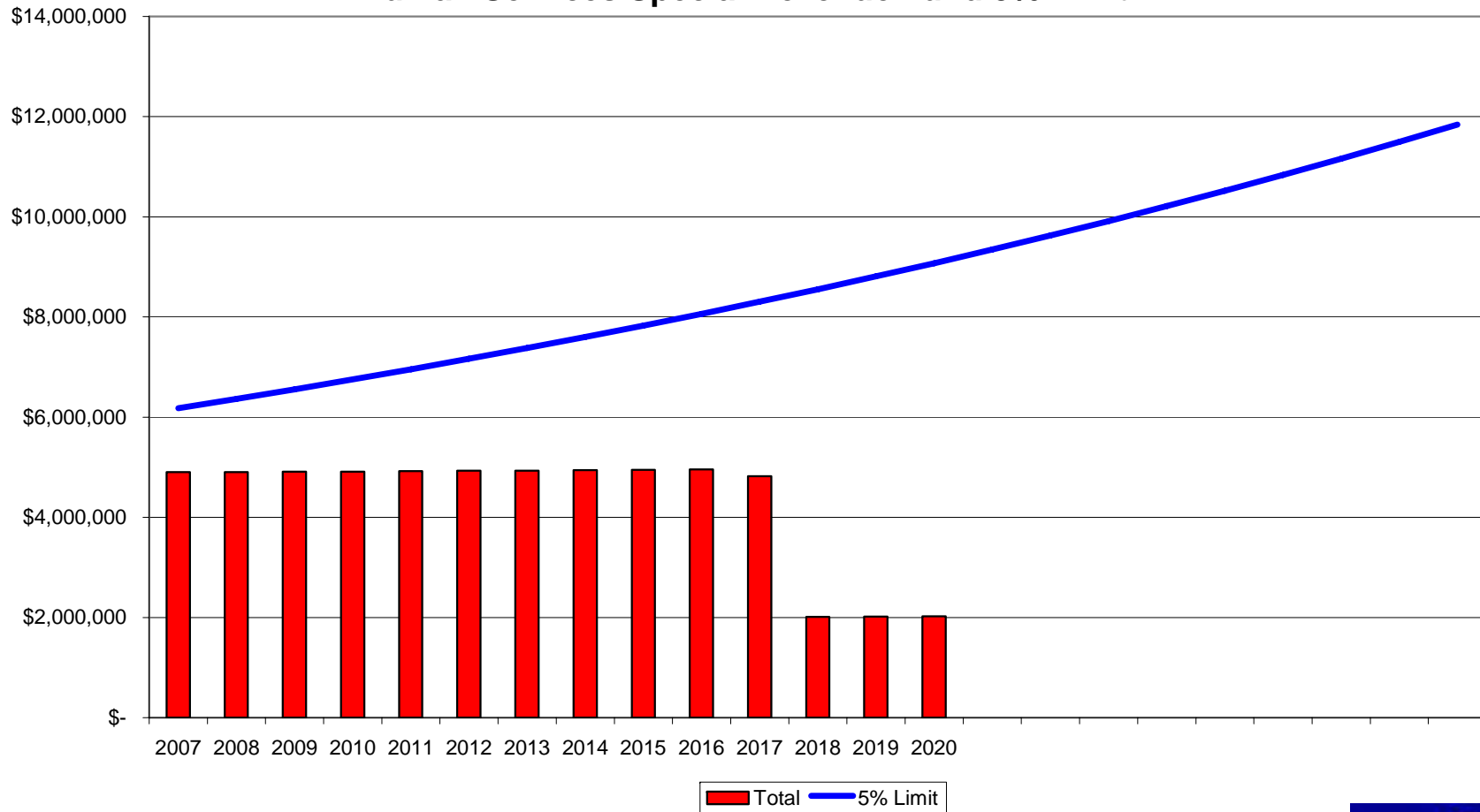


### Annual General Fund COPs Debt Service vs. 5% General Fund Revenue Limit





### Annual Human Services COPs Debt Service vs. Human Services Special Revenue Fund 5% Limit





# Current COPs Outstanding

Purpose	Issue	Original Principal	Outstanding Principal	Coupon Range
Refunding (H.S.)	Series 2005A	\$55,985,000	\$51,825,000	3.959%-5.25%
Webb Building	Series 2003C1-C3	\$250,945,000	\$250,515,000	3.39%-3.39%
Buell Theater & Jail Dorm	Series 2003B	\$57,290,000	\$52,655,000	2.00%-5.00%
CC North Garage	Series 2003A	\$6,040,000	\$4,640,000	2.10%-4.00%
Cultural Center – Taxable	Series 2002B	\$3,650,000	\$3,550,000	Variable
Cultural Center – Tax Exempt	Series 2002A	\$13,480,000	\$11,875,000	4.00%-5.00%
Blair-Caldwell Library	Series 2001C	\$16,070,000	\$13,620,000	3.25%-4.75%
Roslyn Facility and Fire Trucks	Series 2001B	\$34,075,000	\$23,930,000	4.00%-5.00%
2000 - Museum	Series 2001A	\$14,850,000	\$11,710,000	4.05%-5.125%
<b>Total</b>		<b>\$453,960,000</b>	<b>\$424,320,000</b>	

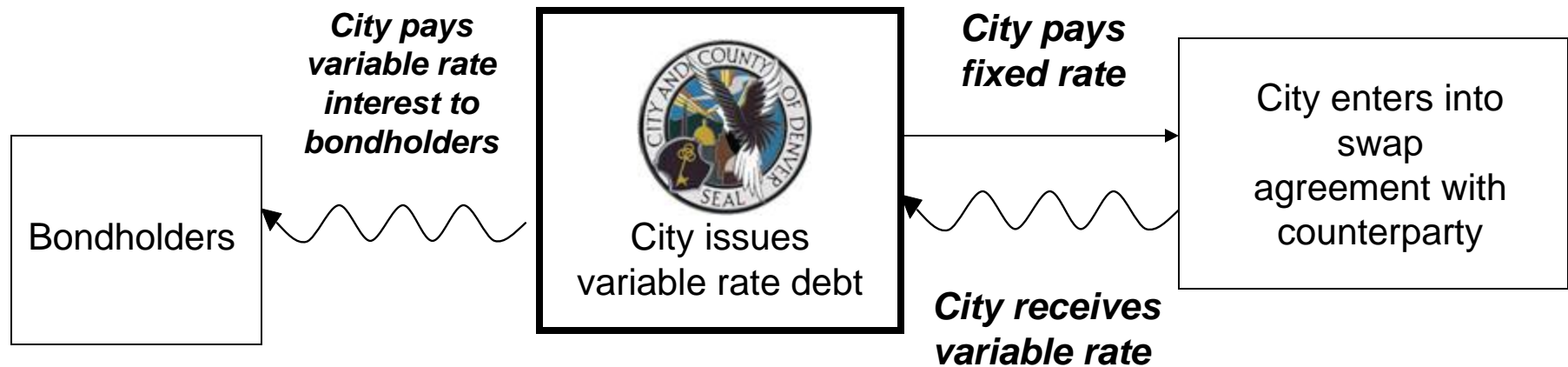




# What is a Swap?

A swap is a contract entered into by an issuer with a swap provider (counterparty) to exchange periodic interest payments based on a notional (analogous to principal) amount.

Interest payment calculations are based upon the level of an underlying index, such as 1-month LIBOR, and netted against each other.



**Net effect: City pays fixed rate**





# Why Do We Use Swaps?

## **A swap can modify the cash flows of an obligation.**

- For example, a variable rate bond issue can be “synthetically” converted to fixed rate by entering into a swap agreement.

## **Swaps allow us to hedge our interest rate exposure.**

- On variable rate debt, we can lock in long-term fixed rates in low interest rate environments or “set” the cost of the obligation for planning and budgetary purposes. This would be accomplished by using a fixed payor swap, whereby the City would receive floating rate payments and pay a fixed rate.
- Cash flows on the obligation can be significantly offset.
- We can hedge our interest exposure on bonds that haven’t been issued yet, such as the Better Denver bonds.

**The City’s swap portfolio is designed to neutralize our interest rate exposure.**

