



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, 2008. 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 \$2,966,088,000 (net assets). Of this amount, \$443,402,000 (unrestricted net assets) may be used to meet the City's ongoing obligations.
- The City's total net assets increased by \$22,929,000.
- As of close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$714,172,000, an increase of \$63,686,000 from the prior year. Approximately 71.3% 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 \$149,562,000 which represents 16.7% of total General Fund expenditures, including transfers out.
- The City's total bonded debt increased by \$14,955,000 during the year. Increases occurred in general obligation bonds and revenue bonds ended the year lower 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 \$2,966,088,000 at the close of the most recent fiscal year.

A portion of the City's net assets, \$443,402,000 (15.0%), 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 \$1,501,153,000 (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 \$1,021,533,000 of restricted net assets. These are assets representing resources subject to external restrictions as to how they may be used by the City.

Table 1 reflects the City's net assets (dollars in thousands) as of December 31, 2008 and 2007:

Table 1

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 1,173,743	\$ 1,034,379	\$ 1,636,176	\$ 1,694,321	\$ 2,809,919	\$ 2,728,700
Capital assets	2,362,767	2,206,531	3,907,628	3,960,366	6,270,395	6,166,897
Total assets	3,536,510	3,240,910	5,543,804	5,654,687	9,080,314	8,895,597
Long-term debt outstanding	1,528,673	1,338,974	3,973,246	4,058,210	5,501,919	5,397,184
Other liabilities	406,556	342,234	205,751	213,020	612,307	555,254
Total liabilities	1,935,229	1,681,208	4,178,997	4,271,230	6,114,226	5,952,438
Net assets						
Invested in capital assets, net of related debt	1,238,768	1,170,496	262,385	317,488	1,501,153	1,487,984
Restricted	340,270	274,159	681,263	678,687	1,021,533	952,846
Unrestricted	22,243	115,047	421,159	387,282	443,402	502,329
Total net assets	\$ 1,601,281	\$ 1,559,702	\$ 1,364,807	\$ 1,383,457	\$ 2,966,088	\$ 2,943,159

At December 31, 2008, 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, 2008 and 2007:

Table 2

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues						
Program revenues:						
Charges for services	\$ 261,464	\$ 237,606	\$ 633,286	\$ 622,674	\$ 894,750	\$ 860,280
Operating grants and contributions	247,860	211,580	106,173	97,515	354,033	309,095
Capital grants and contributions	16,819	26,016	22,082	12,332	38,901	38,348
General revenues:						
Property tax	274,809	227,188	-	-	274,809	227,188
Sales and use tax	468,137	455,436	-	-	468,137	455,436
Facilities development admission tax	10,016	10,092	-	-	10,016	10,092
Lodgers tax	53,773	49,651	-	-	53,773	49,651
Motor vehicle ownership tax	19,514	16,963	-	-	19,514	16,963
Occupational privilege tax	43,040	42,751	-	-	43,040	42,751
Specific ownership tax	54	1,434	-	-	54	1,434
Telephone tax	9,814	9,918	-	-	9,814	9,918
Special Assessments	1,394	-	-	-	1,394	-
Investment income	34,340	39,990	90,279	87,885	124,619	127,875
Convention Center revenue	15,321	13,930	-	-	15,321	13,930
Other revenues	21,442	26,379	6	33	21,448	26,412
Total revenues	1,477,797	1,368,934	851,826	820,439	2,329,623	2,189,373
Expenses						
General government	257,780	262,209	-	-	257,780	262,209
Public safety	536,382	475,728	-	-	536,382	475,728
Public works	134,698	79,496	-	-	134,698	79,496
Human services	139,895	132,535	-	-	139,895	132,535
Health	52,332	45,345	-	-	52,332	45,345
Parks and recreation	105,232	63,778	-	-	105,232	63,778
Cultural activities	62,499	89,967	-	-	62,499	89,967
Community development	39,945	47,098	-	-	39,945	47,098
Economic opportunity	31,647	26,280	-	-	31,647	26,280
Interest on long-term debt	76,073	54,592	-	-	76,073	54,592
Wastewater management	-	-	75,122	76,298	75,122	76,298
Denver airport system	-	-	780,501	679,022	780,501	679,022
Other enterprise funds	-	-	14,588	18,889	14,588	18,889
Total expenses	1,436,483	1,277,028	870,211	774,209	2,306,694	2,051,237
Change in net assets before transfers	41,314	91,906	(18,385)	46,230	22,929	138,136
Transfers	265	2,261	(265)	(2,261)	-	-
Change in net assets	41,579	94,167	(18,650)	43,969	22,929	138,136
Net assets - January 1	1,559,702	1,465,535	1,383,457	1,339,488	2,943,159	2,805,023
Net assets - December 31	\$ 1,601,281	\$ 1,559,702	\$ 1,364,807	\$ 1,383,457	\$ 2,966,088	\$ 2,943,159

Governmental activities increased the City's net assets by \$41,579,000 for the year ended December 31, 2008. Key elements of the increase are as follows:

- Property tax and sales and use taxes totaled 84.5% of all tax revenues and 50.3% of all governmental activities' revenues. Property tax recorded in the General Fund, special revenue funds and debt service funds totaled \$274,809,000 for an increase of \$47,621,000 (21%). Sales and use tax revenues of \$468,137,000 were up \$12,701,000 (2.8%) compared to 2007, reflecting a slightly growing economy in 2008.
- The City received \$36,280,000 more in operating grants and contributions in 2008 compared to 2007.

- General government expenses in 2008 were \$257,780,000 (17.9%) of total expenses. Public safety expenses were \$536,382,000 (37.3%) of total expenses. Public works' expenses were \$134,698,000 (9.4%) of total expenses.
- Human services' expenses were \$139,895,000 (9.7%) of total expenses. The remainder of the governmental activities expenses is comprised of health with \$52,332,000 (3.6%), parks and recreation with \$105,232,000 (7.3%), cultural activities with \$62,499,000 (4.4%), community development with \$39,945,000 (2.8%), economic opportunity with \$31,647,000 (2.2%), and interest on long-term debt of \$76,073,000 (5.3%).

Chart 1

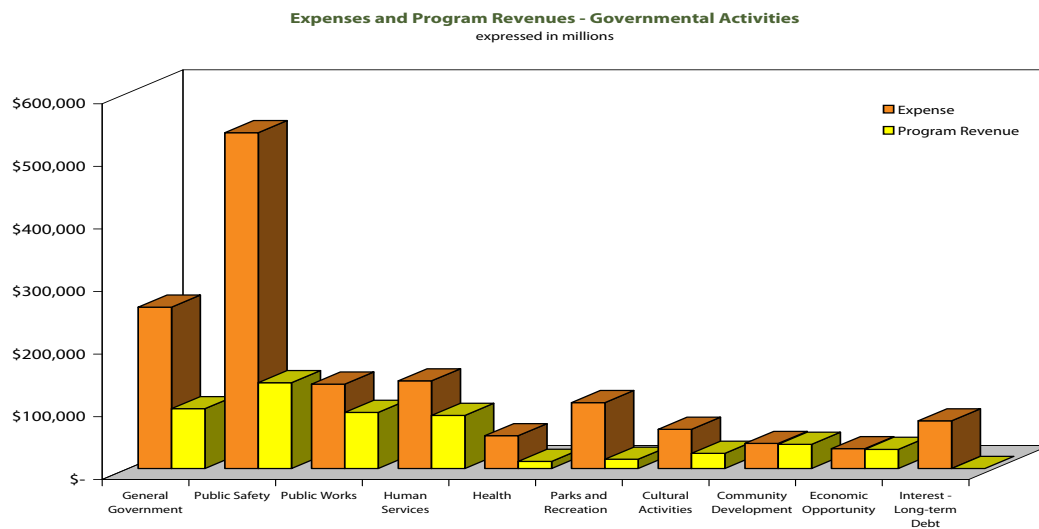
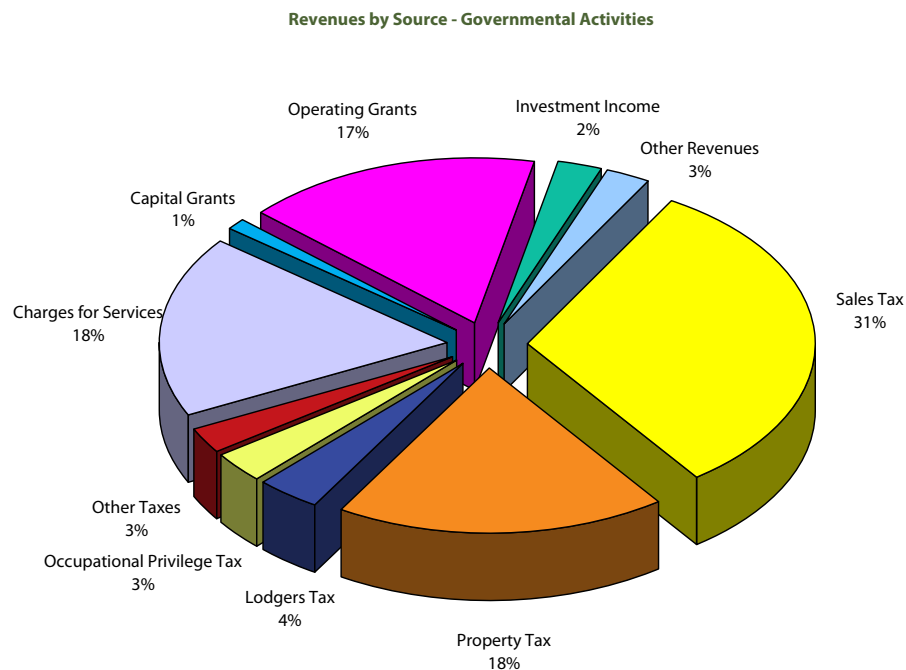


Chart 2



Business-type activities decreased the City's net assets by \$18,650,000. Key elements of this decrease are as follows:

- Total revenues of \$851,826,000 were \$31,387,000 (3.8%) higher compared to prior year amounts primarily due to increases in charges for services, operating grants and contributions, and capital grants and contributions in the Denver Airport System fund.
- Total expenses of \$870,211,000 increased by \$96,002,000 (12.4%) when compared to the prior year, mostly due to higher expenses in the Denver Airport System fund of \$101,479,000 during 2008. Wastewater Management expenses in 2008 totaled \$75,122,000 (8.6%) of total business-type activities. Denver Airport System expenses totaled \$780,501,000 (89.7%) of business-type activities. The remaining \$14,588,000 (1.7%) of expenses in business-type activities were related to Environmental Services and Golf activities.

Chart 3

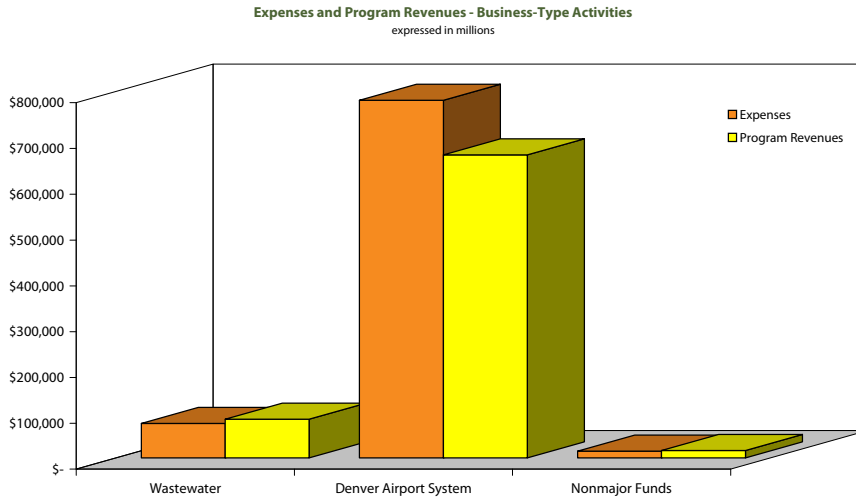
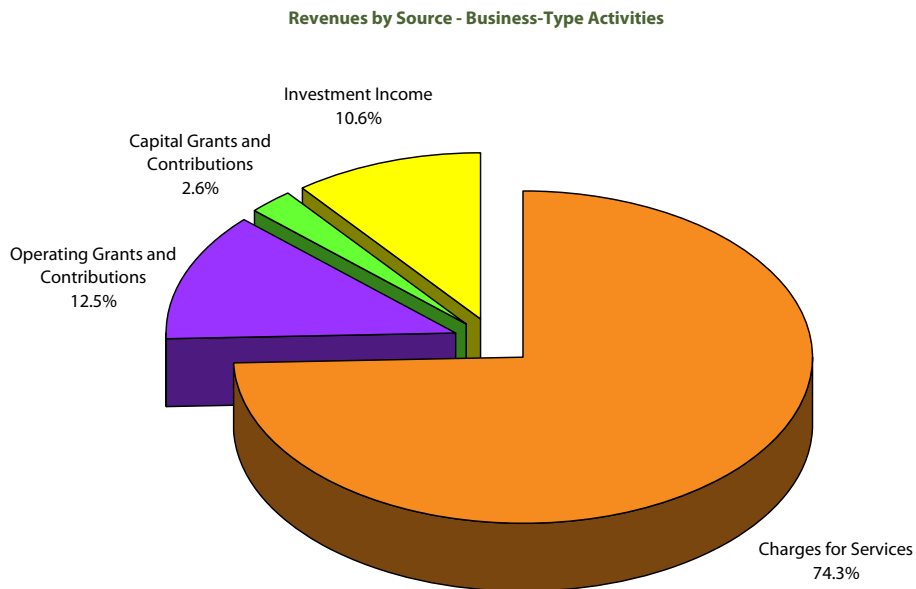


Chart 4



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 revenues, 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, 2008, the City's governmental funds reported combined ending fund balances of \$714,172,000, an increase of \$63,686,000 in comparison with the prior year. Approximately 71.3% (\$508,932,000) 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 (\$83,302,000), 2) for emergency use (\$32,033,000), 3) for notes receivable (\$83,199,000), and 4) for a variety of other purposes (\$6,706,000).

The General Fund is the chief operating fund of the City. As of December 31, 2008, unreserved/undesignated fund balance of the General Fund was \$149,562,000 while total fund balance was \$171,449,000. 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/undesignated fund balance represents 16.7% of total General Fund expenditures including transfers out, while total fund balance represents 19.2% of the same amount.

The total fund balance of the City's General Fund decreased by \$24,142,000 (12.3%) during the year ended December 31, 2008. The key factor in this decrease is total expenditures, including transfers out, were higher than revenues, including transfers in, by \$33,926,000.

Certain revenues in the General Fund that increased from 2007 to 2008 include:

- Sales and use taxes earned were higher by \$12,751,000. The increase in sales and use tax reflects slight growth in economy-driven tax collections for 2008.
- The motor vehicle ownership and registration tax collections were higher by \$2,551,000 principally due to a change in the allocation of the tax. In 2008, portions of the tax were no longer diverted to the old-hire police and fire pension plans, as those unfunded liabilities had been paid down as anticipated.
- Occupational Privilege tax revenues increased by \$21,664,000 largely due to a change in the allocation of the tax. In 2008, all of the Occupational Privilege tax collected was deposited into the General Fund in exchange for sending an equivalent amount of Property Tax to the Capital Improvements Fund.
- Charges for services increased \$29,641,000 due primarily to reclassifying some revenue as charges for services as opposed to reimbursement for expenditures.
- Fines and forfeitures increased by \$4,163,000 primarily due to increases in the parking fine schedule and growth in traffic court fines.
- Lodgers tax revenue increased by \$1,143,000 primarily due to the increased tourism due to the Democratic National Convention.

Significant revenues in the General Fund that decreased from 2007 to 2008 include:

- Property tax revenues decreased by \$16,529,000 largely due to a change in the allocation of the tax. In 2008, all of the Occupational Privilege tax collected was deposited into the General Fund in exchange for sending an equivalent amount of Property Tax to the Capital Improvements Fund.
- Investment and interest income decreased by \$7,025,000 due to the declining economy and resulting lower interest rates.

The Denver economy grew slowly in early 2008, though it had begun to decline by the end of 2008. The City saw increases in tourism and convention travel due to the Democratic National Convention held in August 2008. Other areas of change in the General Fund included:

- Public safety expenditures increased by \$24,249,000, primarily as a result of collective bargaining increases averaging four percent for uniformed officers and increases in jail medical costs.

The Human Services special revenue fund had a total fund balance of \$8,426,000, of which \$2,043,000 is reserved for long-term debt and the Human Services share of the TABOR reserve. The net decrease in fund balance of \$12,567,000 during the current year in the Human Services special revenue fund was mainly due to an increase of \$9,562,000 in Human Services operating expenditures. This increase in expenditures was partially offset by an increase of \$3,679,000 in property tax revenues related to Human Services.

An increase in fund balance in the Bond Projects fund of \$62,076,000 primarily reflects the issuance of debt net of related costs of \$240,556,000. This was offset by \$8,941,000 in increased expenditures by Public Works, \$14,432,000 in higher interest expense, and \$114,208,000 in increased capital outlay.

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 \$491,560,000 and those for the Denver Airport System were \$842,300,000. Net assets for all enterprise funds decreased \$18,672,000. 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 2008 were based on moderate growth in the economy. The projection was for modest sales and use tax growth of 5.1% above 2007 amounts and an overall growth rate in the General Fund of 3.2%. The revenue forecast was revised upward slightly by a total amount of \$6,955,000 (0.8%) during 2008. The major revisions by individual revenue type are listed below.

Major upward revisions in the revenue estimates include:

- 2008 sales and use tax estimates were revised up by \$3,954,000 or 0.9%. At the time, collections were on target with what was originally budgeted, though we were anticipating some additional audit collections.
- Property tax collections were revised up by \$1,212,000 (1.9%).
- An increase in the estimate of fines and forfeitures revenues by \$1,260,000 (3.1%), mainly due to increases in volume of traffic court fines.
- An increase in the transfer of excise tax related to the Convention Center of \$5,245,000 (29.5%) due to the refinancing of the debt in 2007 after the original 2008 budget was completed.

Major reductions to the 2008 revenue estimates include a decrease for licenses and permits revenue of \$4,786,000 (19.3%) due to a decline in construction activity towards the end of 2008.

In 2008, the original projection anticipated a use of fund balance of \$3,625,000, after assuming that approximately \$14,500,000 of appropriations would be unspent at the end of the year. In the final budget, transfers out increased due to the policy decision to transfer \$20,400,000 in designated fund balance for the TABOR emergency reserve to a special revenue fund, which was recorded in the General Fund as a transfer expenditure.

Differences between the final amended budget and actual revenues and expenditures are briefly summarized in the following paragraphs. The national and local economies had significantly worsened in the last few months of 2008 and by October, 2008, revenue forecasts were adjusted again, this time downward from the revised forecast of the summer.

General Fund revenues, including transfers in, were approximately \$5,050,000 lower than the revised budget of the summer, primarily due to the impacts of the recession on certain revenue sources. The one major variance was revenue from sales and use tax collections, which was below the revised forecast by \$9,346,000 (2.1%). This decrease was partially offset by various other revenues sources being over the revised budget, most notably use charges, which was over budget by \$1,327,000 (7.9%) due to higher than anticipated parking related revenue.

General Fund budget basis expenditures including transfers out were approximately \$12,000,000 less than the final budget. This is due to achieving the expected unspent appropriation, due in large part of savings measures put in place when the economy downturned in the fall, including a hiring freeze on non-critical positions.

Capital Assets and Bonded Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of December 31, 2008, were \$6,270,395,000 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment and other, park facilities, and, for governmental activities, infrastructure (including streets, alleys, traffic signals and signs, and bridges). Infrastructure-type assets of business-type activities are reported as buildings and improvements. The City's capital assets by activity at December 31, 2008 and 2007, are shown in **Table 3** (dollars in thousands):

Table 3

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Land and construction in progress	\$ 490,258	\$ 348,010	\$ 380,161	\$ 561,324	\$ 870,419	\$ 909,334
Buildings and Improvements	1,567,482	1,533,493	4,796,888	4,574,411	6,364,370	6,107,904
Equipment and other	258,172	241,380	701,945	620,376	960,117	861,756
Collections	74,556	75,094	-	-	74,556	75,094
Infrastructure	1,055,027	1,007,409	-	-	1,055,027	1,007,409
Less accumulated depreciation	(1,082,728)	(998,855)	(1,971,366)	(1,795,745)	(3,054,094)	(2,794,600)
Total	\$ 2,362,767	\$ 2,206,531	\$ 3,907,628	\$ 3,960,366	\$ 6,270,395	\$ 6,166,897

Major capital asset activity for the year ended December 31, 2008 included the following:

Governmental Activities:

- Construction in progress on the Justice Center in the amount of \$151,152,000

Business-type Activities:

- Additions to the Wastewater Storm Collection system of \$63,600,000
- Additions to the Wastewater Sanitary Collection system of \$20,700,000
- Additions to Denver Airport Systems Building and Improvements of approximately \$130,000,000
- Additions to Denver Airport Systems Equipment of approximately \$34,400,000

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, 2008, the City had total bonded indebtedness of \$4,972,744,000. Of this amount, \$551,679,000 comprises debt backed by the full faith and credit of the City. The remainder of the City's debt, \$4,421,065,000, 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).

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

In February 2008, the City issued \$174,135,000 of Series 2008, General Obligation Bonds, and supplemental "B" interest registered coupons for the purpose of financing a portion of the City's new Justice System Facilities..

The Airport System's senior lien debt is currently rated by Standard & Poor's, Moody's, and Fitch at A+, A1 and A+, respectively, with stable outlooks as of December 2008.

During 2008, the Denver Airport System had the following bond and commercial paper activity:

- On November 2, 2008 the Airport issued \$92,600,000 and \$200,000,000 of Airport System Revenue bonds Series 2008C1 and 2008C2-C3 in a variable rate mode for the purpose of refunding the 2000C and 2000B bonds.
- The Airport system entered into a \$15.3 million Master Installment Purchase agreement with Chase Equipment Leasing Inc. on August 5, 2008, to finance capital equipment purchases, primarily snow removal equipment, based on a ten year life.
- On June 24, 2008, the Airport issued \$81,800,000 of Airport System Revenue Bonds Series 2008B in a variable rate mode for the purpose of refunding Series 2005C1-C2 which were trading at above market rate because of distressed bond insurance.
- The Airport drew \$50 million on March 28, 2008 and \$50 million on April 1, 2008 of Commercial Paper to currently refund the Series 2001C-C2 Auction rate securities ("ARS"). On April 14, 2008 the Airport issued \$221,215,000, \$111,000,000, \$181,965,000 and \$94,660,000 2008A1-A4 bonds in a fixed rate and term rate mode for purposes of current refunding \$100,000,000 of the Series 2001C3-C4, \$267,625,000 of the 2002A1-A3, \$85,275,000 of the 2005B1-B2 Airport Revenue bonds that were variable rate bonds currently in an auction rate mode and to current refund \$144,000,000 of the 2004A-B variable rate bonds. The Series 2001C1-C4 Airport Revenue Bonds which were Auction Rate Securities and associated with 1999, 2002, and 2007A swap agreements, were refunded on March 28, 2008, April 1, 2008 and April 14, 2008, with Commercial Paper and a portion of the Series 2008A1-A4 variable bonds which will bear interest initially in a term mode. The refunding transactions were necessitated by the deterioration of the credit rating of certain bond insurers.

Outstanding debt by activity at December 31, 2008, and 2007, is reflected in **Table 4** (dollars in thousands):

Table 4

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 551,679	\$ 422,924	\$ -	\$ -	\$ 551,679	\$ 422,924
Revenue bonds	290,930	304,105	4,130,135	4,230,760	4,421,065	4,534,865
Total	\$ 842,609	\$ 727,029	\$ 4,130,135	\$ 4,230,760	\$ 4,972,744	\$ 4,957,789

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 original 2009 budget assumed moderate growth in the local economy. By the last quarter of 2008, the economy had entered into a recession, necessitating a revision to 2009 projections for both revenues and expenditures. Currently, 2009 General Fund revenues are projected to be \$851,000,000, which is \$45,300,000 lower than the original budget (-5.0%) and a decrease of \$15,000,000 from actual 2008 revenues. Measures have been put in place to reduce 2009 expenditures. Key points of the 2009 General Fund savings plan are as follows:

- Sales and use tax revenue is projected to decrease \$24,900,000 (-5.8%) from 2008. This figure reflects expectations that the economy will decline through mid-2009 and level off by the end of the year.
- The General Fund portion of the 2009 lodgers tax has been revised down by \$2,569,000 (-16.8%) from the original budget. Tourism, the major driver of Lodgers Tax, is expected to decline significantly in 2009.
- Fee-generated revenue is being revised down by \$3,135,000 (-5.3%), primarily due to the continued decline of construction activity in the City.
- Total 2009 General Fund expenditures were originally budgeted at \$914,070,000, which was an increase of 5% over 2008. Expenditures have now been revised down to \$878,000,000, a decrease of \$35,900,000 from the original 2009 budget.
- \$30 million in operational savings has been identified for 2009, primarily through holding vacant positions open, delaying equipment replacement, and cutting back on supplies and services.
- \$15 million in savings is being achieved by salary concession from uniformed officers, freezing merit pay for Career Service employees at 2.25%, and by suspending the 2009 bonus program.

It is anticipated that unreserved-undesignated fund balance will decrease to approximately \$122,000,000 during 2009, which equates to approximately 13.9% of expenditures. This is appropriate during an economic downturn according to our financial policies.

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/controller.

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