



CITY AND COUNTY OF DENVER, COLORADO  
2004 DISCLOSURE STATEMENT

PUBLISHED IN ACCORDANCE WITH THE SECURITIES  
AND EXCHANGE COMMISSION RULE 15c2-12

For the year ended December 31, 2003

ISSUED TO FULFILL AGREEMENTS AND COVENANTS CONTAINED IN  
CONTINUING DISCLOSURE UNDERTAKINGS EXECUTED IN CONNECTION WITH  
BONDS AND OTHER OBLIGATIONS

# 2004 DISCLOSURE STATEMENT

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John W. Hickenlooper  
Mayor

# CITY AND COUNTY OF DENVER

DEPARTMENT OF REVENUE

CHERYL COHEN-VADER  
MANAGER OF REVENUE

ROOM 300  
144 W. COLFAX AVE.  
DENVER, COLORADO 80202  
PHONE: (720) 865-7200

September 24, 2004

Dear Reader:

The City and County of Denver is committed to providing accurate and timely information to the financial markets. Material contained in this disclosure statement has been prepared to comply with Rule 15c2-12 of the U.S. Securities and Exchange Commission and the Mayor of Denver's Executive Order 114, enacted in 1996, which further commits the City to providing ongoing information to the financial markets. The purpose of the *Disclosure Statement for the Year Ended December 31, 2003* is to present information about the City's 2003 financial condition, but it also contains certain post-2003 information as noted. **The *Disclosure Statement for the Year Ended December 31, 2003* must be read in conjunction with the City's Comprehensive Annual Financial Report (CAFR),** which can be found on the City's Web Site at [www.denvergov.org](http://www.denvergov.org) or by contacting the Office of the Auditor.

In 2003, taking advantage of historic low rates, the City found refunding opportunities in Airport Revenue Bonds, Excise Tax Revenue Bonds and Certificates of Participation. Additionally, new money revenue bonds were issued on behalf of Denver International Airport and general obligation bonds were issued for the historic Quigg Newton Denver Municipal Auditorium, the Denver Zoo and Denver Health Medical Center. The City also executed and delivered two series of certificates of participation to fund several capital projects. This disclosure statement includes information the City has committed to provide on an ongoing basis for these and other financing transactions.

As of this date, no financings have taken place in 2004, but several projects in the planning stage may be completed in the latter part of the year. For those who are interested in future financings, Official Statements, when issued, can be found in the files of the Municipal Securities Rulemaking Board, or may be obtained by calling the City's Debt Management offices at 720-865-7116.

The Manager of Revenue is responsible for the City's compliance with Rule 15c2-12 and Executive Order 114. Please contact my office if you have questions about the material contained within this *Disclosure Statement for the Year Ended December 31, 2003*, or if you have any comments regarding future disclosures.

Sincerely,

A handwritten signature in black ink, appearing to read "Cheryl Cohen-Vader".

Cheryl Cohen-Vader  
Manager of Revenue  
City and County of Denver

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**CITY AND COUNTY OF DENVER OFFICIALS**  
**As of December 31, 2003**

**Mayor**

John W. Hickenlooper

**City Council**

Elbra Wedgeworth, President

Carol Boigon	Peggy A. Lehmann
Charles V. Brown Jr	Douglas D. Linkhart
Jeanne Faatz	Kathleen MacKenzie
Rick Garcia	Judy H. Montero
Michael B. Hancock	Jeanne Robb
Marcia M. Johnson	Rosemary E. Rodriguez

**Auditor**

Dennis J. Gallagher

**Election Commissioners**

Sandy Adams Susan Rogers

**Cabinet Officials**

Kim M. Bailey	Manager of the Department of Parks and Recreation
Vicki Braunagel	Co-Manager of the Department of Aviation
Cheryl Cohen-Vader	Deputy Mayor, Manager of Revenue, <i>ex officio</i> Treasurer
Luis A. Colon	Manager of the Department of General Services
Cole Finegan	City Attorney
Alvin J. LaCabe, Jr.	Manager of the Department of Public Safety
Peter J. Park	Manager of Community Planning and Development
Nancy J. Severson	Manager of the Department of Environmental Health
Guillermo "Bill" V. Vidal	Manager of the Department of Public Works
Turner West	Co-Manager of the Department of Aviation
Roxane White	Manager of the Department of Human Services

**Clerk and Recorder, *ex officio* Clerk**

Wayne E. Vaden

**Board of Water Commissioners**

Denise S. Maes.....	President
Richard A. Kirk.....	Vice President
Daniel E. Muse.....	Vice President (partial year)
William R. Roberts.....	First Vice President
Andrew D. Wallach.....	Vice President (partial year)

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## **THE CITY AND COUNTY OF DENVER, COLORADO**

### **General Information**

The City and County of Denver is located on the eastern slope of the Rocky Mountains in the north-central part of the State of Colorado. Denver is the capital of the State and is the service, retail, financial, transportation and distribution center of the Rocky Mountain region. Over one-half of Colorado's population and more than 60% of the State's jobs are located in the Denver metropolitan area.

### **Organization**

The City was originally incorporated by a special act passed at the first session of the Legislative Assembly of the Territory of Colorado, adopted and approved on November 7, 1861. The State Constitution was adopted by the people of the State on March 14, 1876, and the Territory was admitted into the Union as a State by proclamation of President Grant on August 1, 1876. Article XX was added to the State Constitution at the State's general election in November 1902. The City was reorganized thereunder as the consolidated municipal government known as the City and County of Denver and exists as a "home-rule" city under the City Charter adopted by the qualified electors of the City on March 29, 1904, as amended from time to time. The City is a single governmental entity performing both municipal and county functions.

### **Government**

The City Charter establishes a "strong-mayor" form of government. The Mayor of the City is the chief executive, exercising all administrative and executive powers granted to the City, except as otherwise delegated by the City Charter. The Mayor is elected every four years and is limited to three consecutive terms. The legislative powers of the City are vested in the City Council, except as otherwise provided in the City Charter. The City Council consists of thirteen members, two of whom are elected on an at-large basis and eleven of whom are elected from districts, all for four-year terms with a three-consecutive-term limit. Seven members constitute a quorum, and the vote of seven members is necessary to adopt any ordinance or resolution. Ordinances and resolutions passed by the City Council are subject to a qualified veto by the Mayor (except certain ordinances concerning charter amendments or conventions). The Mayor's veto may be overridden by the vote of nine City Council members.

The City Auditor is the general accountant of the City, responsible under the City Charter to receive and preserve all accounts, books, vouchers and papers relating to accounts and contracts of the City, its debts, revenues and other fiscal affairs. The City Auditor is elected every four years and is limited to three consecutive terms.

The City Charter establishes a cabinet of managers of ten departments to participate with the Mayor in formulating and implementing the general administrative policies of the City and establishes the Office of the Clerk and Recorder. All of these individuals are appointed by the Mayor. The current Clerk and Recorder of the City is Wayne E. Vaden. The Mayor’s cabinet on the date of publication of this document consists of the following:

Kim M. Bailey	Manager of the Department of Parks and Recreation
Vicki Braunagel	Co-Manager of the Department of Aviation
Cheryl Cohen-Vader	Manager of the Department of Revenue, <i>ex officio</i> Treasurer
Luis A. Colon	Manager of the Department of General Services
Cole Finegan	City Attorney
Alvin J. LaCabe Jr.	Manager of the Department of Safety
Peter J. Park	Manager of Community Planning and Development
Nancy J. Severson	Manager of the Department of Environmental Health
Guillermo “Bill” Vidal	Deputy Mayor, Manager of the Department of Public Works
Turner West	Co-Manager of the Department of Aviation
Roxane White	Manager of the Department of Human Services

In addition to the members of the cabinet, the Mayor also works closely with Michael Bennet, Mayor’s Chief of Staff, Margaret Browne, Director of Finance, and John Huggins, Director of the Office of Economic Development.

### **Budget Policy**

The City Charter establishes a fiscal year for the City that begins on January 1 and ends on December 31 (the “Fiscal Year”). Before the third Monday in October of each Fiscal Year, the Mayor submits an operating and capital budget for the ensuing Fiscal Year to the City Council for its approval. The City Council may accept the budget with a majority vote or may vote to override all or any part of the Mayor’s budget with a two-thirds majority vote. After the budget is approved (no later than the second Monday in November), the Mayor is empowered to administer the operating and capital budget for the next Fiscal Year. If the City Council fails to adopt a budget by the required date, the proposed budget, together with any amendments approved by the City Council, becomes the official budget.

The budget proposed by the Mayor may not include expenditures in excess of estimated opening balances and anticipated revenues. In addition, the General Fund budget is required by the City Charter to include a year-end closing balance, which can only be expended upon a two-thirds majority vote of the City Council during that Fiscal Year, but may be considered income for the ensuing Fiscal Year. The City has a Contingency Reserve of no less than 2% of total estimated expenditures. In addition, an Emergency Reserve equal to 3% of fiscal year spending excluding debt service is also required to be included in the budget. Revenues in excess of those projected, or an opening balance larger than projected, are added to the Contingency Reserve.

The City administration utilizes multi-year planning and forecasting methods for General Fund budgeting and for capital projects planning. The City uses five-year revenue and expenditure forecasts in its General Fund financial planning in order to meet future operational needs and uses a six-year program in order to meet future capital needs.

### **Constitutional Revenue and Spending Limitations**

In 1992, the voters of the State approved an amendment to the State Constitution known as the “Taxpayer’s Bill of Rights” (“TABOR”), which limits the powers of public entities to borrow, tax and spend.

TABOR requires voter approval prior to the creation by the City of any multiple-fiscal year debt or other financial obligation, subject to certain exceptions including refinancing at a lower interest rate.

An exception from the provisions of TABOR is maintained for “enterprises,” defined in TABOR as a government-owned business authorized to issue its own revenue bonds and receiving less than 10% of its annual revenues in grants from all State and local governments combined. The effect of “enterprise” status is to exempt an enterprise from the restrictions and limitations otherwise applicable to the City under TABOR. The City has designated the Department of Aviation, the Water Board, and the Wastewater utility as enterprises under TABOR.

TABOR contains a provision that allows the voters to authorize a public entity to retain excess revenues. In November 2000, Denver voters authorized an exemption from the TABOR limits for all excess tax revenues received by the City in Fiscal Years 1999 through 2003 and for all non-tax revenues received by the City in Fiscal Year 1999 and thereafter. The excess tax revenues received in Fiscal Years 1999 through 2003 must be applied to affordable housing and transportation improvement projects. The City did not have excess tax revenues in 2003 and forecasts no excess for 2004.

## **General Fund**

The General Fund is the principal operating fund of the City. Information contained in this section has been drawn from the annual financial reports of the City, the General Fund budget for the years 2003 and 2004 and information prepared by the City’s Department of Revenue

**Major Revenue Sources.** The major revenue sources for the City’s General Fund are sales and use taxes and the City’s property tax. Other revenue sources include intergovernmental revenues, charges for services, franchise fees and other taxes.

The general sales tax is a fixed-rate (3.5%) tax imposed on the sale of all tangible personal property not specifically exempted and on certain services. Additionally, there are separate sales tax surcharges for short-term car rental, prepared food and beverages and aviation fuels. A portion of these charges is used for debt service payments. The general use tax is a fixed-rate (3.5%) tax imposed on the storage, use and consumption of tangible personal property not specifically exempted. In practice, sales and use taxes are accounted for on a combined basis.

Property taxes are levied on all real property, personal property and public utilities within the City, except for certain property that has been specifically exempted in whole or in part. General categories of exempt property include property used for religious or charitable purposes and property owned by governmental entities. The General Fund net property tax mill levy was as follows for the related tax collection years: 11.666 mills for 1998 and 1999; 10.006 mills for 2000 and 2001; 8.744 mills for 2002; 8.964 mills for 2003; and 8.857 mills for 2004. These levies take into account the temporary mill levy rate reductions as needed to comply with State Constitutional revenue and spending limitations. See “Constitutional Revenue and Spending Limitations,” in the previous section of this document.

Other amounts collected by the City and accounted for in the General Fund include the lodgers’ tax, the automobile ownership tax, franchise fees and the telecommunications business tax. The lodgers’ tax is levied on the purchase price of hotel, motel and similar temporary accommodations in the City. The automobile ownership tax is levied on all motor vehicles registered with the City’s Division of Motor Vehicles and is based on the age and value of the vehicle. Franchise fees include the utility franchise fees imposed upon Xcel Energy for its franchise to serve customers in the City and the franchise fee imposed on Comcast for operation of its cable television franchise within the City. The telecommunications business tax is imposed on providers of local exchange telecommunication service based upon the number of local service lines.

The occupational privilege tax (the “OPT”) is levied on non-exempt individuals earning \$500 or more per month who perform services within the City for any period of time. Proceeds are used to partially compensate for the City’s services as an employment center. Currently, one-half of the revenues from the OPT are apportioned to the Capital Improvements Fund, and the balance is apportioned to the General Fund.

Charges for services are another major revenue source for the City’s General Fund. General Fund agencies bill individuals, businesses and other City funds for various services, supplies and materials.

Charges are assessed to the individual or entity benefiting from the provision of a specific service, supply or material, and the exact charge varies depending upon the cost of the service, supply or material provided.

Intergovernmental revenues received by the City include State grants and other State revenues. Various highway taxes and fees collected by the State are shared with local governments including the City. The State-imposed cigarette tax is also shared with the City and included in intergovernmental revenues.

**Major Expenditure Categories.** The General Fund accounts for all expenditures normally associated with basic municipal functions. Expenditures under the General Fund are allocated to General Government, Public Safety, Public Works, Health, Parks and Recreation, and Cultural Activities. The largest portion of the 2003 Budget (45.3%) was allocated to Public Safety, which is primarily responsible for administering police, fire and sheriff's department services. For 2004 Public Safety has again been allocated the largest portion of the budget (46.7%).

### **Management Discussion of Recent Financial Results**

The City maintains a policy of managing General Fund Resources to the level of funds available rather than relying on tax increases. This is accomplished by reallocating resources selectively to initiate new services, eliminating cash deficits in other funds and maintaining year-end unrestricted General Fund balances equal to at least ten percent of estimated expenditures.

**1999.** The City began 1999 with an undesignated General Fund balance of \$117.9 million, an increase of \$18.3 million from the prior year. Consistent with previous years, the City invested some of the accumulated increase in its reserves to improve Denver neighborhoods, strengthen its economic base, expand public services provided to businesses and residents and to invest in youth and education. Spending again increased for police, fire and sheriff's services including funding for a new photo radar traffic enforcement program. Projects funded to strengthen the economic base include: the International Trade Program, which promotes the exchange of business activity in Denver and with foreign markets; continued development of the Central Platte Valley and Gateway areas; and continued redevelopment of the former Lowry Air Force Base and Stapleton International Airport sites. Moneys were committed for youth and education, including seed money to fund early childhood development services. Challenges imposed by information technology issues continued to be addressed. The 1999 General Fund revenues increased by 4.5% over the prior year with no tax increases.

**2000.** The year 2000 began with an undesignated fund balance of \$112.9 million. In 2000, the City transferred \$45.5 million to the Capital Improvement Fund, to continue its commitment to using General Fund surplus for one-time capital improvements. Sales and use tax collections, which represented over half the General Fund's total revenues, increased 13% over 1999 collections, which does not include a \$20 million one-time audit payment of use taxes. By the end of 2000, the City exceeded constitutional revenue limits by \$16.7 million; however in November 2000, the City's voters authorized an exemption from the TABOR limits for all excess tax revenues received by the City in Fiscal Years 1999 through 2003 and all non tax revenues received by the City in Fiscal year 1999 and thereafter. The excess tax revenues received in Fiscal Years 1999 through 2003 must be applied to affordable housing and transportation improvement projects.

**2001.** As the strong Denver economy continued, the 2001 fiscal year focused on providing the services and infrastructure required by new growth as well as maintaining and improving the quality of basic services. In a proactive approach, urban designers and planners and transportation and civil engineers were added. A Chief of E-government position was created to facilitate strategic and systems thinking, and a \$5.5 million reserve was set aside to implement strategic City-wide technology applications. A transfer of \$25.5 million was made to the Capital Improvement Fund. The year's expenditures reflected a continued commitment to public safety, children and schools, parks and open spaces and economic development. For the first time since 1987, in 2001 the City sales tax revenues did not increase over the prior year. Consistent with other U.S. cities after the September attack on the World Trade Center, the City experienced a decrease in sales tax revenues during the last quarter of the year. The City controlled expenditures to accommodate this decrease during the last quarter. This action enabled the City to maintain a 2001 ending fund balance of \$156.2 million, which was approximately 20% of expenditures in the General Fund.

**2002.** In recognition of a changing economic climate, the City's originally adopted 2002 budget was amended twice in 2002 by cuts of approximately 1% each. The City also initiated a personnel review process to identify positions that would not be automatically filled when vacated. Expenditures were reduced by \$18.4 million. Sales tax collections, which represent over 50% of the City's General Fund revenues, declined for the second consecutive year. Sales tax receipts were \$12.8 million less than 2001, representing a decline of approximately 3%. Investment income declined by \$4 million due to the decreased amounts available for investment and the declining interest rates. Alternately, property tax collections increased by \$3.6 million and charges for services increased by \$12 million. The City ended the year with an unreserved fund balance of \$77.9 million, or approximately 11% of 2002 expenditures.

**2003.** The economic climate continued to soften in 2003, with retail sales statewide remaining stagnant. Sales tax collections in Denver were \$12.9 million less than in 2002, representing a decline of approximately 2.63%. Investment income also declined by \$1.6 million due to the low interest rates and slightly lower cash balances available to be invested. The City made additional mid-year reductions to most General Fund budgets, including reducing Mayoral appointee's salaries, transferring funds from the Capital Improvement Fund to the General Fund, offering retirement incentives, requiring two days of leave without pay for some employees, and continuing a hiring freeze. Because of those additional savings, the General Fund was able to end the year with an unreserved fund balance of \$88.9 million, or approximately 12.3% of 2003 expenditures.

### **Management Discussion of 2004 Budget**

Mayor Hickenlooper took office in July, 2003, and immediately addressed cost-cutting measures for 2004. A slow and gradual economic recovery is projected with Denver lagging behind the nation because of the continued slowdown in the telecommunications and technology industries. In an effort to avoid disruptive projected revenue revisions, a modest 1.1% sales tax growth is being forecast for 2004. The City implemented additional cost saving measures including limiting capital projects to critical maintenance projects, reducing capital equipment purchases, reducing fleet replacement and refinancing debt where appropriate. In order to reduce layoffs, some City employees are being asked to take leave without pay, contribute 2 percent to pension costs, pay a larger share of health insurance premiums, and defer any merit increases until 2005.

### **General Fund Financial Information**

The following pages include Table 1, General Fund Balance Sheet; Table 2, General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance for 1999 through 2003; Table 3, General Fund Budget Summary in dollars; and Table 4, General Fund Budget Summary by percentage.

**Table 1**

**CITY AND COUNTY OF DENVER  
GENERAL FUND BALANCE SHEET  
For the years ending December 31, 1999-2003  
(\$ in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 82,317	\$ 94,122	\$ 72,770	\$ 58,645	\$ 70,537
Cash on hand	3,654	4,038	2,396	--	2
Receivables (net of allowances for uncollectibles):					
Taxes	108,749	113,047	108,884	112,196	115,748
Accounts	4,126	4,097	3,445	2,521	2,921
Accrued interest	1,510	2,195	1,057	781	409
Due from other funds	18,598	21,516	24,086	12,145	24,326
Due from other governments	--	7,508	1,151	--	--
Prepaid items and other assets	359	10	--	306	128
Restricted assets:					
Cash and cash equivalents	<u>18,441</u>	<u>19,325</u>	<u>34,253</u>	<u>24,949</u>	<u>34,759</u>
<b>TOTAL ASSETS</b>	<u><b>\$237,754</b></u>	<u><b>\$265,858</b></u>	<u><b>\$248,042</b></u>	<u><b>\$211,543</b></u>	<u><b>\$248,830</b></u>
<b>LIABILITIES</b>					
Vouchers payable	13,382	13,669	12,075	13,758	12,401
Accrued liabilities	8,891	8,257	8,273	8,509	5,624
Due to other funds	5,919	5,342	3,875	2,444	1,993
Deferred revenue	62,003	64,108	67,628	71,494	75,505
TABOR refund liability <sup>1</sup>	<u>5,839</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<b>TOTAL LIABILITIES</b>	<u><b>96,034</b></u>	<u><b>91,376</b></u>	<u><b>91,851</b></u>	<u><b>96,205</b></u>	<u><b>95,523</b></u>
<b>FUND BALANCE</b>					
Reserved for emergency use	18,441	19,325	19,496	18,685	17,900
Reserved for encumbrances	10,008	13,400	12,689	12,210	11,663
Reserved for prepaid items and other assets	359	10	--	306	128
Reserved for construction	--	--	14,757	6,209	34,759
Unreserved:					
Designated for net unrealized gains	--	2,453	1,090	--	--
Undesignated	<u>112,912</u>	<u>139,294</u>	<u>108,159</u>	<u>77,928</u>	<u>88,857</u>
<b>FUND BALANCE</b>	<u><b>141,720</b></u>	<u><b>174,482</b></u>	<u><b>156,191</b></u>	<u><b>115,338</b></u>	<u><b>153,307</b></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><b>\$237,754</b></u>	<u><b>\$265,858</b></u>	<u><b>\$248,042</b></u>	<u><b>\$211,543</b></u>	<u><b>\$248,830</b></u>

<sup>1</sup> In 1999, the City exceeded the TABOR spending limits for the first time. In November 2000, Denver voters authorized the City to retain excess tax revenues for the years 1999-2003, to be applied equally to affordable housing and transportation improvement projects, and any excess non-tax revenues for 1999 and thereafter. See "THE CITY AND COUNTY OF DENVER, COLORADO – Constitutional Revenue and Spending Limitation."

(Source: City and County of Denver's Comprehensive Annual Financial Reports, 1999-2003.)

Table 2

**CITY AND COUNTY OF DENVER  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
For the years ending December 31, 1999-2003  
(\$ in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
REVENUES					
Taxes:					
Property	\$ 57,858	\$ 61,087	\$ 63,233	\$ 66,889	\$ 68,262
Sales and use	347,811	413,550	388,171	375,334	366,627
Other	65,889	71,277	73,372	66,622	69,707
Licenses and Permits	16,925	20,734	18,442	17,358	21,401
Intergovernmental Revenues	30,629	30,506	35,843	32,267	28,708
Charges for Services	74,535	84,205	84,999	97,066	100,853
Investment Income	12,726	14,623	9,997	5,796	4,210
Change in fair value of investments	(1,402)	2,453	(1,364)	(1,089)	(215)
Fines and Forfeitures	23,859	22,897	27,835	30,888	31,179
Other Revenues	2,902	4,322	4,444	6,046	10,033
<b>TOTAL REVENUES</b>	<u>631,732</u>	<u>725,654</u>	<u>704,972</u>	<u>697,177</u>	<u>700,765</u>
EXPENDITURES					
Current:					
General Government	150,038	151,428	166,400	170,298	173,704
Public Safety	285,268	300,356	318,029	328,853	328,225
Public Works	71,661	74,661	74,893	77,282	73,975
Health	37,759	39,411	41,415	42,478	40,949
Parks and Recreation	38,269	42,029	45,427	45,112	43,094
Cultural Activities	24,492	26,311	29,142	31,092	30,872
Capital Outlay	12,942	-	2,101	15,035	33,961
<b>TOTAL EXPENDITURES</b>	<u>620,429</u>	<u>634,196</u>	<u>677,407</u>	<u>710,150</u>	<u>724,780</u>
Excess of Revenues over Expenditures	<u>11,303</u>	<u>91,458<sup>1</sup></u>	<u>27,565</u>	<u>(12,973)</u>	<u>(24,015)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from Sale of Capital Assets	--	469	63	--	--
Certificates of Participation Proceeds	--	--	16,396	--	--
Proceeds from Capital Lease	12,942	--	462	--	52,103
Operating Transfers In	23,079	25,846	24,071	27,165	31,561
Operating Transfers Out	(57,460)	(86,754)	(88,348)	(55,045)	(40,323)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(21,439)</u>	<u>(60,439)</u>	<u>(47,356)</u>	<u>(27,880)</u>	<u>43,341</u>
Net change in fund balances	(10,136)	31,019	(19,791)	(40,853)	19,326
Fund balance - January 1	150,356	141,720	174,482	156,191	115,338
Prior Period Restatement	--	--	--	--	18,643
Residual equity transfers in	1,500	1,743	1,500	--	--
<b>FUND BALANCE – December 31<sup>2</sup></b>	<u>\$141,720</u>	<u>\$174,482</u>	<u>\$156,191</u>	<u>\$115,338</u>	<u>\$153,307</u>

<sup>1</sup> The sizable increase in the Excess of Revenues Over Expenditures from 1999 to 2000 is due primarily to these factors: a one-time audit collection of approximately \$20,000,000 in 2000, a healthy economic year in 2000 with only a small increase in expenditures. The percentage of sales and use tax revenues increase without such one-time collections, was 13.15%. During the same period, expenditures increased by only 2.2%.

<sup>2</sup> Fund Balance includes a reserve for encumbrances, emergency use, and construction. In 2003, \$64,450,000 was designated or restricted to cover these reserves, leaving an unrestricted fund balance of \$88,857,000.

(Source: City and County of Denver's Comprehensive Annual Financial Reports, 1999-2003.)

Table 3

**GENERAL FUND BUDGET SUMMARY**  
**Original Budget 2003, Final Budget 2003, Actual Results as of December 31, 2003**  
**Per 2003 CAFR, Proposed Budget 2004 Per Mayor's Proposed 2004 Budget**

(\$ in thousands)

	<b>2003 Final Budget</b>	<b>2003 Actual Results</b>	<b>2004 Proposed Budget</b>
<b>REVENUES</b>			
Taxes	\$ 534,582	\$ 504,596	\$ 500,937
Licenses and Permits	14,746	21,401	16,618
Intergovernmental Revenues	31,117	28,708	30,319
Charges for Services	108,257	100,853	102,001
Investment and Interest Income	5,019	3,995	3,000
Fines and Forfeitures	35,442	31,179	33,479
Other Revenues	<u>7,169</u>	<u>10,033</u>	<u>7,790</u>
<b>TOTAL REVENUES</b>	<u>736,332</u>	<u>700,765</u>	<u>694,144</u>
<b>EXPENDITURES</b>			
General Government	178,184	165,401	188,227
Public Safety	335,861	327,191	334,236
Public Works	77,768	73,015	77,356
Health	41,992	41,107	40,517
Parks and Recreation	46,192	43,036	41,767
Cultural Activities	<u>31,424</u>	<u>30,944</u>	<u>32,785</u>
<b>TOTAL EXPENDITURES</b>	<u>711,421</u>	<u>680,694</u>	<u>714,888</u>
Excess (deficiency) of Revenues over Expenditures	<u>24,911</u>	<u>20,071</u>	<u>(20,744)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Capital Leases	--	52,103	--
Transfers In	21,790	31,561	19,000
Transfers Out	<u>(43,841)</u>	<u>(40,323)</u>	<u>--</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(22,051)</u>	<u>43,341</u>	<u>19,000</u>
Excess of Revenue and Other Financing Sources over Expenditures and Other Financing Uses	<u>\$ 2,860</u>	\$ 63,412	<u>\$ (1,744)</u>
Add Outstanding Encumbrances <sup>1</sup>		11,663	
Less Prior Year Encumbrances (Adjusted)		(12,805)	
Less Interest		(8,983)	
Less Capital Outlay		<u>(33,961)</u>	
Net Change in Fund Balances		19,326	(4,562)
Unrestricted Fund Balance – January 1		115,338	
2004 Budgetary Fund Balance – January 1			<u>76,367</u>
Prior Period Adjustment		<u>18,643</u>	
<b>Unrestricted Fund Balance – December 31</b>		<u>\$ 153,307<sup>2</sup></u>	<u>\$ 71,805<sup>3</sup></u>

1 Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general, special revenue, and capital projects funds. Encumbrances outstanding at year-end are reported as reservations of fund

- balances, since they do not constitute expenditures or liabilities.
- 2 Of this total, actual end of year fund balance, \$88,857,000 is unrestricted.
  - 3 The 2004 budget was prepared prior to year-end 2003 and \$76,367,000 was the projected unrestricted fund balance. When the actual unrestricted fund balance of \$88,857,000 is used, the recalculated fund balance as of December 31, 2003 is \$84,295,000. This budgetary projected fund balance is fully unrestricted.

(Sources: The 2003 Budget, the 2003 CAFR and Mayor's Proposed 2004 Budget City and County of Denver, prepared in October, 2003.)

**Table 4**

**GENERAL FUND BUDGET SUMMARY  
2003 ORIGINAL BUDGET, 2003 FINAL BUDGET, 2003 ACTUAL RESULTS AS OF  
DECEMBER 31, 2003, 2004 PROPOSED BUDGET  
(by percentage)**

	<b>2003 Final Budget</b>	<b>2003 Actual Results</b>	<b>2004 Proposed Budget</b>
<b>REVENUES</b>			
Taxes	72.6%	72.0%	72.2%
Licenses and Permits	2.0%	3.1%	2.4%
Intergovernmental Revenues	4.2%	4.1%	4.4%
Charges for Services	14.7%	14.4%	14.7%
Investment and Interest Income	0.7%	0.6%	0.4%
Fines and Forfeitures	4.8%	4.4%	4.8%
Other Revenues	<u>1.0%</u>	<u>1.4%</u>	<u>1.1%</u>
<b>TOTAL REVENUES</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
 <b>EXPENDITURES</b>			
General Government	25.0%	24.3%	26.3%
Public Safety	47.2%	48.1%	46.8%
Public Works	11.0%	10.7%	10.8%
Health	5.9%	6.0%	5.7%
Parks and Recreation	6.5%	6.3%	5.8%
Cultural Activities	<u>4.4%</u>	<u>4.6%</u>	<u>4.6%</u>
<b>TOTAL EXPENDITURES &amp; OTHER FINANCING USES</b>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(Sources: The 2003 Budget, the 2003 CAFR and the Mayor's Proposed 2004 Budget prepared in October 2003.)

**Collection of Taxes**

The City Charter provides that the Manager of Revenue, *ex-officio* Treasurer, shall collect taxes in the same manner and at the same time as State taxes are collected. All laws of the State for the assessment and collection of general taxes, including laws for the sale of property for taxes and the redemption of the same, apply to the City, except as modified by the City Charter. The Treasurer is required under the City Charter to report the amount of tax collections to the Auditor.

## Sales and Use Taxes

The City's sales and use tax collections historically account for over one-half of the General Fund revenues. A fixed-rate general sales tax of 3.5% is imposed on the sale of all tangible personal property not specifically exempted and on certain services. The general use tax is a fixed-rate, also 3.5%, imposed on the storage, use and consumption of tangible personal property not specifically exempted. The City imposes specific tax rates for the following goods or services:

### GENERAL FUND SALES AND USE TAX RATES

<u>Taxation of Certain Goods or Services</u>	<u>City Tax Rate</u>
Non-exempt retail sales, lease or rentals of tangible personal property and on certain services	3.5%
Prepared food and drink	4.0%
Aviation fuel	\$0.04 per gallon
Automobile rental for thirty (30) days or less	7.25%
Lodging for thirty (30) days or less	9.75%

Only a portion of the food and drink tax, automobile rental tax and lodgers' tax is reflected in the General Fund's Sales and Use Tax category; the remainder is pledged to certain Excise Tax Revenue Bonds and recorded in another Fund.

The practice of the City is to account for sales and use taxes on a combined basis. Table 5 reflects the City's sales and use tax collections for the past ten years.

**Table 5**

### GENERAL FUND SALES AND USE TAX REVENUES 1994 – 2003 (\$ in thousands)

<u>Year</u>	<u>Revenues</u>	<u>Percent Change</u>
1994	\$249,163	4.89%
1995	259,827	4.28
1996	265,788	2.29
1997	286,696	7.87
1998	325,357	13.48
1999	347,811	6.90
2000 <sup>1</sup>	393,550	13.15
2001	388,171	(1.37)
2002	375,334	(3.30)
2003	366,627	(2.32)

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<sup>1</sup> Does not include a one-time \$20 million collection resulting from a use tax audit.  
(Source: Department of Revenue)

## Property Taxation

**Assessed Valuation.** The assessed value of real property for tax purposes is computed using statutory actual values as determined from manuals published by the Administrator of the State Division of Property Taxation and from data developed by the Manager of Revenue, *ex officio* Assessor, based on evidence collected from the marketplace. Table 6 sets forth the State property appraisal method for assessment years 1998 through 2007.

**Table 6**

### STATE PROPERTY APPRAISAL SYSTEM

<u>Collection Year</u>	<u>Assessment Year</u>	<u>Value Calculated as of</u>	<u>Based on the Market Period</u>
1998	1997	July 1, 1996	January 1, 1995 to June 30, 1996
1999	1998	July 1, 1996	January 1, 1995 to June 30, 1996
2000	1999	July 1, 1998	January 1, 1997 to June 30, 1998
2001	2000	July 1, 1998	January 1, 1997 to June 30, 1998
2002	2001	July 1, 2000	January 1, 1999 to June 30, 2000
2003	2002	July 1, 2000	January 1, 1999 to June 30, 2000
2004	2003	July 1, 2002	January 1, 2001 to June 30, 2002
2005	2004	July 1, 2002	January 1, 2001 to June 30, 2002
2006	2005	July 1, 2004	January 1, 2003 to June 30, 2004
2007	2006	July 1, 2004	January 1, 2003 to June 30, 2004

As of January 1, 1985, the State General Assembly was required to determine the percentage of the aggregate statewide valuation for assessment that is attributable to residential real property. For each subsequent year, the General Assembly was and is required to re-determine the percentage of the aggregate statewide valuation for assessment which is attributable to each class of taxable property, after adding any increased valuation for assessment attributable to new construction and increased oil and gas production. For each year in which there is a change in the level of value, the General Assembly is required to adjust the assessed valuation ratio for residential real property as necessary to maintain the previous year's percentage of aggregate statewide valuation attributable to residential real property. The Colorado General Assembly set the residential real property assessed valuation ratio at 7.96% of its statutory actual value for assessment years 2003 and 2004. For assessment years 2001 and 2002, residential real property was valued for assessment at 9.15% of its statutory actual value. For assessment years 1997 through 2000, residential real property was valued for assessment at 9.74% of its actual value. All other taxable property (with certain specified exceptions) has had an assessed valuation ratio throughout these tax years of 29% of statutory actual value.

The City's assessed valuation is established by the Assessor of the City, except for public utility property, which is assessed by the Administrator of the State Division of Property Taxation. Property taxes are levied on all real and personal property, except certain categories of exempt property. Classes not subject to property taxes include, but are not limited to, property of the United States of America; property of the State and its political subdivisions; property of school districts; property used as an integral part of a licensed school childcare center, inventories of merchandise and supplies that are held for consumption by a business or are held primarily for sale; agricultural and livestock products; agricultural equipment; property used for religious or charitable purposes; and noncommercial personal property.

On November 6, 2001, the electors of the State approved an amendment to the State Constitution, which is commonly known as "Referendum A." Generally, Referendum A (i) reduces property tax for qualified senior citizens by exempting fifty percent of the first \$200,000 of actual value of residential property from property taxation; (ii) requires that the State reimburse all local governments for any property tax revenue reduction resulting from Referendum A property tax reduction; and (iii) excludes the State reimbursement to local governments from the revenue and spending limits established under certain State constitutional provisions.

Pursuant to the terms of the Constitutional amendment, the State Legislature may enact legislation to revise the percentage of the covered property to be exempted. Due to State budgetary constraints, this was done in 2003, with the percentage being reduced to zero for tax collection years 2004, 2005 and 2006. This change does not reduce the total amount of property tax and State reimbursement the City will collect for these years. Instead, it suspends the provisions of the exemption program for a three-year period. In 2003, the only year in which the exemption program was in effect, the City received full reimbursement from the State for all reductions in property tax collected from qualified senior citizens.

***Property Taxes.*** Property taxes are due January 1 of each year. They may be paid in full on or before April 30 or in two equal installments, the first due February 28 and the second due June 15. The first half becomes delinquent after the last day of February. The second half becomes delinquent after June 15. If the entire tax is paid at one time on or before April 30, no interest is charged.

Delinquent general property taxes draw interest where the following circumstances exist. If the first installment is not paid by the last day of February, penalty interest accrues at the rate of 1% per month from March 1 until June 16 or to the date of payment if such installment is paid prior to June 16. After June 15, the entire tax becomes delinquent and accrues interest at the rate of 1% per month until the date of payment, which penalty interest is in addition to any penalty interest which may have accrued on the same taxes prior to June 16. If the full amount of taxes is paid in a single payment after the last day of April, interest is added to the full amount of taxes due in the amount of 1% per month and accrues from the first day of May until the date of payment.

The Treasurer is empowered to sell at public auction property upon which levied taxes remain unpaid, after due process of law. Tax sales are held in November of the year in which the taxes become delinquent. All tax certificates not sold to buyers at the annual tax sale are bid on by the City. Property that thereby becomes the property of the City or another taxing entity is removed from the tax rolls. Three years after the date of sale, a tax deed may be issued by the Treasurer for unredeemed tax certificates.

The City Charter imposes a tax limit of 15 mills for all general municipal purposes. This limit does not apply to taxes levied for the payment of general obligation bonded indebtedness, to fund the City's Social Services Fund, to provide for fire and police pensions, or to fund a City program for the developmentally disabled. State case law permits the City to impose an additional General Fund levy for functions ordinarily performed by counties in the State. Current State statutes limiting mill levies imposed by counties do not apply to the City.

Table 7 sets forth the mill levies for the City, School District No. 1, and the Urban Drainage and Flood Control District for the last five levy years.

**Table 7**

**CITY AND COUNTY OF DENVER  
CITY-WIDE MILL LEVIES - DIRECT AND OVERLAPPING GOVERNMENTS<sup>1</sup>  
(by year assessed)**

<u>Taxing Entity</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
City and County of Denver:					
General Fund	10.006	10.006	8.744	8.964	8.857
Bond Principal Fund	4.730	4.730	4.083	4.650	6.260
Bond Interest Fund	2.270	2.270	1.352	1.750	2.200
Human Services	4.494	4.337	3.927	4.025	3.839
Developmentally Disabled <sup>2</sup>	--	--	--	--	1.000
Fire Pension	1.608	1.608	1.405	1.440	1.423
Police Pension	1.919	1.919	1.677	1.719	1.699
School District No.1	41.617	41.617	36.967	36.705	38.286
Urban Drainage and Flood Control District	<u>0.655</u>	<u>0.667</u>	<u>0.590</u>	<u>0.602</u>	<u>0.598</u>
<b>TOTAL MILL LEVY:</b>	<u>67.299</u>	<u>67.154</u>	<u>58.745</u>	<u>59.855</u>	<u>64.162</u>

Note: A mill equals one-tenth of one percent of assessed valuation.

<sup>1</sup> The columnar heading shows the year for which property is assessed and property taxes are levied. Taxes are collected the following year. The Table excludes certain overlapping government entities that impose mill levies in certain portions of the City that differ in their reporting requirements to the City. These entities in the aggregate are not deemed material.

<sup>2</sup> Prior to 2003, Developmentally Disabled numbers were included in Human Services.

(Source: Department of Revenue; Office of County Assessor.)

Table 8 summarizes the statutory actual and assessed valuation of property in the City, taxes levied and collected by the City for general purposes and the amounts and percentages delinquent for the last five assessment years.

**Table 8**

**PROPERTY VALUATIONS, TAX LEVIES AND COLLECTIONS  
LAST FIVE YEARS**

	<b>YEAR ASSESSED:</b>				
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
<b>ACTUAL AND ASSESSED VALUATION</b>	<b>(\$ in millions)</b>				
Statutory Actual Valuation (est.) <sup>1</sup>	<u>\$ 39,280</u>	<u>\$ 40,423</u>	<u>\$ 52,322</u>	<u>\$ 53,269</u>	<u>\$ 61,738</u>
Assessed Valuation:					
Real Property – Land	\$ 1,349	\$ 1,336	\$ 1,701	\$ 1,673	\$ 2,004
Real Property – Improvement	3,687	3,791	4,709	4,837	4,966
Personal Property	704	744	760	705	727
Public Utilities	559	621	715	786	734
Total Assessed Valuations	<u>\$ 6,299</u>	<u>\$ 6,492</u>	<u>\$ 7,885</u>	<u>\$ 8,001</u>	<u>\$ 8,431</u>
Total Assessed Valuation					
Percentage Change <sup>2</sup>	24.7%	3.1%	21.5%	1.5%	5.4%
<b>LEVIES AND COLLECTIONS<sup>3</sup></b>	<b>(\$ in thousands)</b>				
Tax Levy Collections:	<u>\$133,086</u>	<u>\$136,349</u>	<u>\$139,351</u>	<u>\$150,896</u>	<u>\$180,488</u>
Current and Prepaid	\$132,468 <sup>4</sup>	\$135,494	\$138,517	\$146,982	\$ 2,259
Delinquent	326	266	451	507	N/A
Receivable	\$ 292	\$ 589	\$ 383	\$ 3,407 <sup>5</sup>	\$178,229 <sup>6</sup>
Cumulative Total Receivable					<u>\$183,131<sup>7</sup></u>
Percent of Original Levy:					
Current Collections	99.54%	99.37%	99.40%	97.41%	

<sup>1</sup> Colorado statutes establish property valuation methods with actual valuation representing estimated appraisal value before the respective assessment ratios are applied. In general, an income and expense value is used for commercial property, and market value is used for residential property.

<sup>2</sup> Changes in assessed valuations for the years shown are due in part to changes in the years used to compute values which occur every two years and adjustments attributable to a legislative extension of time permitted for appeals of assessed valuations.

<sup>3</sup> The columnar headings show the years for which property taxes have been assessed and levied. Taxes shown in a column under Levies and Collections are actually collected in the following year. For example, property taxes levied in 2003 are collected in 2004.

<sup>4</sup> Includes one-time abatement of United Parcel Service assessments for 1995-1999.

<sup>5</sup> The increased receivable is due to bankruptcy filings totaling \$3,166,000 in taxes, of which \$2,541,000 is attributable to United Airlines. See "THE AIRPORT SYSTEM – Events and Economic Factors Affecting the Airport."

<sup>6</sup> Does not reflect taxes collected in 2004.

<sup>7</sup> Includes an additional \$230,943 representing the Cumulative Total Receivable for delinquent taxes for 1996-1998.

(Source: Department of Revenue; Office of the County Assessor.)

**Assessed Valuation of Major Taxpayers**

Table 9 lists the major property taxpayers based on assessed valuations for the 2003 assessment year.

**Table 9**

**CITY AND COUNTY OF DENVER  
MAJOR PROPERTY TAXPAYERS - ASSESSED VALUATIONS 2003  
(FOR COLLECTION 2004)  
(\$ in thousands)**

<u>Name</u>	<u>Business</u>	<u>Assessed Valuation</u>	<u>Percentage of City's Total Assessed Valuation<sup>1</sup></u>
Qwest Inc.	Utility	\$ 233,301	2.77%
Public Service Co.	Utility	162,408	1.93
United Airlines Inc. <sup>2</sup>	Airlines	114,570	1.36
Equity Office Properties	Real Estate	105,774	1.25
Crescent Real Estate Equities	Real Estate	79,430	0.94
Republic Plaza Properties Partnership	Real Estate	77,002	0.91
AT & T	Utility	73,253	0.87
Columbia-HealthOne LLC	Medical	58,645	0.70
Temple Hoyne Buell Foundation	Shopping Center	54,831	0.65
Ascent Arena Co. LLC	Professional Sports	<u>45,604</u>	<u>0.54</u>
	<b>TOTALS</b>	<b><u>\$1,004,818</u></b>	<b><u>11.92%</u></b>

<sup>1</sup> Based on a December 31, 2003, certified assessed valuation of \$8,431,744,300.

<sup>2</sup> On December 9, 2002, United filed a voluntary petition for relief under Chapter 11 of the United States Code. See "THE AIRPORT SYSTEM – Events and Economic Factors Affecting the Airport."

(Source: Department of Revenue; Office of the County Assessor.)

## DEBT STRUCTURE OF THE CITY

### Authorization for General Obligation Debt

General obligation bonds are backed by the full faith and credit of the City and are payable from ad valorem property taxes and other general revenues. Except for refunding bonds issued to achieve savings, Denver voters must approve general obligation debt prior to issuance. Under the City Charter, general obligation bonded debt, excluding bonds issued by the Denver Water Board, is subject to a limitation of three percent (3%) of the actual value of the taxable property within the City.

As of December 31, 2003, the City had outstanding general obligation bonds in the aggregate principal amount of \$424,523,982, which does not include accrued interest on capital appreciation bonds. In addition there were outstanding general obligation bonds issued by the Denver Water Board in the aggregate principal amount of \$156,345,000.

At a municipal election in November 1999, the electors of the City approved two ballot questions that authorized the issuance of general obligation bonds in an aggregate principal amount of \$125,000,000 for the purpose of defraying the costs of improving and expanding the Denver Art Museum facilities and constructing improvements to the Denver Zoological Gardens ("Denver Zoo"). There is no remaining authorization for the Art Museum facilities from this election and there is \$33,500,000 unissued general obligation authorization remaining to be used for improvements to the Denver Zoo.

In March 2003, the City issued General Obligation Auditorium Theatre and Zoo Bonds Series 2003A in the amount of \$35,000,000. The Auditorium Theatre (now known as the Quigg Newton Denver Municipal Auditorium) portion of the issue in the amount of \$25,000,000 was authorized by voters in November 2002.

At the regular municipal election held in May 2003, the registered electors of the City authorized the issuance of \$148,000,000 of general obligation bonds for the purpose of financing improvements to the Denver Health Medical Center (formerly known as Denver General Hospital). In November 2003, the full authorization of bonds were issued as the General Obligation Medical Facilities Bonds, Series 2003B.

The following schedule sets forth the computation of the General Obligation debt margin of the City (other than bonds issued by the Denver Water Board) as of December 31, 2003.

### COMPUTATION OF THE GENERAL OBLIGATION DEBT MARGIN (\$ in thousands)

TOTAL ESTIMATED ACTUAL VALUATION	<u>\$61,737,951</u>
Maximum general obligation debt, limited to 3% of total valuation	\$ 1,852,138
Less: Outstanding bonds chargeable to limit	<u>424,525</u>
LEGAL DEBT MARGIN – December 31, 2003	<u>\$ 1,427,613</u>

## General Obligation Bonded Debt

The following table lists the City's outstanding general obligation bonded debt as of December 31, 2003.

**Table 10**

### OUTSTANDING GENERAL OBLIGATION DEBT (\$ in thousands)

<u>Issue</u>	<u>Original Amount</u>	<u>Amount Outstanding</u>
General Obligation Various Purpose Bonds (Denver Mini-Bond Program), Series November 1, 1990	\$ 5,888	\$ 1,804 <sup>1</sup>
General Obligation Library Bonds (Denver Mini-Bond Program), Series 1992E	3,992	3,992 <sup>2</sup>
General Obligation Refunding Bonds, Series 1998A	148,425	86,445
General Obligation Various Purpose Bonds (Denver Mini-Bond Program), Series 1999A	3,134	3,134 <sup>3</sup>
General Obligation Various Purpose Bonds, Series 1999B	95,505	71,605
General Obligation Various Purpose Bonds, Series 2000	29,000	24,645
General Obligation Denver Art Museum Bonds, Series 2002	52,500	49,900
General Obligation Auditorium, Theatre & Zoo Bonds, Series 2003A,	35,000	35,000
General Obligation Medical Facilities Bonds, Series 2003B	<u>148,000</u>	<u>148,000</u>
<b>Subtotal</b>	521,444	424,525
General Obligation Water Bonds <sup>4</sup>	<u>174,555</u>	<u>156,345</u>
<b>TOTAL:</b>	<u>\$695,999</u>	<u>\$580,870</u>

<sup>1</sup> Amount excludes \$2,858,889 of compound interest on the Series November 1, 1990 bonds.

<sup>2</sup> Amount excludes \$3,733,809 of compound interest on the Series 1992E bonds.

<sup>3</sup> Amount excludes \$771,781 of compound interest on the Series 1999A bonds.

<sup>4</sup> The Denver Water Board has irrevocably committed to pay the principal of and interest on all water bonds from revenues derived from the City's Water System. Assuming there are no future changes in the City Charter on this matter, a City Charter change adopted by voters in 2003 precludes the Denver Water Board from issuing general obligation bonds in the future.

(Source: Department of Revenue.)

**Combined Debt Service Schedule - General Obligation Bonds**

The following schedule sets forth the debt service on the City's outstanding general obligation bonds as of December 31, 2003 (other than bonds issued by the Denver Water Board and General Improvement District Bonds).

<u>Year Ending December 31</u>	<u>Debt Service (\$ in thousands)</u>
2004	\$ 64,260
2005	70,164
2006	66,205
2007	69,478
2008	52,285
Thereafter	<u>224,374</u>
TOTAL:	<u>\$546,766</u>

The following schedules set forth certain debt ratios based on the City's actual and assessed valuations and general obligation bonded debt as of December 31, 2003.

**SUMMARY OF  
DIRECT AND OVERLAPPING GENERAL OBLIGATION BONDED DEBT  
(\$ in thousands)**

Total Direct General Obligation Bonded Debt	\$ 580,870
Less General Obligation Water Bonds	<u>156,345</u>
Net Direct General Obligation Bonded Debt	424,525
Overlapping Debt <sup>1</sup>	<u>409,953</u>
Net Direct and Overlapping General Obligation Bonded Debt	<u>\$ 834,478</u>
Actual Valuation	\$61,737,951
Assessed Valuation	\$ 8,431,744

**DEBT RATIOS**

	<u>Actual Valuation</u>	<u>Assessed Valuation</u>	<u>Per Capita<sup>2</sup></u>
Total Direct G.O. Bonded Debt	0.94%	6.89%	\$ 1,024
Net Direct G.O. Bonded Debt	0.69	5.03	748
Net Direct and Overlapping G.O. Bonded Debt	1.35	9.90	1,470

<sup>1</sup> The overlapping general obligation debt represents the outstanding debt of School District No. 1 as of December 31, 2003.

<sup>2</sup> Based upon the 2003 population estimate of 567,526.

(Sources: Department of Revenue; Office of the County Assessor; Denver Regional Council of Governments.)

**Excise Tax Revenue Bonds Debt Service Coverage**

Revenue bonds are payable from a specific, dedicated source of revenue which does not pledge the full faith and credit of the City. There are two forms of excise tax revenue bonds differentiated by the specific taxes pledged as repayment revenues. Pledged revenues for the repayment of bonds issued to finance the construction and improvements to the Colorado Convention Center are the Lodgers' Tax, the Food and Beverage Tax and the Auto Rental Tax. Revenues pledged for repayment of the bonds issued to improve the Denver Performing Arts Center and other cultural facilities are the City's Facilities Development Admission Tax ("Seat Tax") and the Occupational Privilege Tax ("Head Tax"). There are no City Charter limitations stipulating maximum revenue bond debt.

***Colorado Convention Center Excise Tax Revenues.*** The following table shows the City's calculation of the historic debt service coverage on obligations payable from revenues pledged to the Series 1999A Excise Tax Revenue Refunding Bonds and the Series 2001A and B Excise Tax Revenue Bonds.

**Table 11**

**DEBT SERVICE COVERAGE ON EXCISE TAX  
BONDS PAYABLE FROM PLEDGED REVENUES  
1994-2003  
(\$ in thousands)**

	Pledged Lodger's Tax Revenues	Pledged Food and Beverage Tax Revenues	Pledged Auto Rental Tax Revenues	Pledged Auto Rental & Lodger's Tax Increases <sup>1</sup>	State Contributions	Other Sources	Total Pledged Revenues	Debt Service Require- ments	Coverage <sup>2</sup>
1994	\$6,268	\$ 4,920	\$ 4,667	-	-	\$ 461	\$16,316	\$ 8,250	1.98%
1995	6,663	5,366	4,928	-	-	732	17,689	8,246	2.15
1996	7,353	5,707	4,943	-	-	651	18,654	8,248	2.26
1997	8,183	6,109	5,739	-	-	732	20,763	8,248	2.52
1998	9,077	6,700	6,393	-	-	786	22,956	8,247	2.78
1999	9,172	6,980	6,558	-	-	715	23,425	8,247	2.84
2000	10,005	7,764	6,632	\$11,406	-	1,486	36,847	7,377	5.06
2001	9,099	7,804	6,164	10,642	-	1,381	44,022	28,078	1.25
2002	8,418	7,833	5,876	10,017	-	688	42,106	25,034	1.31
2003	8,359	7,840	5,776	9,940	-	730	32,645	20,953	1.56

<sup>1</sup> Auto Rental Tax Increases and Lodger's Tax Increases, which resulted from voter approval in November 1999, are pledged solely to payment of debt service on the Excise Tax Revenue Bonds, Series 2001A and 2001B.

<sup>2</sup> For informational purposes only: Although they have been used in this calculation of coverage of total debt service, for the reason stated in the footnote above, Auto Rental Tax Increases and Lodgers' Tax Increases may not be used for payment of the Excise Tax Bonds, Series 1999.

***Denver Performing Arts Center and Other Cultural Facilities.*** In 2003, the City issued Excise Tax Revenue Refunding Bonds, Series 2003, in the amount of \$28,245,000. The bonds were issued to refund outstanding Excise Tax Revenue Bonds, Series 1985A and 1985B. The refunding bonds will be repaid from the Seat Tax and Occupational Privilege Tax revenues.

The following table sets forth the total Seat Tax collections for each of the bond years ending 1994 through 2003 ("Bond Years"):

**Table 12**  
**Bond Year Total Seat Tax Collections and Payments in Lieu of Seat Taxes**  
**for 1994 through 2003**

<b><u>Bond Year</u></b>	<b><u>Seat Tax Collections</u></b>	<b><u>Payments in Lieu of Seat Taxes</u></b>	<b><u>Total</u></b>
1994	\$ 11,775,500	--	\$ 11,775,500
1995	10,177,700	--	10,177,700
1996	12,184,800	--	12,184,800
1997	14,430,000	--	14,430,000
1998	13,487,400	--	13,487,400
1999	12,166,700 <sup>1</sup>	--	12,166,700
2000	8,763,300	--	8,763,300
2001	6,057,700	\$2,700,000 <sup>2</sup>	8,757,700
2002	5,468,700	2,700,000	8,168,700
2003	5,030,700	2,700,000	7,730,700

<sup>1</sup> McNichols Sports Arena demolished

<sup>2</sup> In 2001, the Denver Broncos Football Club ceased playing games at a City owned facility and began to play at Invesco Field at Mile High where Seat Taxes are not imposed. An Escrow and Security Agreement between the Football Club and the City was executed whereby the team will make Payments in Lieu of Seat Taxes in the amount of \$2,700,000 per year through the year 2008.

The following table sets forth the total Head Tax collections for each of the Bond Years ending 1994 through 2003:

**Table 13**  
**Total Head Tax Collections for each Bond Year ending**  
**1994 through 2003**

<b><u>Bond Year</u></b>	<b><u>Head Tax Collections</u></b>
1994	\$ 36,402,900
1995	36,405,900
1996	37,362,000
1997	38,993,000
1998	40,579,500
1999	40,723,200
2000	44,188,200
2001	43,020,800
2002	41,028,000
2003	40,867,199

The following table shows the City's calculation of the historic debt service coverage on obligations payable from the pledged revenues for the bond years ending 1994 through 2003:

**Table 14**  
**Historic Debt Service Coverage**

<b>Bond Year</b>	<b>Pledged Excise Tax Revenue</b>	<b>Revenues Pursuant to the Escrow and Security Agreement</b>	<b>Interest Earnings<sup>1</sup></b>	<b>Total Pledged Revenues<sup>1</sup></b>	<b>Debt Service Requirements</b>	<b>Coverage Ratio</b>
1994	\$ 48,178,400	--	\$ 667,800	\$48,846,200	\$ 5,856,828	8.3
1995	46,583,600	--	173,500	46,757,100	6,032,520	7.8
1996	49,546,800	--	173,500	49,720,300	6,032,335	8.2
1997	53,423,000	--	157,800	53,580,800	6,032,855	8.9
1998	54,066,900	--	133,600	54,200,500	6,032,975	9.0
1999	52,889,900	--	377,200	53,267,100	6,033,600	8.8
2000	52,951,500	--	302,100	53,253,600	6,030,400	8.8
2001	49,078,500	\$2,700,000	328,650	52,107,150	6,026,600	8.6
2002	46,530,200	2,700,000	193,700	49,423,900	6,032,000	8.2
2003	48,597,899	2,700,000	N/A	51,297,899	1,648,462	31.1

<sup>1</sup> Pursuant to the Series 2003 A Excise Tax Refunding Bonds transaction, interest earnings are no longer pledged to debt service.

### Overlapping Debt and Taxing Entities

The following information has been supplied by the overlapping entities described below and the City has not attempted to verify the accuracy thereof.

**School District No. 1 in the City and County of Denver.** School District No. 1 (the "School District") has identical boundaries with the City. As of December 31, 2003, the School District had \$409,952,909 aggregate principal amount of general obligation bonds outstanding.

The School District has entered into annually renewable lease purchase arrangements from time to time in connection with which certificates of participation have been executed and delivered by the trustees thereof. As of December 31, 2003, the aggregate principal amount of such certificates outstanding was \$376,397,521. Neither the lease purchase agreements nor the related certificates executed and delivered by such trustees are considered debt or a multiple-fiscal year financial obligation for State law purposes and do not represent obligations of the School District extending beyond the current fiscal year. The obligations of the School District to make lease payments for each year are subject to annual appropriations by the Board of Education.

**Metro Wastewater Reclamation District.** Metro Wastewater Reclamation District (the "Sewage District"), a governmental and political subdivision of the State, was organized in 1961 and currently includes the City and numerous other adjacent municipal units. Each municipal unit presently owns and operates a sewer system and voluntarily became part of the Sewage District in order to construct and operate a sewage disposal system in the Denver metropolitan area. Under service contracts with the Sewage District, each municipal unit is obligated to pay the Sewage District for the costs of services rendered (including debt service) based on usage of the Sewage District's facilities. Each municipal unit imposes taxes or charges sufficient to fund its contribution as each individual unit may determine.

The City is meeting its obligation to the Sewage District from a sewer service charge collected from the sewer users rather than from taxes. The Sewage District assessed the City charges of \$24,585,451 for 2003. The Sewage District had outstanding \$132,305,190 aggregate principal amount of bonds as of December 31, 2003.

***Regional Transportation District.*** The Regional Transportation District (the “Transportation District”), a governmental and political subdivision of the State, was established in 1969, and currently includes the City, Boulder and Jefferson Counties, most of the City and County of Broomfield, and the urbanized portions of Adams, Arapahoe and Douglas Counties. The Transportation District is empowered to develop, maintain and operate a mass transportation system within its boundaries. Pursuant to a change in State statutes in 1982, the Transportation District may levy up to ½ mill for the payment of expenses of the Transportation District in situations of deficiencies, subject to the provisions of State constitutional revenue and spending limitations.

The Transportation District issues bonds to maintain and improve the transit system. The Transportation District had no general obligation debt. As of December 31, 2003, the Transportation District had \$576,950,000 in aggregate principal amount of outstanding obligations. Of this amount, \$273,415,000 was bonded debt backed by the District’s sales tax and \$303,535,000 was the principal amount of outstanding certificates of participation in various lease purchase and installment sales arrangements under which the Transportation District is the lessee or purchaser. In August 2001, the District was authorized to issue up to \$118.5 million of commercial paper in order to provide bridge financing for the portion of the Southeast Corridor multimodal project expected to be repaid from future federal grant monies. As of December 31, 2003, the Transportation District had issued \$92.5 million of the authorized commercial paper.

***Denver Metropolitan Major League Football Stadium District.*** In 1996, the State General Assembly enacted legislation creating the Metropolitan Football Stadium District (“Football District”). The purpose of the Football District is to select and acquire a site and to finance and construct on that site a sports facility designed for use primarily as a National Football League stadium. The Football District encompasses the City, Boulder and Jefferson Counties, most of the City and County of Broomfield, and the urbanized portions of Adams, Arapahoe and Douglas Counties.

In 1998 the electors of the Football District authorized the Football District to issue up to \$260 million of debt and to impose a sales tax at the rate of 0.10% on taxable transactions occurring within the Football District. The Football District has issued \$260 million of bonds and sales tax revenue capital appreciation bonds scheduled to mature between 2003 and 2012.

***Urban Drainage and Flood Control District.*** The Urban Drainage and Flood Control District (the “Drainage District”), a governmental and political subdivision of the State, was established in 1969 and presently includes the City and portions of Adams, Arapahoe, Boulder, Broomfield, Douglas and Jefferson Counties. The Drainage District was established to provide flood control and drainage facilities for the areas within the Drainage District. The Drainage District may levy up to 1/10 mill to defray engineering and operating expenses, up to 4/10 mill for construction costs and up to 4/10 mill for maintenance expenses. Beginning with taxes levied in 1986 and collected in 1987, a 1/10 mill for a special revenue fund for the South Platte River basin was authorized. Authorization for an additional levy may be obtained by voter approval. The Drainage District has no outstanding bonded indebtedness. Projects undertaken by the Drainage District to date have been financed from ad valorem taxes and local government matching contributions.

***Other Entities.*** There is a number of partially overlapping taxing entities having general obligation debt in amounts, which do not materially affect the ability of the City to pay debt service on its general obligation bonds.

#### **Denver Convention Center Hotel Authority**

The City determined that construction of a new convention center headquarters hotel across the street from the Colorado Convention Center will result in economic benefits to the City, including improved coordination of event bookings at the Convention Center and the generation of additional tax revenues, employment opportunities and economic activity related to the construction and operation of the hotel. In the spring of 2003, the City created the Denver Convention Center Hotel Authority (within the meaning of Article X, Section 20 of the Constitution of the State) for the express purpose of acquiring, constructing, equipping, operating and financing a convention center headquarters hotel, parking garage and supporting facilities. In June 2003, the Authority issued its own special limited obligation revenue bonds in the amount of \$354 million to finance the hotel and contract independently with a developer and

operator for the hotel. The bonds are payable from hotel revenues, and the hotel is mortgaged by the Authority to the bond trustee to secure the bonds. The Authority has no taxing power. The City did not pledge its own credit to support the hotel project and did not create any multiple-fiscal year direct or indirect debt or other financial obligation of the City in connection with the proposed financing. However, the City entered into an Economic Development Agreement that grants numerous economic benefits to the City from the construction and operation of the hotel. In consideration of these benefits, the City agreed, subject to annual appropriation by the City Council, to make Economic Development Payments as indicated in Table 15, below. The Economic Development Agreement is subject to termination on December 31, 2003 and each December 31 thereafter according to its terms and expires no later than December 31 of the thirty-fifth calendar year after the opening of the Denver Convention Center Hotel.

**Table 15**

**DENVER CONVENTION CENTER HOTEL  
ECONOMIC DEVELOPMENT PAYMENTS**

<b><u>On or Before the 14<sup>th</sup> Day Prior to the Following Date:</u></b>	<b><u>Amount</u></b>
December 1, 2006	\$2,500,000
June 1, 2007	3,250,000
December 1, 2007	3,250,000
June 1, 2008	4,000,000
December 1, 2008	4,000,000
June 1, 2009	4,250,000
December 1, 2009	4,250,000
June 1, 2010	4,500,000
December 1, 2010	4,500,000
June 1, 2011	4,375,000
December 1, 2011	4,375,000
June 1, 2012	4,625,000
December 1, 2012	4,625,000
June 1, 2013	4,500,000
December 1, 2013	4,500,000
June 1, 2014	4,750,000
December 1, 2014	4,750,000
June 1, 2015	5,000,000
December 1, 2015	5,000,000
June 1, 2016	5,250,000
December 1, 2016	5,250,000
June 1, 2017	5,375,000
December 1, 2017	5,375,000
Each December 1 and June 1 thereafter	5,500,000

**Retirement Plans**

Substantially all of the general employees of the City are covered under the Denver Employees Retirement Plan (“DERP”); however, employees of the police department, fire department, and the Denver Water Board are covered by separate retirement systems.

**City Employees.** DERP is a single employer defined benefit pension plan established by the City to provide pension benefits for its employees. DERP has separate legal standing and has no financial responsibility to the City. The assets of DERP are funds held in trust by DERP for the exclusive purpose of paying pension and post-retirement health benefits to eligible members.

The Denver Health and Hospital Authority (DHHA) was established in 1996, and effective January 1, 1997, DHHA made contributions to DERP on behalf of its employees who were members of DERP.

DERP membership consisted of the following as of December 31, 2002 and 2003:

	<u>2002</u>	<u>2003</u>
Retirees and beneficiaries currently receiving benefits	5,233	5,432
Deferred Retirement Option Plan (DROP) participants	481	587
Terminated employees entitled to benefits but not yet receiving such benefits	2,790	2,891
Current employees:		
Vested	6,029	6,017
Non-vested	<u>3,508</u>	<u>2,851</u>
TOTAL	<u>18,041</u>	<u>17,778</u>

DERP provides retirement benefits plus death and disability benefits. Employees who retire at or after age 65 (or age 55 if the sum of age plus credited service is 75 or more) are entitled to a retirement benefit in an amount equal to as much as 2.0% of their average monthly salary, for each year of credited service, payable monthly for life. The average salary is based on the employee's highest salary in a 36-consecutive-month period of credited service. Employees with five years of credited service who do not qualify for full retirement may retire at or after age 55 and receive a reduced retirement benefit. The vesting requirement is five years of credited service. Benefit and contribution provisions are established by the City Council, which acts upon the recommendation of DERP's governing board as accompanied by an independent actuarial analysis.

DERP's funding policy provides for annual employer contributions at rates determined by an independent actuary, which when expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. During 2002, the City contributed a total of 10% of the salary of covered employees, with an 8.76% contribution for pension benefits (including death and disability) and a 1.24% contribution for health benefits. Beginning October 1, 2003, the City employees' contribution was changed to 2% and the City's contribution was changed to 8% of the salary of covered employees. As of December 31, 2003, the total net plan assets were \$1,323,590,000. Per DERP's 2003 Financial Report, as of January 1, 2003, the most recent valuation, 100% of the plan's accrued liabilities were covered by valuation assets.

**State of Colorado - Fire and Police Pension Plan.** All full-time fire fighters and police officers in the classified service of the City hired on or after April 8, 1978 ("New Hires") participate in the State of Colorado - Fire and Police Pension Plan ("State Plan"), a cost sharing multiple-employer public employee retirement system. The State Plan is administered by the Fire and Police Pension Association ("FPPA"). Full-time City firefighters and police officers in the classified service hired prior to April 8, 1978 ("Old Hires") participate in the City's Old Hire Pension Plans, unless the Old Hires elected to become covered by the State Plan before March 1, 1981. Both the Old Hire Police Pension Plan and the Old Hire Firefighters Pension Plan are affiliated with FPPA, and the FPPA manages investments, and administers the contributions to, and distributions from, these Old Hire Plans. Denver's Police Pension and Relief Board and the Trustees of the Firefighters Pension Fund administer various other matters relating to the Old Hire Plans.

All full-time City police officers and firefighters in the classified service contribute to the plans at a rate of 8% of base salary, and the City contributes a matching 8% of salary to the Police and Firefighters Pension Plans (Old Hire Plans and State Plan). In order to pay off the unfunded liability that exists for the Old Hire Plans, the City is required to provide level dollar funding at a minimum of \$27,894,000 each year until there is no longer any unfunded actuarial liability for Old Hire Police and Old Hire Firefighters Pension Plans. The State of Colorado is assisting Denver in paying off the unfunded liability. For 2003, the State did not provide any contribution and future State funding for unfunded liabilities has been deferred until 2006. No unfunded actuarial liability exists for the State Plan. There are no long-term contracts for contributions to the State Plan.

**Water Board Retirement Plan.** The Water Board Retirement Plan ("Board Plan") is a defined benefit, single-employer, and noncontributory plan covering substantially all permanent full-time employees of the Water Board. The Board Plan benefits are integrated with Social Security benefits.

**LEASE PURCHASE AGREEMENTS**

**Certificated Lease Purchase Agreements**

The City has utilized Certificates of Participation (COPs), lease purchase transactions whereby an independent lessor sells COPs which represent proportionate interests in the lessor’s right to receive rentals and revenues paid by the City pursuant to lease purchase agreements (“Agreements”), executed to facilitate the financing of certain public capital projects. The COPs do not constitute a general obligation or other indebtedness of the City within the meaning of any constitutional, statutory, or Charter debt limitations. Under its various certificated Agreements, the City has the right to appropriate or not appropriate the lease Agreement rental payments for the then current fiscal year. In the event of non-appropriation, the Agreement terminates and the COPs are then payable solely from the proceeds received by the trustee for the owners of the certificates upon the exercise of specified remedies. If appropriated for the applicable fiscal year, the City has the obligation to pay the related lease agreement rentals for that fiscal year.

**1996-2000 Master Indenture.** Denver Capital Leasing Corporation (“DCLC”), as lessor, entered into a Master Indenture of Trust (the “Master Indenture”) dated as of August 1, 1996, by and between DCLC and The Bank of Cherry Creek National Association (now American National Bank), as trustee, in respect of three related but separate lease purchase agreements (the “1996–2000 Master Indenture Leases”) under which the City is the lessee. In connection with the Master Indenture, two amendments have supplemented the Master Indenture through June 1, 2000 (collectively, the “1996-2000 Master Indenture”). In connection with the 1996-2000 Master Indenture, three series of certificates of participation (in the revenues and rentals derived by DCLC under the 1996-2000 Master Indenture Leases) have been executed and delivered (“1996-2000 Master Indenture Certificates”). The following table sets forth the current outstanding series of 1996-2000 Master Indenture Certificates and the schedule for release of the respective Leased Property.

**Table 16**

**1996-2000 MASTER INDENTURE LEASES  
SCHEDULE OF LEASE PURCHASE TRANSACTIONS  
AND RELEASE DATES**

<u>Series</u>	<u>Outstanding Principal Amount (As of 12/31/03)</u>	<u>Leased Property</u>	<u>Release Dates</u>
1996A	\$ 8,740,000	Office Building at 303 West Colfax Ave. Site of Human Services Center Project	May 1, 2016 May 1, 2017
1997A	31,875,000	Voting Equipment Human Services Office Building	May 1, 2012 May 1, 2017
2000A	<u>22,165,000</u>	Family Crisis Center and Parking Structure at the Human Services Office Building	May 1, 2020
TOTAL	<u>\$ 62,780,000</u>		

The outstanding series of 1996-2000 Master Indenture Certificates have been insured by financial guaranty insurance policies issued by MBIA Insurance Corporation.

**Other Certificated Leases.** The City has also entered into various stand-alone Lease Purchase Agreements in respect of which certificates of participation were executed and delivered. These certificates of participation and the leased property thereunder are described below.

**Table 17**

**OTHER LEASES  
SCHEDULE OF LEASE PURCHASE TRANSACTIONS  
AND RELEASE DATES**

<u>Series</u>	<u>Outstanding Principal Amount (As of 12/31/03)</u>	<u>Leased Property</u>	<u>Release Dates</u>
1995A	\$ 605,000	City Office Building for Information Services and other City departments	January 1, 2014
1995B	345,000	City Office Building for Central Services and other City departments	January 1, 2009
2001A	13,280,000	2000 W. 3 <sup>rd</sup> Avenue – Wastewater Building	December 1, 2017
2001B	30,565,000	5440 Roslyn – Fleet Maintenance Facility, Fire Stations #1, #10 & #15, and 2 Fire Trucks	December 1, 2016
2001C	15,485,000	African American Research Library	December 1, 2021
2002A-B	17,130,000	Denver Cultural Center Parking Garage	December 1, 2021
2002C	15,400,000	Proposed Justice Center Site	December 1, 2022
2003A	6,040,000	Cherry Creek North Parking Garage	December 1, 2017
2003B	57,290,000	Buell Theatre, Jail Dorm Bldg	December 1, 2023
2003C1-C3	<u>250,945,000</u>	Wellington E. Webb Office Building	December 1, 2029
TOTAL:	<u>\$407,085,000</u>		

**Non-Certificated Capitalized Leases**

As of December 31, 2003, the City was the lessee under various other outstanding lease purchase agreements for real property and equipment. Lease expenses for the year ended December 31, 2003 were approximately \$10,789,000 for governmental activities. At the end of the final term of such leases, the City expects to own the real property and equipment that are the subjects of such leases. No certificates of participation relating to these leases have been executed and delivered.

## **DENVER WATER BOARD**

The privately owned Denver City Water Company was organized in November 1870. It was merged into the Denver Union Water Company in October 1894, along with several smaller companies servicing various parts of a growing Denver. In November 1918, the five-member governing board of the Denver Water Department purchased the company for the citizens of the City and County of Denver (“City”). The Denver Water Department is established and derives its authority under Article X of the Charter of the City and County of Denver.

2002 was one of the most challenging ever for Denver Water. The worst drought in Colorado history reduced snow-pack depths and reservoirs to the lowest levels on record. For each of the five years between 1998 and 2002, the snow pack readings in Denver Water’s water-collection system had been less than normal. Snow pack has a direct bearing on the amount of water that flows into Denver Water reservoirs, so a drier-than-normal year can have a significant effect on water availability. The low snow pack, parched soil and vegetation, and lack of spring precipitation resulted in the lowest spring stream flows ever recorded. At the same time, reservoir storage was dropping and reached levels that had not been seen since the early 1980’s.

2003 began in much the same way that 2002 ended, with snow pack and reservoir levels still low, water use restrictions still in effect, and with surcharges on water consumption and new taps to support water-saving incentives that were still in place. In the spring, a combination of heavy snowstorms and conservation efforts helped to raise snow pack and reservoir levels, but both still remained below normal. In June 2003, the summertime surcharge for excess water consumption was increased, but phased out by the end of July when reservoirs reached 80 percent of capacity.

Despite the complexities of managing in a drought, Denver Water kept a series of capital construction projects on schedule and even accelerated several projects in order to help ensure a predictable water supply. It also engaged in a number of capacity-planning, conservation, and efficiency efforts that will improve its ability to serve an increasing customer base.

In 2003 water sales decreased due to the decrease in water consumption, but this decrease in consumption was partially offset by a rate increase that was effective January 1, 2003. Short-term drought rate and tap surcharges constituted seven percent of water revenue. By July 31, 2003, all surcharges had been phased out and terminated due to increased reservoir levels.

### **Denver Water Board - Service Area**

Water rates are based on three types of retail metered service: Inside City, Outside City Read and Bill, and Outside City Total Service.

- Inside City – This service refers to all water users inside the City and County of Denver.
- Outside City Read and Bill – This refers to areas outside the City where Denver Water is responsible for water delivery to a distributor and for reading individual meters and billing, but not for the operation and maintenance of the distribution system
- Outside City Total Service – This refers to areas outside the City where Denver Water is responsible for water delivery, reading meters and billing customers, as well as the operation and maintenance of the distribution system.

A variation to the standard “Total Service” contract is the Total Service Improvement contract pursuant to which a distributor whose system does not currently meet Denver Water engineering standards may request to enter into a “Total Service” contract that includes special provisions for Denver Water to take control of the distributor’s existing water system and upgrade it to meet Denver Water engineering standards. A surcharge is assessed to each customer within the distributor’s service areas to pay for the improvements.

Total acreage served by Denver Water as of December 31, 2003 was as follows.

**SERVICE AREA**

	<b>Undeveloped <u>Acres</u></b>	<b>Developed <u>Acres</u></b>	<b>Total <u>Acres</u></b>
Suburban			
Total Service	4,126.33	21,951.21	26,077.54
Read & Bill	5,004.73	26,792.02	31,796.75
Master Meter	15,281.53	42,426.78	57,708.31
City	<u>26,524.15</u>	<u>72,439.05</u>	<u>98,963.20</u>
Total	<u>50,936.74</u>	<u>163,609.06</u>	<u>214,545.80</u>

The number of customer accounts served by Denver Water and its master meter customers as of December 31, 2003 was as follows:

**NUMBER OF CUSTOMER ACCOUNTS**

	<b><u>Number of Accounts</u></b>
City	153,859
Treated Water Contract Area:	
Master Meter	75,102
Total Service	35,502
Read & Bill	<u>34,694</u>
Total Customer Accounts	<u>299,157</u>

Denver Water also provides wholesale water service to Master Meter Distributors (water districts outside the City) that own and operate their own water system, perform their own meter reading and customer billing and who purchase water on a wholesale basis for distribution to their respective retail customers. As of December 31, 2003, wholesale water distributor contracts accounted for 25.5% of total treated water consumption.

Denver Water does not depend on any one customer or any group of customers for a major portion of its revenue. The twenty-five largest customers of the system accounted for only 4.7% of treated water sales revenue received in fiscal year 2003.

Table 18

**TOTAL TREATED WATER DELIVERY  
FOR THE PERIOD 1994 - 2003**

<u>Millions of Gallons</u>					
<u>Year</u>	<u>Annual</u>	<u>Daily Average</u>	<u>Daily Maximum</u>	<u>Estimate of Population Served July 1<sup>1</sup></u>	<u>Average Daily Gallons Per Capita</u>
1994	76,516.08	209.63	479.01	960,000	218
1995	65,267.91	178.82	453.55	977,000	183
1996	76,203.96	208.21	456.99	995,000	210
1997	75,363.33	206.47	517.57	1,012,000	204
1998	77,466.65	212.24	512.53	1,029,000	206
1999	75,232.01	206.12	475.66	1,046,000	197
2000	83,585.25	228.38	478.19	1,064,000	215
2001	81,054.72	222.07	488.71	1,073,000	207
2002	75,221.18	206.09	419.20	1,076,000	192
2003	65,399.47	179.18	370.05	1,081,000	166

<sup>1</sup> Population estimates are for treated water customers only and are interpolated from an analysis of the 2000 census. Data has been revised from prior years, due to the availability of new census data.

**Denver Water Board – Debt Structure**

Table 19

**BOARD OF WATER COMMISSIONERS  
GENERAL OBLIGATION WATER IMPROVEMENT AND REFUNDING BONDS  
Outstanding at December 31, 2003  
(\$ in thousands)**

<u>Date of Issue</u>	<u>Interest Rates on Bonds Outstanding</u>	<u>Amount</u>		
		<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u>
<b>General Obligation Bonds</b>				
September 15, 1995	4.75-5.00%	\$ 12,825	\$ (4,440)	\$ 8,385
September 15, 1996	4.60-5.375%	16,975	(6,085)	10,890
August 1, 1997	4.40-5.50%	19,530	(2,100)	17,430
September 15, 1999	5.50-6.00%	14,530	-	14,530
September 15, 2000	4.80-5.50%	12,700	-	12,700
August 15, 2001A	4.00-4.70%	11,215	(1,350)	9,865
August 15, 2001B	4.00-5.00%	75,170	(2,845)	72,325
October 1, 2002	2.00-4.50%	<u>11,610</u>	<u>(1,390)</u>	<u>10,220</u>
Total General Obligation Bonds		<u>\$ 174,555</u>	<u>\$ (18,210)</u>	<u>\$ 156,345</u>

In November 2002, Denver voters approved a Charter Amendment that authorized the Denver Water Board to issue only revenue bonds, and without prior voter approval. Prior to this amendment the Water Board was authorized to issue both general obligation bonds and revenue bonds, with both being subject to prior voter approval except for certain refunding bonds. The outstanding General Obligation

Bonds are backed by the Water Board's irrevocable commitment to pay principal and interest from the revenues of the system. Water bonds are excluded from the debt limitations of the City.

### **Denver Water Board - Lease Purchase Agreements**

*Denver Water Board.* According to the Denver Water Board's financial statements as of December 31, 2003, there were \$59,160,000 aggregate principal amount of certificates of participation outstanding in annually appropriated lease purchase agreements of the Denver Water Board. Also, as of December 31, 2003, the Denver Water Board was lessee under various other capitalized lease obligations. Minimum capital lease payments were \$3,000,000 in 2003. The present value of the minimum lease payments as of December 31, 2003 was \$29,581,000. The Denver Water Board expects to pay annually appropriated lease purchase rental payments from revenues derived from the City's water system.

### **Denver Water Board - System Development Charges and Participation Receipts**

In addition to operating revenues and bond proceeds, funds are generated from (1) System Development Charges, which are fees received for new connections to Denver Water's system, and (2) Participation Receipts, which are contributions paid by developers for the cost of specific facilities (e.g. distribution and transmission mains, pump stations and clear water reservoirs) to provide their developments with water service.

The System Development Charge (SDC), instituted in 1973, has provided a major source of funds for capital expenditures, although not legally restricted for such use. Since 1973, Denver Water has collected approximately \$436 million in SDCs. This charge applies to any applicant who is granted a license to take water through Denver Water's system or through a system deriving its supply from Denver Water. Such charge is assessed upon application for a new tap.

Historically, SDCs were assessed based on the size of the connection required. Plans are underway for a treatment plant that will provide recycled non-potable water for industrial and irrigation uses. The Capital Plan anticipates the first phase of that plant to be on-line in 2004. Customers who agreed prior to December 31, 1997 to take such water when it becomes available were assessed an SCD at the rates applicable in 1997.

In July 1998, the Board approved a 5 percent increase in the SDC and a change in the method of assessing the fee. The changes became effective January 1, 1999. The existing structure assesses a new single family residential customer a base fee plus a fee based on gross lot size. Multifamily residential customers served through a single tap are assessed a base fee for 2 units plus a charge for each additional dwelling unit. All other customers are assessed a fee based on tap size. This SDC structure is designed to improve equity by basing the fee on variables (lot size and number of dwellings served) that are better predictors of new customer water demand. The Board also stated its intent to review the adequacy of the SDC on an annual basis. At the end of 2003 these charges were increased by 20% for all customer classes. In recognition of the complexity of financing and building multi-family housing, a system was created under which developers with current or pending multi-family projects could qualify for the previous and lower SDC.

Participation Receipts have been a source of funds since 1974. Developers are required to participate in the front-end financing of facilities necessary to meet their specific needs. Total participation receipts of approximately \$119 million have been collected since inception.

**Table 20**

**SYSTEM DEVELOPMENT CHARGES  
AND PARTICIPATION RECEIPTS 1973-2003  
(Cash Basis - Net of Refunds)**

	<u>System Development Charges<sup>1</sup></u>	<u>Participation Receipts</u>
2003	\$ 19,614,900	\$ 2,831,300
2002	36,590,900	5,567,000
2001	22,186,300	7,026,900
2000	25,525,400	6,392,400
1999	24,223,700	11,964,000
1998	33,155,900 <sup>2</sup>	8,411,500
1997	45,058,100 <sup>3</sup>	3,732,500
1996	15,137,300	2,913,100
1995	15,527,600	3,927,400
1994	13,535,700	2,881,800
1993	12,181,800	1,343,600
1992	10,920,300	1,198,800
1991	7,530,400	2,330,700
1990	6,615,100	1,838,700
1989	6,251,400	4,965,200
1988	6,084,600	3,067,700
1987	8,544,400	4,561,300
1973-1986	<u>149,473,600</u>	<u>43,647,100</u>
Total	<u>\$458,157,400</u>	<u>\$118,600,976</u>

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<sup>1</sup> The System Development Charges receipts above are permitted to be used to retire bond obligations of the Denver Water Board.

<sup>2</sup> The 1998 amount includes \$12,961,000 of pre-paid SDCs and \$3,169,100 of pre-paid Participation Receipts related to the Board's planned construction of a plant to supply non-potable reuse water.

<sup>3</sup> The 1997 amount includes \$22,290,000 of SDCs paid in advance by entities that chose to avoid the Board's 5% rate increase effective January 1, 1998.

**SYSTEM DEVELOPMENT CHARGES**  
**(Effective September 19, 2000)**  
**\$/tap**

	<u>Treated Water</u>	
	<u>Inside Denver</u>	<u>Outside</u>
<u>Single Family Residential Taps<sup>1</sup></u>		
Base charge per residence	\$ 1,200	\$ 1,675
Charge per square foot gross lot size	\$ 0.29	\$ 0.40

	<u>Treated Water</u>	
	<u>Inside Denver</u>	<u>Outside</u>
<u>Multifamily Residential Taps<sup>2</sup></u>		
Base charge for duplex or first two household units (served through a single tap)	\$ 4,650	\$ 6,520
Charge for each additional household unit above two units (served through a single tap)	\$ 970	\$ 1,360

<u>All Other Taps<sup>3</sup></u>	<u>Treated Water</u>		<u>Non Potable Water</u>	
	<u>Denver</u>	<u>Outside City</u>	<u>Inside</u>	<u>Outside</u>
<u>Size of Connection:</u>				
3/4"	\$ 3,425	\$ 4,800	\$ 1,925	\$ 2,700
1"	10,275	14,400	5,775	8,100
1 1/2"	20,550	28,800	15,400	21,600
2"	30,825	43,200	25,025	35,100
3"	75,350	105,600	42,350	59,400
4"	133,575	187,200	63,525	89,100
6"	232,900	326,400	130,900	183,600
8"	308,250	432,000	169,400	237,600
10"	393,875	552,000	217,525	305,100
12"	479,500	672,000	309,925	434,700
Acre Foot Conversion (\$/AF)				
Inside the Combined Area	\$ 7,475	\$ 10,425	\$ 4,200	\$ 5,870
Outside the Combined Area		\$ 10,900		5,870

<sup>1</sup> Licenses for 3/4" single family residential taps within the City and Denver Water Service Areas, including applicable special contracts.

<sup>2</sup> Licenses for multi-family residential taps within the City and Denver Water Service Areas, including applicable special contracts.

<sup>3</sup> Licenses for all other taps within the City and Denver Water Service Areas, including applicable special contracts.

**Table 21**

**HISTORY OF INCREASES  
OF SYSTEM DEVELOPMENT CHARGES**  
(first implemented in 1973)

<b><u>Date</u></b>	<b><u>Incremental Increase</u></b>
April 1, 1975	50.0%
April 16, 1976	50.0%
January 1, 1980	50.0%
February 1, 1982	50.0%
January 1, 1986	7.0%
January 1, 1998	5.0%
January 1, 1999	5.0%
January 1, 2001	9.0%
December 18, 2002	10.0%
January 1, 2004	20.0%

**RECEIPTS AND EXPENDITURES  
BUDGET TO ACTUAL COMPARISON 1999 - 2003 AND 2004 BUDGET (CASH BASIS)**  
(amounts expressed in thousands)

	1999		2000		2001		2002		2003		2004	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<b>BEGINNING CASH &amp; INVESTMENTS</b>	\$ 130,544	\$ 130,544	\$ 149,851	\$ 149,851	\$ 165,594	\$ 165,594	\$ 186,755	\$ 186,755	\$ 156,540	\$ 156,540	\$ 163,405	\$ 163,405
<b>RECEIPTS FROM:</b>												
Sale of water	127,754	126,160	133,298	151,490	139,465	149,188	148,785	146,210	133,065	131,038	157,450	157,450
Drought Surcharge	-	-	-	-	-	-	-	776	11,043	8,001	-	-
Nonoperating, interest & other	13,700	18,438	16,364	16,647	16,746	16,671	12,111	16,480	16,695	13,683	18,879	18,879
System development charges	14,600	24,328	19,100	25,620	21,300	22,259	27,446	36,644	23,783	19,649	22,034	22,034
Tap Surcharge	-	-	-	-	-	-	-	1,333	4,583	1,641	-	-
Developer participation (new facilities)	9,017	13,171	3,741	6,392	3,915	7,034	3,918	5,573	2,115	2,835	2,036	2,036
Reimbursements & grants	440	371	387	791	1,637	6,802	152	1,881	3,123	3,420	494	494
Subtotal	165,511	182,468	172,890	200,940	183,063	201,954	192,412	208,897	194,407	180,267	200,893	200,893
Sale of bonds	38,272	14,472	12,700	12,677	11,159	32,658	27,395	11,393	40,500	132,438	9,000	9,000
Total receipts	203,783	196,940	185,590	213,617	194,222	234,612	219,807	220,290	234,907	312,705	209,893	209,893
<b>LESS EXPENDITURES FOR:</b>												
Operations, maintenance & refunds	76,868	79,312	80,296	80,836	82,059	85,375	91,297	95,453	97,006	105,463	103,583	103,583
Debt service	36,825	36,240	34,454	34,041	31,629	31,780	32,712	35,258	33,630	71,338	37,878	37,878
Subtotal	113,693	115,552	114,750	114,877	113,688	117,155	124,009	130,711	130,636	176,801	141,461	141,461
Capital improvements (new facilities)	45,523	35,496	45,910	51,705	74,508	69,761	78,240	81,421	91,228	100,017	46,268	46,268
System replacements	12,927	10,573	17,582	16,236	13,688	11,238	15,308	18,828	13,950	12,559	15,451	15,451
Equipment	7,122	6,343	9,119	5,746	8,298	6,604	10,069	8,834	7,264	5,528	13,556	13,556
Subtotal	65,572	52,412	72,611	73,687	96,494	87,603	103,617	109,083	112,442	118,104	75,275	75,275
Indirects to capital	9,500	9,669	9,579	9,310	9,884	9,750	9,955	10,711	11,023	10,935	10,860	10,860
Total expenditures	188,765	177,633	196,940	197,874	220,066	214,508	237,581	250,505	254,101	305,840	227,596	227,596
Investment Market Adjustment	-	-	-	-	-	1,057	-	-	-	-	-	-
<b>ENDING CASH &amp; INVESTMENTS</b>	\$ 145,562	\$ 149,851	\$ 138,501	\$ 165,594	\$ 139,750	\$ 186,755	\$ 168,981	\$ 156,540	\$ 137,346	\$ 163,405	\$ 145,702	\$ 145,702

**GENERAL EXPLANATION OF VARIANCES:**

Variances in operating receipts are generally due to abnormal climatic conditions.  
 Variances in system development charges are generally related to levels of activity in the home building industry.  
 Variances in capital improvements are generally due to changes in project scheduling.  
 Cash and investments do not agree with amounts on the Statements of Net Assets.

## WASTEWATER MANAGEMENT SYSTEM

The Wastewater Management Enterprise Fund (Wastewater) was established by the City on January 1, 1967 to account for the sanitary sewer and storm operations of the City. The City's wastewater collection facilities consist of over 1,600 miles of sanitary sewer lines of various composition and ranging in size from 6" to 60" in diameter. Denver's system utilizes gravity flow and lift stations; four sanitary sewer lift stations and three storm sewer lift stations are currently in service.

Denver maintains an active line maintenance program, which uses television and sealing units to monitor line condition and seal joints. Denver employs a regular maintenance schedule to flush out lines, a grout process to repair slight breaks, and trenchless technology to replace lines. Maintenance and replacement have historically been funded out of the Wastewater System's capital expansion program. In April 2002, the City, for and on behalf of the Wastewater Management Division of its Department of Public Works, issued Wastewater Revenue Bonds in the principal amount of \$30,700,000, the proceeds of which are being used to finance improvements to the storm drainage facilities. The bonds are not general obligations of the City and are payable solely from revenues derived by the City from its storm drainage and sanitary sewerage facilities.

### Wastewater Financial Information

**Customer Information.** Denver's Wastewater Management Division estimates that Denver serves approximately 147,000 customers. Of this amount, approximately 136,000 (92.5%) are residential customers; approximately 11,000 (7.5%) are commercial customers.

**Metro Wastewater Reclamation District.** The sewage carried by the Sanitary Sewerage Facilities is delivered to Metro Wastewater Reclamation District ("Metro"), a political subdivision of the State organized to manage and finance facilities for the carriage, treatment and disposal of wastewater throughout the metropolitan Denver area. The City entered into a Sewage Treatment and Disposal Agreement (the "Metro Agreement") with Metro in March 1964. There are currently over 40 other municipalities, districts and industrial entities contracting with Metro for sewage treatment and disposal services. Under the Metro Agreement, there is an annual charge to each signatory, payable quarterly. The annual charge is calculated with the intention that each signatory pays in proportion to its use of Metro's services. Table 22 presents historical data between 1999 and 2003 relating to Metro's total annual charges to Wastewater.

**Table 22**

**HISTORICAL METRO ANNUAL CHARGES**

	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Total Enterprise Operating Expense	\$49,441,236	\$51,488,886	\$55,487,794	\$60,363,565	\$64,949,037
Metro Annual Charge <sup>1</sup>	\$22,075,444	\$21,888,022	\$22,550,600	\$23,566,979	\$24,585,451
Metro Annual Charge as a Percentage of Total Operating Expense	44.65%	42.51%	41.40%	39.04%	37.85%
Year-to-Year Metro Annual Charge Increase (Decrease)	(1.09%)	(0.85%)	3.03%	4.51%	4.32%
Cumulative Metro Annual Charge (Decrease)	(1.09%)	(1.94%)	1.09%	5.60%	9.92%

<sup>1</sup> These figures do not reflect amounts paid to other sewage treatment and disposal districts.

(Source: Wastewater Management Financial Statements for Years Ended December 31, 2003 and 2002)

**Account Information.** The number of accounts served by the Storm Drainage facilities and Sanitary Sewerage Facilities during the past ten years are reflected in the following table:

**Table 23**

**HISTORICAL ACCOUNT INFORMATION**

<u>Years (December 31)</u>	<u>Storm Accounts</u>	<u>Sanitary Sewerage Accounts</u>
1994	138,747	136,618
1995	140,028	137,211
1996	140,464	137,647
1997	141,273	138,346
1998	142,500	139,221
1999	143,372	141,488
2000	144,757	142,595
2001	146,413	144,115
2002	146,694	145,120
2003	148,755	146,901

**Storm Drainage Service Charge.** The City imposes a storm drainage service charge on every lot or parcel of land within the City and the owners thereof. The storm drainage service charge is structured so that the owner of each lot or parcel pays for the Storm Drainage Facilities to the extent its lot or parcel contributes stormwater runoff to the Storm Drainage Facilities beyond the amount of stormwater runoff which would otherwise be contributed by such lot or parcel if the lot or parcel was in its natural state. The amount of stormwater runoff attributed to a lot or parcel is directly related to the amount of impervious surface area (e.g., roofs, driveways, parking lots, etc.) on the property. The storm drainage service charge is based on the percentage of impervious area to the total property area. The Manager of the Department determines the annual storm drainage service charge for each lot or parcel by dividing the lot or parcel's impervious area by its total area. The ratio of these figures is then matched to the appropriate ratio group determined by the City, with each ratio group assigned a corresponding rate. Following is a table showing the current and approved future rates for each ratio group:

**Table 24**

**APPROVED CURRENT AND FUTURE RATES**

<u>Ratio Group</u>	<u>Rate 2003</u>	<u>Rate 2004</u>	<u>Rate 2005 and Thereafter</u>
0 to .10	\$1.00	\$1.20	\$1.44
.11 to .20	1.26	1.51	1.81
.21 to .30	1.52	1.82	2.18
.31 to .40	1.79	2.15	2.58
.41 to .50	2.05	2.46	2.95
.51 to .60	2.05	2.46	2.95
.61 to .70	2.32	2.78	3.34
.71 to .80	2.58	3.10	3.72
.81 to .90	2.84	3.41	4.09
.91 to 1.00	3.11	3.73	4.48

The rate for the lot or parcel's ratio group is multiplied by the square footage of the lot or parcel's impervious area and then divided by 100. The resulting quotient is equal to the annual storm drainage service charge. For example, a 5,000 square foot lot with 3,000 square feet of impervious area would be included in the .51 to 60 ratio group and therefore would be charged an annual storm drainage service charge of \$51.30 ( $\$1.71 \times 3,000/100$ ). Notwithstanding any circumstances where a lot or parcel would be charged a service charge of less than \$10.26 under this method of calculation, a minimum storm drainage service charge of \$10.26 is imposed on each lot or parcel within the City. The power and authority of home rule municipalities such as the City to impose storm drainage service charges computed as described above has been affirmed by the State Supreme Court.

In December 2001, the City adopted by ordinance a revised fee schedule for the storm drainage service charges whereby such storm drainage service charges are to be increased annually for four years with the initial increase effective as of January 1, 2002 and the final increase effective as of January 1, 2005 and thereafter.

**Wastewater Management Division Enterprise Fund Budgets**

The following table sets forth the major items of revenues and expenditures included in the 2003 revised and the 2004 proposed budgets of the Wastewater Management Division Enterprise Fund.

Table 25

WASTEWATER ENTERPRISE BUDGETS

	<u>2003 Revised Budget</u>	<u>2004 Proposed Budget</u>
Operating Revenue		
Charges for Services	\$65,103,000	\$71,400,000
Other	<u>1,102,000</u>	<u>1,376,000</u>
Total Operating Revenue	<u>66,205,000</u>	<u>72,776,000</u>
Operating Expenses		
Personnel Services	20,776,000	19,802,000
Contractual Services	17,425,000	17,243,000
Supplies and Materials	1,368,000	1,407,000
Payments To Metro Wastewater and Other Districts	<u>25,775,000</u>	<u>26,810,000</u>
Total Operating Expenses	<u>65,344,000</u>	<u>65,262,000</u>
Operating Income (loss)	<u>861,000</u>	<u>7,514,000</u>
Other Income (Expense)		
Earnings on investments	2,806,000	2,391,000
Debt service payments	(1,664,000)	(1,389,000)
Bond principal payment	(1,015,000)	(1,045,000)
Purchase of capital equipment	<u>(640,000)</u>	<u>(1,190,000)</u>
Total Other Income	<u>(513,000)</u>	<u>(1,233,000)</u>
Modified Net Income	<u>\$ 348,000</u>	<u>\$ 6,281,000</u>

(Source: Wastewater Management Division Enterprise Department of Finance.)

**Operating History**

*Historical Wastewater Management Fund Information.* Denver operates and accounts for its wastewater system through an enterprise fund. A five-year comparative statement of Denver's Wastewater Management Fund revenues, expenses and resulting changes in retained earnings as reported in Denver's audited comprehensive annual financial reports for fiscal years 1999 through 2003 is set forth in the following table.

**Table 26**

**WASTEWATER MANAGEMENT FUND  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN  
FUND NET ASSETS**

**For the years ending December 31**

(\$ in thousands)

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
OPERATING REVENUES					
Sanitary Sewer Charges	\$49,771	\$51,949	\$50,228	\$50,302	\$47,646
Storm Drainage Fees	11,488	11,214	11,578	13,811	18,181
TOTAL OPERATING REVENUES	<u>61,259</u>	<u>63,163</u>	<u>61,806</u>	<u>64,113</u>	<u>65,827</u>
OPERATING EXPENSES					
Personnel services	13,652	13,989	15,319	16,642	17,965
Contractual services	5,439	7,061	7,391	8,300	12,153
Supplies	402	353	497	1,812	583
Materials	414	476	688	408	332
Utilities	195	180	238	220	255
Depreciation and amortization	7,233	7,507	7,309	8,070	9,028
Payments to Metro Wastewater Reclamation District	22,106	21,923	24,046	25,180	24,633
TOTAL OPERATING EXPENSES	<u>49,441</u>	<u>51,489</u>	<u>55,488</u>	<u>60,634</u>	<u>64,949</u>
Operating income (loss)	<u>11,818</u>	<u>11,674</u>	<u>6,318</u>	<u>3,481</u>	<u>878</u>
NONOPERATING REVENUES (EXPENSES)					
Investment income	2,879	8,999	5,343	3,751	1,339
Interest Expense	(427)	(379)	(106)	(1,005)	0
Gain (loss) on disposition of assets	67	30	151	6	90
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>2,519</u>	<u>8,650</u>	<u>5,388</u>	<u>2,752</u>	<u>1,429</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS	14,337	20,324	11,706	6,233	2,307
Capital Contributions	--	--	8,804	7,357	15,205
Transfers Out	--	--	(1,500)	(1,000)	(1,500)
NET INCOME	<u>14,337</u>	<u>20,324</u>			
CHANGES IN NET ASSETS			19,010	12,590	16,012
RETAINED EARNINGS, JANUARY 1 <sup>1</sup>	<u>115,426</u>	<u>129,763</u>			
NET ASSETS, JANUARY 1 <sup>1</sup>			<u>331,121</u>	<u>350,131</u>	<u>362,721</u>
RETAINED EARNINGS, DECEMBER 31 <sup>1</sup>	<u>\$129,763</u>	<u>\$150,087</u>			
NET ASSETS, DECEMBER 31 <sup>1</sup>			<u>\$350,131</u>	<u>\$362,721</u>	<u>\$378,733</u>

<sup>1</sup>Wastewater has adopted a new financial reporting model as promulgated by the Government Accounting Standards Board (GASB). In accordance with GASB Statement No. 34, although not required, Wastewater has restated its 2001 financial information for purposes of providing comparative information with 2002.

## Historic Net Pledged Revenues

Based upon the revenues and expenditures of the Wastewater Management Division Enterprise Fund for the past five years and using the Debt Service Requirements of the Bonds the amounts which would have constituted Net Pledged Revenues available for debt service in each of the past five years would have covered the maximum Debt Service Requirements of the Bonds as follows:

### HISTORIC DEBT SERVICE COVERAGE RATIOS

<u>Years</u>	<u>Net Pledged Revenues</u>	<u>Maximum Annual Debt Service Requirement</u>	<u>Debt Service Coverage Ratio</u>
1998	\$ 20,238,623	\$ 2,484,444	8.15%
1999	21,503,060	2,484,444	8.66
2000	27,801,173	2,484,444	11.19
2001	18,864,253	2,484,444	7.59
2002	14,297,000	2,484,444	5.75
2003	10,408,941	2,484,444	4.19

(Source: Wastewater Enterprise Department of Finance)

**Capital Improvements Plan.** The Enterprise continuously reviews its future capital needs through staff observation and customer and community feedback. Once needs are identified, a study is initiated which may result in a recommendation for a capital improvements project. Recommended projects are incorporated into the Six-Year Capital Needs Assessment. The timing and priority for implementation of recommended projects within the Six-Year Capital Needs Assessment are based upon certain factors including the master plan, study findings, health and safety matters, legal and contractual obligations, completion of existing projects, coordination with other projects, mitigation of damages, cost and operational efficiency, public/private cooperation and regional benefits. The Enterprise is continuously implementing the results of this process in its capital improvements plan. The following schedule provides the Enterprise's currently proposed capital improvements plan expenditures for the years 2003-2010:

### PROPOSED CAPITAL EXPENDITURES FOR 2003 THROUGH 2010 (\$ in thousands)<sup>1</sup>

<u>Project Description</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Storm Drainage								
Annual Programs <sup>1</sup>	\$6,668	\$8,138	\$4,000	\$4,000	\$5,000	\$ 2,000	\$ 2,000	\$ 2,000
Identified Projects	7,558	22,995	7,550	6,750	6,030	9,450	9,450	8,950
Subtotal Storm Drainage	14,226	31,133	11,550	10,750	11,030	11,450	11,450	10,950
Sanitary Sewerage	10,261	10,054	6,000	6,076	6,248	9,300	9,300	9,600
Total	\$24,487	\$41,187	\$17,550	\$16,826	\$17,278	\$20,750	\$20,750	\$20,550

<sup>1</sup> Annual programs consist of alley restoration; replacement of curbs, gutters and cross pans; and minor ongoing local and neighborhood capital improvements.

## THE AIRPORT SYSTEM

### Events and Economic Factors Affecting the Airport

The Airport, like all major airports in the United States, was adversely affected by the events of September 11, 2001 (“September 11 Events”) and the resulting impact on the air transportation industry, as well as by both the ongoing economic slowdown, which commenced prior to the September 11 Events, and by the ongoing hostilities in Iraq and elsewhere in the Middle East. In 2001 and 2002, aviation activity and enplaned passenger traffic declined as most major airlines reduced service levels to control costs in response to decreased passenger demand and financial losses. Several airlines, including four airlines operating at the Airport (United, US Airways, Vanguard and Air Canada) have filed for bankruptcy protection, although only Vanguard has ceased operating. US Airways emerged from bankruptcy protection in March 2003, however, the airline filed for bankruptcy protection again on September 12, 2004. The creditors of Air Canada have approved a plan of restructuring in advance of a planned emergence from protection under Canada’s Companies’ Creditors Arrangement Act on September 30, 2004. Several other major airlines have reported ongoing severe financial difficulties. The Airport also initially incurred increased operating costs due in large part to compliance with increased federal and management-mandated security and other operating requirements stemming primarily from the September 11 Events.

While the airlines continue to suffer negative economic impacts of the September 11 Events, the economy and other factors, the Airport itself experienced a recovery in 2003 that gained momentum toward year end. The number of enplaned passengers at the Airport increased 5.2% in 2003 over 2002, while the national average enplaned passengers declined by 2.8% for this period as reported by Air Transport Association, an airline industry trade association. In December 2003, the number of enplaned passengers at the Airport exceeded 3.3 million, which was the highest level of enplaned passengers for the month of December in the Airport’s history. Activity-based revenues at the Airport (landing fees, passenger facility charges (PFCs) and concession, car rental and parking revenues) increased 3.4% in 2003 compared to 2002, largely as the result of increases in parking revenues and passenger traffic, and the cost per enplaned passenger declined in 2003 compared to 2002.

The principal air carrier at the Airport is United, one of the world’s largest airlines. The Airport currently is the second largest connecting hub in United’s route system both in terms of passengers (based on information provided by individual airports) and flight operations (according to data published by Official Airline Guides, Inc.). Pursuant to the United Use and Lease Agreement, United currently leases 51 of the 90 full service jet gates at the Airport (although Frontier is temporarily occupying two of these gates on Concourse A). In addition, United, together with its low-fare carrier known as Ted and its United Express commuter affiliates, accounted for approximately 60% of passenger enplanements at the Airport in 2003 and the first six months of 2004.

On December 9, 2002, UAL and 27 of its subsidiaries, including United, filed for bankruptcy protection under Chapter 11 of the Bankruptcy Code. The Chapter 11 filing permits United to continue operations while developing a plan of reorganization to address existing debt, capital and cost structures. The Bankruptcy Court has approved a series of motions which order United to pay sales and use taxes, transportation taxes, fees, PFCs and other similar governmental and airport charges to the Airport, both pre-petition and post-petition. On November 21, 2003, following an agreement reached between the City and United, a stipulated order (the Stipulated Order) was entered by the bankruptcy court in which United assumed the United Use and Lease Agreement, being the first airport Use and Lease agreement assumed by United since filing for bankruptcy protection. Pursuant to the Stipulated Order, United paid its pre-petition debt to the Airport of approximately \$13.6 million, and its leasehold at the Airport was reduced by approximately 161,700 square feet. In addition, the City agreed in the Stipulated Order to design and construct a variety of capital projects totaling approximately \$137 million, including the construction of a new commuter jet facility on Concourse B (the “Concourse B Expansion Project”) (to become part of the premises subject to the United Use and Lease Agreement) and an expansion of Concourse A, and, pursuant to certain conditions, to reduce airline rentals, fees and charges by specified amounts. The Stipulated Order also included provisions allowing Airport management to maximize the use of existing Airport facilities.

Special Facility Revenue Bonds were issued for United to build a maintenance hangar and other facilities at DIA. Since entering bankruptcy protection, United has refused to make interest payments on these bonds. In March, 2004, the Federal bankruptcy judge, saying that DIA’s arrangement is a true lease,

ruled that United must resume making payments on the \$261 million in bonds issued to build facilities at DIA. The judge also ordered that United make future payments in order to keep occupying a 498,000 square foot maintenance hangar and other special facilities at DIA. UAL is appealing this decision.

The future level of aviation activity and enplaned passenger traffic at the Airport will depend on several factors including, among others, the financial condition of individual airlines and viability of continued service, as well as local, regional, national and international economic and political conditions, international conflicts such as that occurring in Iraq and elsewhere in the Middle East, fears of additional terrorist attacks, world health concerns such as the outbreak of SARS that occurred in 2003, airline service and route networks, availability and price of aviation fuel, airline economics (including labor relations), airline bankruptcies, competition, airfares, airline industry consolidation, capacity of the national air traffic control system and capacity provided at the Airport, among others.

With the exception of Air Canada/Jazz Air, all airlines operating at the Airport are current in their payment obligations to the Airport. Air Canada/Jazz Air currently owes the Airport approximately \$134,000 in pre-petition obligations under its Use and Lease Agreement and, with respect to which, the Airport holds a performance bond in the amount of \$372,500 which was required to be provided by Air Canada under its Use and Lease Agreement. The Airport cannot predict, nor can it give any assurance, that the airlines operating at the Airport will continue to pay or to make timely payment of their obligations under their respective Use and Lease Agreements, nor whether other airlines may file for bankruptcy protection.

### **Airport System Aviation Activity**

The primary asset of the Airport System is Denver International Airport (the "Airport") which is the primary air carrier airport for the Denver air service region. Denver's central geographic location has made it a major destination point for communities throughout the Rocky Mountain region and a major transportation hub for airline flights connecting between the east and west coasts and other major metropolitan centers.

According to the Airports Council International, in 2003 the Airport was ranked as the fifth busiest airport in the nation and the tenth busiest airport in the world based on total passengers. As shown in the table below, passenger enplanements at the Airport decreased by 6.9% in 2001 and decreased by 1.2% in 2002. In 2003, the Airport experienced an increase of 5.2% representing approximately 18.8 million enplaned passengers.

Information contained in Tables 27, 28, and 29 regarding passenger enplanements and related aviation activity at the Airport may vary from information published in the past due to changes in categorization or presentation of certain airlines.

The following table shows annual levels of enplaned passengers for all airlines serving the Airport System for the most recent five-year period. The totals include activity data for major/national airlines, regional/commuter airlines and charter and other airlines.

Table 27

**AIRPORT SYSTEM  
HISTORICAL ENPLANED PASSENGERS  
BY MAJOR AIRLINE CATEGORY  
1999-2003<sup>1</sup>**

<u>Year</u>	<u>Major/ National Airlines</u>	<u>Percent Change</u>	<u>Regional/ Commuter Airlines</u>	<u>Percent Change</u>	<u>Charter/ Miscell- aneous Airlines</u>	<u>Percent Change</u>	<u>Totals</u>	<u>Percent Change</u>
1999	18,406,437	3.3%	337,691	(16.7)	287,081	31.7%	19,031,209	3.2
2000	18,684,319	1.5	386,526	14.5	322,151	12.2	19,392,996	1.9
2001 <sup>2</sup>	17,248,634	(7.7)	463,677	(20.0)	333,798	3.6	18,046,109	(6.9)
2002 <sup>3</sup>	16,891,218	(2.1)	669,432	44.4	268,914	(19.4)	17,829,564	(1.2)
2003	17,192,825	1.8	1,395,391	108.4	172,663	(35.8)	18,760,879	5.2

<sup>1</sup> Includes revenue and non-revenue enplaned passengers.

<sup>2</sup> Midway Airlines filed for bankruptcy protection in August 2001 and ceased operations.

<sup>3</sup> Vanguard filed for bankruptcy protection on July 30, 2002, and ceased operations. United Airlines filed for bankruptcy protection on December 9, 2002, and is continuing operations. US Airways, filed for bankruptcy protection in August 2002, emerged from bankruptcy protection in March 2003 and re-filed for bankruptcy protection on September 12, 2004.

(Source: Department of Aviation management records as of September 15, 2004.)

The following table shows enplaned passengers for individual airlines serving the Airport System for 2002 and 2003, and comparative market share information based on enplaned passengers for such periods.

**Table 28**

**AIRPORT SYSTEM  
PERCENTAGE OF ENPLANED PASSENGERS BY AIRLINE**

<u>Airline</u>	<u>2002 Percent of Total</u>	<u>2003 Percent of Total</u>
United <sup>1</sup>	54.6%	51.0%
Ted <sup>1</sup>	--	--
United Express <sup>2</sup>	<u>8.0</u>	<u>9.2</u>
	62.6%	60.2%
Frontier Airlines	10.5%	13.8%
Frontier JetExpress	<u>0.5</u>	<u>0.8</u>
	11.0%	14.5%
American Airlines	5.4	4.7
America West	1.6	1.8
Continental	2.9	2.8
Delta	4.7	3.9
Northwest	2.9	2.8
US Airways <sup>1</sup>	1.9	2.0
Other <sup>3</sup>	<u>6.9</u>	<u>7.4</u>
	<u>26.4</u>	<u>25.4</u>
Totals	<u>100.0%</u>	<u>100.0%</u>

<sup>1</sup> United filed for bankruptcy protection in December 2002, and is continuing operations. US Airways filed for bankruptcy protection in August 2002, and emerged from bankruptcy protection in March 2003 and re-filed for bankruptcy protection on September 12, 2004.

<sup>2</sup> Includes Air Wisconsin, Great Lakes Aviation and SkyWest in 2001 and Air Wisconsin and SkyWest in 2002 and 2003.

<sup>3</sup> Vanguard filed for bankruptcy protection in July 2002 and ceased operation.

(Source: Department of Aviation management records as of September 15, 2004)

The following table sets forth a summary of all of the aviation activity at the Airport for the period 1999 through 2003.

**Table 29**  
**Summary of Aviation Activity**  
**Denver International Airport**  
(In thousands – Numbers may not add due to rounding)

	<u>1999</u>	<u>2000<sup>1</sup></u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>Enplaned Passengers:</b>					
United	12,271	11,807	10,575	9,732	9,575
United Express	<u>1,535</u>	<u>1,531</u>	<u>1,490</u>	<u>1,431</u>	<u>1,721</u>
Total United Group	<u>13,806</u>	<u>13,338</u>	<u>12,065</u>	<u>11,162</u>	<u>11,295</u>
Frontier	1,157	1,527	1,558	1,869	2,581
Frontier Jet Express	--	--	--	<u>91</u>	<u>149</u>
Total Frontier Group	<u>1,157</u>	<u>1,527</u>	<u>1,558</u>	<u>1,960</u>	<u>2,730</u>
Other	<u>4,068</u>	<u>4,528</u>	<u>4,424</u>	<u>4,707</u>	<u>4,736</u>
Total	<u>19,031</u>	<u>19,393</u>	<u>18,046</u>	<u>17,830</u>	<u>18,761</u>
Percent Change	3.2%	1.9%	(6.9)%	(1.2)%	5.2%
<b>Total Originating Passengers</b>	10,488	10,980	10,258	9,644	10,265
Percent Originating	55.1%	56.6%	56.8%	54.1%	54.7%
<b>Total Connecting Passengers</b>	8,543	8,413	7,788	8,186	8,496
Percent Connecting	44.9%	43.4%	43.2%	45.9%	45.3%
<b>United Passengers<sup>2</sup></b>					
Percent Originating	42.0%	42.0%	41.0%	37.0%	37.0%
Percent Connecting	58.0%	58.0%	59.0%	63.0%	63.0%
<b>Frontier Passengers</b>					
Percent Originating	83.0%	77.8%	73.2%	64.5%	65.4%
Percent Connecting	17.0%	22.2%	26.8%	35.5%	34.6%
<b>Average Daily Departures:</b>					
<b>Passenger Airlines:</b>					
United	292	286	267	244	233
United Express	170	191	175	113	119
Frontier	41	48	53	68	80
Frontier JetExpress	--	--	--	8	11
Other	<u>104</u>	<u>117</u>	<u>117</u>	<u>202</u>	<u>195</u>
Total Passenger Airlines	607	641	613	635	638
All Cargo Airlines	<u>37</u>	<u>35</u>	<u>28</u>	<u>22</u>	<u>29</u>
Total	<u>644</u>	<u>676</u>	<u>640</u>	<u>659</u>	<u>666</u>
Percent Change	6.0%	4.9%	(5.3 0)%	2.9%	1.2%
<b>Landed Weight (1 billion lbs):</b>					
<b>Passenger Airlines:</b>					
United	18.103	17.610	15.621	14.483	13.173
United Express	2.122	2.250	2.091	1.879	2.054
Frontier	1,633	1,956	2,204	2,907	3,630
Frontier JetExpress	--	--	--	140	181
Other	<u>5,570</u>	<u>6,140</u>	<u>6,270</u>	<u>7,066</u>	<u>6,663</u>
Total Passenger Airlines	27,428	27,956	26,186	26,474	25,701
All Cargo Airlines	<u>1,888</u>	<u>1,839</u>	<u>1,624</u>	<u>1,567</u>	<u>1,495</u>
Total	<u>29,317</u>	<u>29,795</u>	<u>27,810</u>	<u>28,041</u>	<u>27,195</u>
<b>Enplaned Cargo (1 million lbs)<sup>2</sup></b>	483.122	491.341	367.012	328.078	326.881
Percent Change	4.2%	1.7%	(25.3)%	(10.6)%	(0.4)%
<b>Total Aircraft Operations (Landings and Take-Offs):</b>					
Air Carriers	362,824	370,072	352,033	338,049	323,610
Air Taxi, Commuter, Military and General Aviation	<u>137,627</u>	<u>158,437</u>	<u>155,703</u>	<u>171,180</u>	<u>186,665</u>
Total	<u>500,451</u>	<u>528,509</u>	<u>507,736</u>	<u>509,299</u>	<u>510,275</u>
Percent Change	5.7%	5.6%	(3.9)%	0.3%	0.2%

<sup>1</sup> United reported that during the summer of 2000 it suffered substantial interruptions in its service due to inclement weather throughout the nation and labor disruptions resulting from labor negotiations with its pilots.

<sup>2</sup> The weight of enplaned cargo does not impact the Airport's Gross Revenues. Revenue is received from cargo carriers only from the landing fees and space rentals, which historically have constituted less than 2% of Gross Revenues.

(Source: Department of Aviation management records as of September 15, 2004.)

The table below shows total aircraft operations (landings and take-offs) for the Airport System for the period 1999 through 2003.

**Table 30**  
**AIRPORT SYSTEM**  
**HISTORICAL AIRCRAFT OPERATIONS**  
**1999-2003**

<u>Year</u>	<u>Air Carrier</u>	<u>Air Taxi/ Commuter</u>	<u>General Aviation</u>	<u>Military</u>	<u>Total</u>	<u>Percent Change</u>
1999	362,824	119,799	16,846	982	500,451	5.7%
2000	370,072	142,662	14,855	920	528,509	5.6
2001	352,033	139,538	14,614	1,551	507,736	(3.9)
2002	338,049	157,777	12,416	987	509,229	0.3
2003	323,610	174,092	11,228	1,345	510,275	0.2

(Source: Department of Aviation Audited Financial Report for 2003)

**Table 31**  
**DENVER INTERNATIONAL AIRPORT**  
**2003-2008 CAPITAL PROGRAM**  
**(\$ in thousands and rounded)**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Totals</u>
Planned Projects:							
Airfield Improvements	\$18,819	\$ 2,345	\$ 3,120	\$ 9,085	\$ 8,906	\$ 5,605	\$ 47,880
Terminal and Concourse Improvements <sup>1</sup>	4,455	19,100	7,416	24,570	16,611	35,101	107,253
Roads, Parking and Ground Transportation	1,730	--	--	8,703	5,956	75,958	92,347
Communications, Electronics, Security and Fire Protection	2,235	3,531	2,283	6,585	1,063	225	15,921
Environmental, Utilities, Storm Water, Drainage	4,323	9,017	21,646	1,331	2,230	320	38,868
Cargo and Support Buildings	5,747	8,855	3,545	--	500	16,650	35,297
Professional Services, MEEP and Art	<u>2,261</u>	<u>2,274</u>	<u>2,394</u>	<u>2,607</u>	<u>2,705</u>	<u>2,807</u>	<u>15,048</u>
Total Planned Projects	<u>\$39,570</u>	<u>\$45,122</u>	<u>\$40,404</u>	<u>\$ 52,881</u>	<u>\$37,971</u>	<u>\$136,665</u>	<u>\$352,612</u>
Demand Responsive Projects:							
Airfield Improvements	--	1,156	21,303	5,713	34,594	48,880	111,646
Terminal and Concourses	205,221	276,512	189,205	213,706	12,165	--	893,358
Roads, Parking and Ground Transportation	4,295	4,331	19,037	--	--	--	27,662
Communications, Electronics, Security and Fire Protection	8,463	4,289	--	--	--	--	12,752
Environmental, Utilities, Storm Water, Drainage	--	10,550	13,083	--	7,800	--	31,433
Cargo and Support Buildings	--	14,689	14,213	--	--	--	28,902
Professional Services, MEEP and Art	<u>3,540</u>	<u>3,582</u>	<u>2,124</u>	<u>2,170</u>	<u>2,216</u>	<u>2,266</u>	<u>15,898</u>
Total Demand Responsive Projects	<u>221,519</u>	<u>315,109</u>	<u>258,965</u>	<u>221,589</u>	<u>56,775</u>	<u>51,146</u>	<u>1,121,652</u>
Total Capital Improvement Program	<u>\$261,089</u>	<u>\$360,231</u>	<u>\$299,369</u>	<u>\$274,470</u>	<u>\$94,746</u>	<u>\$187,811</u>	<u>\$1,474,264</u>

<sup>1</sup> The City had previously included the possible expansion of Concourse A and the construction of a hotel adjacent to the main terminal as Planned Projects, but has re-categorized these improvements as Demand Responsive Projects in response to economic factors affecting the Airport.

(Source: Department of Aviation Audited Financial Report for 2003)

**Table 32**

**AIRPORT SYSTEM  
HISTORICAL ENPLANED CARGO OPERATIONS  
1999-2003  
(in pounds)**

<u>Year</u>	<u>Air mail</u>	<u>Freight and express</u>	<u>Total</u>	<u>Percent Change</u>
1999	168,505,468	314,616,473	483,121,941	4.2%
2000	171,803,661	319,537,612	491,341,273	1.7
2001	106,841,965	260,710,245	367,552,210	(25.2)
2002	95,573,027	283,235,306	378,808,333	3.2
2003	107,426,615	271,792,093	379,218,708	0.1

(Source: Department of Aviation Audited Financial Report for 2003.)

**Outstanding Bonds and Notes**

Senior and Subordinate Bonds have been issued to fund costs of the Airport. As of December 31, 2003, the total aggregate amount of all outstanding Bonds is as follows (\$ in thousands):

**Table 33**

**AIRPORT SYSTEM - FINANCIAL INFORMATION**

Series 1990A Bonds	\$ 26,905
Series 1991A Bonds	26,500
Series 1991D Bonds	142,365 <sup>1</sup>
Series 1992F-G Bonds	51,500
Series 1994A Bonds	92,655
Series 1995A-B Bonds	323,475
Series 1995C Bonds	100,915
Series 1996A-B Bonds	255,190
Series 1996C-D Bonds	242,405
Series 1997E Bonds	415,705
Series 1998A Bonds	206,665
Series 1998B Bonds	103,395
Economic Defeasance LOI 1998/1999	54,880
Series 2000A Bonds	301,615
Series 2000B Bonds	200,000
Series 2000C Bonds	100,000
Series 2001A Bonds	351,255
Series 2001B Bonds	16,675
Series 2001C Bonds	200,000
Series 2001D Bonds	66,330
Series 2002 A1-A3	294,000
Series 2002C Bonds	48,000
Series 2002D Bonds	19,800
Series 2002E Bonds	201,355
Series 2003A Bonds	161,965
Series 2003B Bonds	125,000
Total Outstanding Bonds	<u>\$ 4,128,550</u>

<sup>1</sup> This amount does not include \$14,880,000 in escrow.

In April 2003, the City on behalf of its Department of Aviation issued \$161,965,000 Series 2003A Bonds and \$125,000,000 Series 2003B Bonds. The proceeds of the Bonds together with other available Airport System moneys, were used to current refund all of the outstanding Airport System Subordinate Revenue Bonds, Series 1997A, all of the outstanding Airport System Subordinate Revenue Bonds, Series 1997B, and all of the outstanding Airport System Subordinate Commercial Paper Notes. Additionally, a portion of the proceeds financed certain capital improvements for Denver International Airport.

In 2003, Series A & B commercial paper facilities with a total authorized amount of \$300 million were created. An initial Letter of Credit for the facility was obtained in the maximum amount of \$60,000,000. There was no draw on this commercial paper facility in 2003 through August 2004. In July 2004, the City on behalf of its Department of Aviation obtained an increased Letter of Credit on its commercial paper program to \$127,200,000 in anticipation of interim funding for capital projects necessitated under the Stipulated Order between the City and United Airlines.

### Summary Financial Information

The following table sets forth five years of operating results of the Airport System.

**Table 34**

**AIRPORT SYSTEM  
CONDENSED STATEMENT OF REVENUES AND EXPENSES  
FOR THE FISCAL YEAR ENDED DECEMBER 31  
(\$ in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Operating revenues	\$442,894	\$438,340	\$450,695	\$443,921	\$447,478
Operating expenses	<u>195,292</u>	<u>191,389</u>	<u>223,408</u>	<u>238,484</u>	<u>202,298</u>
Operating income before Depreciation	247,602	246,951	227,287	205,437	245,180
Depreciation and Amortization	<u>120,393</u>	<u>150,631</u>	<u>151,796</u>	<u>125,692</u>	<u>144,758</u>
Operating Income	127,209	96,320	75,491	79,745	100,422
Non-Operating Revenues (Expense)	(183,654)	(158,277)	(124,391)	(119,845)	(135,271)
Capital Contributions	--	--	<u>13,735</u>	<u>91,152</u>	<u>40,542</u>
Change In Net Assets	<u>\$(56,445)</u>	<u>\$(61,957)</u>	<u>\$(35,165)</u>	<u>\$51,052</u>	<u>\$ 5,693</u>

(Source: Department of Aviation Audited Financial Report for 2003)

**Table 35**

**HISTORICAL NET REVENUES AND DEBT SERVICE COVERAGE  
UNDER THE BOND ORDINANCE  
FOR THE FISCAL YEAR ENDED DECEMBER 31  
(\$ in thousands)**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
Gross Revenues	\$522,098	\$530,694	\$526,631	\$499,435	\$527,567
Operation & Maintenance Expenses	<u>186,596</u>	<u>192,384</u>	<u>211,272</u>	<u>216,791</u>	<u>201,573</u>
Net Revenues	335,502	338,310	315,359	282,644	325,994
Other Available Funds <sup>1</sup>	<u>67,247</u>	<u>55,620</u>	<u>54,558</u>	<u>46,751</u>	<u>50,807</u>
Total amount available for Debt Service Requirements	<u>\$402,749</u>	<u>\$393,930</u>	<u>\$369,917</u>	<u>\$329,395</u>	<u>\$376,801</u>
Debt Service Requirement <sup>2,3</sup> Senior and Subordinate Bonds	\$272,083	\$255,837	\$248,375	\$225,286	\$230,547
Debt Service Coverage Senior and Subordinate Bonds	148%	154%	149%	146%	163%

<sup>1</sup> Other Available Funds includes amounts available in the Coverage Account of the Capital Fund to be applied to help fund the rate maintenance covenant of the Ordinance.

<sup>2</sup> Excludes debt service on Senior Bonds which are to be paid from certain passenger facility charges.

<sup>3</sup> Excludes debt service payable from amounts funded by capitalized interest.

(Source: Department of Aviation Audited Financial Report for 2003)

**AVERAGE AIRLINE COSTS  
PER ENPLANED PASSENGER**  
2003 dollars

\$14.51

**AVERAGE AIRLINE COSTS  
PER ENPLANED PASSENGER  
FOR UNITED**  
2003 dollars

\$16.98

(Source: Department of Aviation management records)

**HISTORICAL PASSENGER FACILITY CHARGE REVENUES**  
(\$ in thousands)

<u>Year</u>	<u>Revenues</u>
1999	48,430
2000	51,482
2001	61,988
2002	69,742
2003	71,945

**Airline Information - United**

United is a wholly-owned subsidiary of UAL Corporation and one of the world's largest airlines. Since 1999, UAL has been significantly impacted by various factors in addition to the events of September 11, 2001, including the weakening U.S. economy, a terminated merger with U.S. Airways Group, Inc. (the parent company of U.S. Airways), and operational disruptions resulting from labor, weather and other conditions, among others, all as reported in UAL's SEC filings. UAL's SEC filings provide comprehensive financial, operational and other information concerning UAL and United, and investors are encouraged to review such filings.

## CONTACTS FOR FURTHER INFORMATION

Compliance Officer for the City and County of Denver, Colorado 2003 Disclosure Statement:

Cheryl Cohen-Vader  
Manager of Revenue, *ex officio* Treasurer  
144 West Colfax Avenue, Room 300  
Denver, Colorado 80202  
(720) 865-7200 (Phone)  
(720) 865-7276 (Fax)

Financial reports are available on the City's web site, [www.denvergov.org](http://www.denvergov.org), and may be obtained by following the instructions given under the respective headings below. Copies of the financial reports may also be obtained from the following City and County of Denver, Colorado contacts:

***Continuing Disclosure Annual Report and  
Wastewater Management Enterprise Fund Financial Statements***

City and County of Denver  
Department of Revenue  
Robert O. Gibson  
Director of Financial Management  
144 West Colfax Avenue, Room 209  
Denver, Colorado 80202  
(720) 865-7116 (Phone)  
(720) 865-7176 (Fax)  
[www.denvergov.org/Treasury/template22997.asp](http://www.denvergov.org/Treasury/template22997.asp)

***Comprehensive Annual Financial Report:***

Office of the Auditor  
Accounting Section  
201 West Colfax Avenue, Department 705  
Denver, Colorado 80202  
(720) 913-5000 (Phone)  
(720) 913-5247 (Fax)  
[www.denvergov.org/Auditor/22813368template1jump.asp](http://www.denvergov.org/Auditor/22813368template1jump.asp)

***Financial Statements and Supplementary Information - Airport System:***

Department of Aviation  
Denver International Airport  
Stan Koniz  
Assistant Deputy Manager of Aviation/Finance  
Administration Division  
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(303) 342-2401 (Phone)  
(303) 342-2460 (Fax)  
[www.flydenver.com/biz/stats/index.asp](http://www.flydenver.com/biz/stats/index.asp)

***Financial Statements - Board of Water Commissioners:***

Denver Water Board

Kathryn Kempke

Manager of Treasury Operations

1600 West 12th Avenue

Denver, Colorado 80254

(303) 628-6410 (Phone)

(303) 628-6479 (Fax)

[www.denverwater.org/financialinfo/financialinfoframe.html](http://www.denverwater.org/financialinfo/financialinfoframe.html)

**The 2004 Disclosure Statement must be read in conjunction with the City's Comprehensive Annual Financial Report (CAFR) for the Year Ended December 31, 2003** - available from the Office of the Auditor. See above.

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APPENDIX A

AN ECONOMIC AND DEMOGRAPHIC OVERVIEW OF THE DENVER METROPOLITAN AREA

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# AN ECONOMIC AND DEMOGRAPHIC OVERVIEW OF THE DENVER METROPOLITAN AREA

August 2004

## INTRODUCTION

The Denver metropolitan area is the business and cultural center of the Rocky Mountain region with 56% of the state's population and 60% of the state's jobs. The 4,531-square-mile metropolitan area includes seven counties—Adams, Arapahoe, Boulder, Broomfield, Denver, Douglas and Jefferson.

The seventh county was added to the Denver metropolitan area on November 15, 2001 when the City of Broomfield became a combined city and county government. Portions of the former City of Broomfield had been located in Adams, Boulder, Jefferson and Weld counties.

The U.S. economy reached a peak in business activity in March 2001 and a trough in November 2001 according to the National Bureau of Economic Research (NBER), a six-member committee of academic economists. A peak marks the end of an expansion and the beginning of a recession whereas the trough marks the end of the recession and the beginning of the next expansion.

National indicators revealed strengthening economic conditions throughout 2003. Real Gross Domestic Product (GDP) expanded by 3.1% for all of 2003; the strongest growth since 2000 and an improvement over the 2.2% annual increase achieved in 2002. GDP, which is the broadest measure of national economic activity, increased due to the strength of personal consumption expenditures, increasing exports,

strengthening equipment and software purchases, and residential fixed investment.

Positive national economic conditions are good news for Colorado as a solid national recovery is needed to boost Colorado performance. While economic performance in 2003 did represent an improvement over 2002 conditions, Colorado and the Denver metropolitan area are still lagging the national recovery.

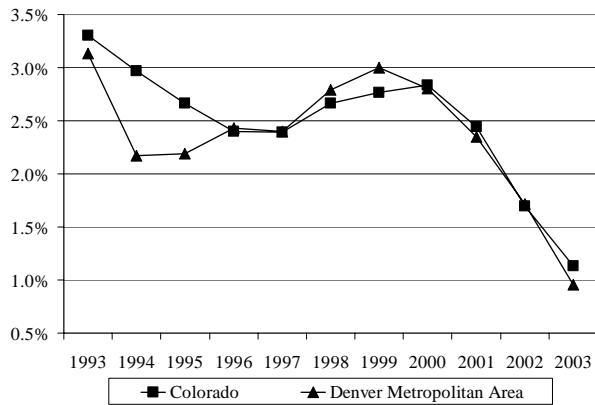
Economic activity remained sluggish throughout 2003, with most economic indicators continuing to move in less desirable directions throughout the year. The majority of the statistics included in this report are annual statistics, with the most recent annual data primarily for 2003.

## POPULATION

Colorado ranked as the sixteenth fastest-growing state in the country in terms of population growth from July 2002 to July 2003, according to the U.S. Census Bureau. With 4,567,991 people living in the state, Colorado is the 22nd most populated state in the country. Colorado's population increased by 51,100 people from 2002 to 2003, a 1.1% increase. The national population increase for the same period was 0.8%.

There are two components to population growth: natural increase and net migration. Natural increase, or births less deaths, is typically a relatively stable component. Net migration, or the number of people moving into the state minus the number leaving, is a comparatively more volatile component.

### POPULATION GROWTH RATES



Sources: U.S. Department of Commerce, Bureau of the Census; Colorado Division of Local Government.

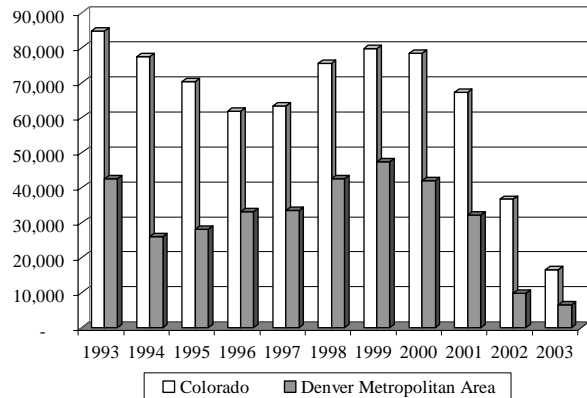
Over the last 10 years, the natural increase of the population in Colorado has averaged about 33,900 residents per year. For the period 1994 through 2003, the natural increase in the population accounted for 35% of the population growth.

Net migration activity, on the other hand, has fluctuated between a high of 81,800 in 2000 and a low of 17,100 in 2003. Over the ten-year period, net migration has accounted for 65% of the population growth. Migration activity slowed considerably in 2003 due to the economic slowdown, as people tend to move based on their perception of job opportunities. In 2003, net migration accounted for only 30.8% of the population growth. Former California residents have typically accounted for 14% to 20% of Colorado's in-migrants. Texas, Arizona, Florida, New Mexico and Illinois also provide Colorado with large numbers of new residents. The Denver metropolitan area continues to be a magnet for young, well-educated people looking for the opportunities and lifestyle that the area offers. The median age in the state is 34.7 compared to the national median of 35.9.

The Denver metropolitan area has experienced average population growth of

2.4% per year from 1993 to 2003. Population for the Denver metropolitan area was estimated at 2,538,199 as of July 1, 2003. For the ten years ending in 2003, 48.3% of the net in-migrants into the state settled in the Denver metropolitan area.

### NET MIGRATION



Source: Colorado Division of Local Government.

The Denver metropolitan area experienced population growth rates of 2.2% or higher from 1991 to 2001. Population growth slowed to 1.7% in 2002 and fell to 1.0% in 2003.

Douglas, Adams and Arapahoe counties are currently experiencing the strongest population growth rates in the Denver metropolitan area. According to the U.S. Census Bureau, Douglas County was the fastest growing county in the country during the 1990s. This first place ranking was maintained for the 2000 to 2001 period, with the county continuing to post double-digit population growth rates. Growth slowed in 2002 and 2003, with Douglas County now ranking as the third fastest growing county in the country for the 2000 to 2003 period.

The City and County of Denver has seen slow but positive population growth since 1991. Total population in 2003 is estimated at 567,450 people, a 0.9% increase over the 2002 population. Population growth rates for

the City and County of Denver have historically been less than that of the overall Denver metropolitan area. During the past ten years the average annual growth rate was 1.2% compared to 2.3% for the Denver metropolitan area.

**COUNTY POPULATION**  
(in thousands)

	% Change				
	1993	1998	2003	1993-98	1998-03
Adams	290.8	344.0	380.3	18.3%	10.5%
Arapahoe	427.5	472.4	516.5	10.5%	9.3%
Boulder	247.3	274.1	281.7	10.9%	2.8%
Broomfield	n/a	n/a	42.7	n/a	n/a
Denver	501.3	533.4	567.5	6.4%	6.4%
Douglas	83.1	144.4	214.0	73.6%	48.2%
Jefferson	476.2	512.5	535.7	7.6%	4.5%
<b>Denver</b>					
Metro	2,026.2	2,280.8	2,538.2	12.6%	11.3%
Colorado	3,605.0	4,102.5	4,568.0	13.8%	11.3%

*Source: Colorado Division of Local Government.*

**EMPLOYMENT**

Colorado's economy was rated as one of the top five states in the country in the annual *Development Report Card for the States* by the Corporation for Enterprise Development. The state earned an A for business vitality, an A for development capacity, and a B for economic performance in the 2003 report. After earning straight A's every year since 1993, the state earned a B in economic performance due to high unemployment and low annual pay growth.

Two monthly reports prepared by the U.S. Department of Labor provide estimates of employment. The first is a survey of households used to estimate employment by place of residence (the "household survey"). The information from the household survey is used to estimate the total labor force, total employment (including self-employment) and unemployment by county. It is from

these estimates that unemployment rates are derived.

The second is the Current Employment Statistics data series. The CES survey is a federal/state cooperative program that provides monthly estimates of nonagricultural payroll jobs derived from a sample of over 300,000 business establishment reports nationwide. These data are some of the most closely watched and widely used economic indicators among public and private policy makers alike. However, this series does not include those individuals that are self-employed, a growing segment of Colorado's economy.

A major change in the reporting of CES data occurred in 2003. The reporting of industry-level data switched from the 60-year-old Standard Industrial Classification (SIC) industry codes to the new North American Industry Classification System (NAICS) codes. The new NAICS codes include 20 broad sectors compared to the ten industry divisions in the SIC code system. These NAICS sectors are combined and trends discussed within 12 "supersectors," or combinations of the 20 broad NAICS sectors.

Colorado ranked fifth in the nation for job growth during the 1990s. Nonagricultural employment growth remained consistently high throughout the decade, averaging 3.8% from 1990 to 2000.

The employment situation changed in 2001 due to the national recession, the fallout in the high technology and telecommunications industries, and the terrorist attacks of September 11, 2001. The employment growth rate in Colorado fell to 0.6% in 2001, the lowest growth rate posted since 1987.

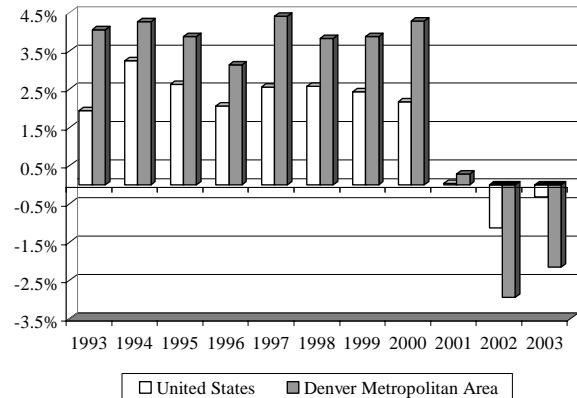
This was followed by the loss of 75,000 jobs during 2002 and 2003, the most severe job losses experienced in the state since the Great Depression. Colorado has high concentrations of high technology and telecommunications industry employment, industries that were especially hard-hit by the recent economic downturn. Indeed, it may be argued that these industries led the economic downturn. While these industries continue to struggle, the long-term outlook is promising. The 2002 State New Economy Index by the Progressive Policy Institute ranked Colorado as the fourth best-prepared state to prosper in the new economy. The states were ranked on 21 factors related to the knowledge job base, extent of globalization, economic dynamism, the use of the digital economy, and innovation capacity.

Further, a recent study by the Milken Institute predicts that Colorado will be a national leader in science and technology expansion. Milken's 2004 Science & Technology Index considered 73 various indexes in five major categories, including: research and development; venture capital and new business growth; the size of the high tech workforce; the number of science and engineering students; and the overall economic activity of high tech. Colorado ranked no lower than fifth in these five major categories, resulting in a third place ranking overall for the state. Massachusetts and California ranked first and second, respectively.

The Denver metropolitan area is the home of a nonagricultural employment base of 1.30 million people. Nonagricultural wage and salary employment in the Denver metropolitan area grew consistently from 1988 through 2001, with a peak of 56,100 jobs added in 2000. This was followed by a decline in the employment base in 2002 and

2003, the first employment losses in the region since 1987.

#### NONAGRICULTURAL WAGE AND SALARY EMPLOYMENT GROWTH RATES

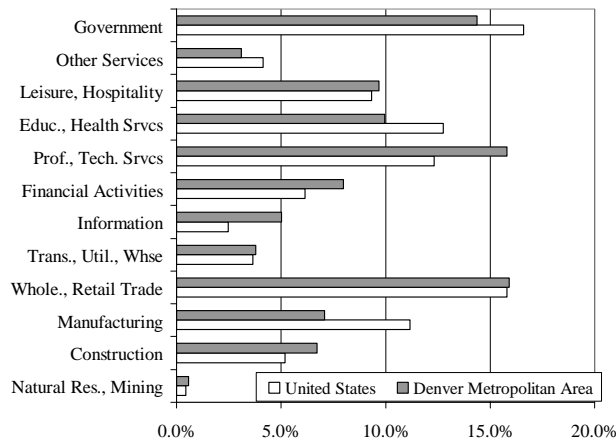


Sources: U.S. Department of Labor, Bureau of Labor Statistics; Colorado Department of Labor and Employment.

Nonagricultural employment statistics for the Denver metropolitan area reveal that the region lost 69,000 jobs during 2002 and 2003, including the loss of 40,300 jobs in 2002 and 28,700 jobs in 2003. The 2.9% employment decline posted in 2002 was the steepest employment loss on record for the Denver metropolitan area. Conditions improved slightly in 2003 with an employment loss of 2.2%.

Employment losses were widespread, with only two of the 12 supersectors posting job gains in 2003. The financial activities and educational/health services sectors both increased by 3,600 positions during 2003. The natural resources/mining sector posted no change during the year, whereas all other industry categories experienced job losses. The greatest job losses were posted in construction (-7,700 jobs), professional and business services (-6,400 jobs), information (-6,300 jobs), manufacturing (-6,000 jobs), and wholesale & retail trade (-5,900 jobs).

### 2003 EMPLOYMENT BY INDUSTRY



Sources: U.S. Department of Labor, Bureau of Labor Statistics; CO Department of Labor & Employment.

Under the new NAICS system, three major industry sectors – wholesale and retail trade, professional and business services, and government - provide about 46% of the employment in the Denver metropolitan area. The professional and business services supersector includes a broad segment of businesses, ranging from accounting and legal services to computer systems design to security services.

The Denver metropolitan area has a greater concentration of financial activities, information (which includes telecommunications), professional and business services and construction employment than the national average. Considering that these industries were especially hard hit by the recent economic downturn, it is not surprising that the economic contraction continued throughout the Denver metropolitan area in 2003.

The City and County of Denver is the center of employment for the Denver metropolitan area. About 33% of the total Denver metropolitan area employment is located in the City and County of Denver. Downtown Denver’s Central Business District has one of the area’s largest concentrations of office

space and a large cluster of telecommunications and information technology companies, as well as most of the metropolitan area’s financial and legal firms. Denver's job base of 425,700 is the largest in the state of Colorado. The employment base in the City and County of Denver declined by about 13,200 jobs in 2003.

### LABOR FORCE & UNEMPLOYMENT

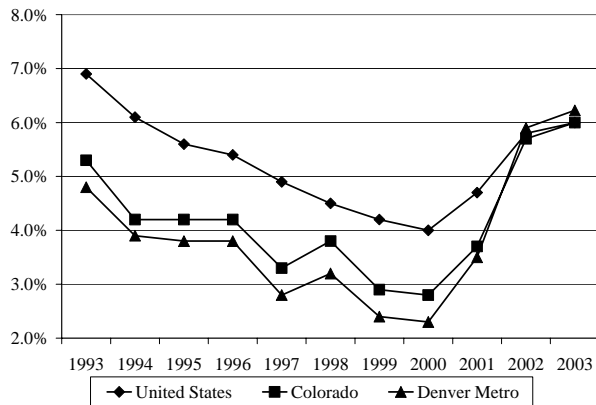
The economic slowdown continues to be marked by a rise in the unemployment rate. The U.S. unemployment rate increased to an annual average of 6.0% in 2003, up from 5.8% in 2002.

The 2003 unemployment rate in Colorado increased but not as drastically as in 2002. In 2002 the unemployment rate jumped two full percentage points, rising to an annual average of 5.7% in 2002 from 3.7% in 2001. The unemployment rate in Colorado in 2003 was the same as the national unemployment rate of 6.0%.

The unemployment rate in the Denver metropolitan area increased from an average of 5.9% in 2002 to an average of 6.2% in 2003. This was the second year in a row that the Denver metropolitan area jobless rate was higher than the national average. Given the total labor force in the Denver metropolitan area of 1.43 million, this represented an average of 88,900 people seeking employment each month.

The 2003 unemployment rate in the City and County of Denver of 7.4% was more than a full percentage point above the Denver metropolitan area rate. As an urban center, Denver's unemployment rate historically runs above the metropolitan area's rate.

## UNEMPLOYMENT RATES



Sources: U.S. Department of Labor, Bureau of Labor Statistics; CO Department of Labor & Employment.

The Denver metropolitan area boasts one of the most highly educated workforces in the nation according to a 2002 report by the U.S. Census Bureau. Of the adult population, 87.2 percent are high school graduates and 38.0 percent are college graduates. The Denver metropolitan area has one of the highest percentages of college graduates in the country, second only to Washington, DC and the San Francisco-San Jose area.

The recently released *Denver Metro Job Vacancy Survey* completed by the Labor Market Information section of the Colorado Department of Labor & Employment provides a snapshot estimate of current job openings by wage, skill requirements, and work experience. The study released in fall 2003 was based on surveys conducted between October 9 and December 9, 2003. The survey found that there were 16,300 positions open for immediate hire compared to 11,200 open positions one year earlier. Employers considered 66% of the open positions not difficult to fill compared with fall 2002 when 70% were said to be not difficult to fill.

## MAJOR EMPLOYERS

Employment in the Denver metropolitan area is dominated by small business. According to U.S. Department of Commerce statistics, 97.4% of the 77,900 businesses in the Denver metropolitan area have less than 100 employees. There are approximately 70 business establishments in the Denver metropolitan area that have 1,000 or more employees. These companies represent a diverse mix of industries and are located throughout the Denver metropolitan area, providing a good geographic balance in employment centers.

As the capital of Colorado, the City and County of Denver has a large concentration of government employees. The largest public sector employers in Denver include the state of Colorado (20,900 employees), the Federal Government (15,600), the City and County of Denver (13,000), and Denver Public Schools (14,100). Over 27% of the total Denver metropolitan area private business establishments are located in the City and County of Denver. The following are the 20 largest private employers in the Denver metropolitan area.

### LARGEST PRIVATE EMPLOYERS

Company	Products	Employment
1. Qwest Communications	Telecommunications	13,200
2. HealthONE	Health Care	8,600
3. King Soopers, Inc.	Grocery Stores	7,800
4. Lockheed Martin Astronautics	Aerospace Research and Production	7,700
5. United Airlines	Airline	6,600
6. Centura Health	Health Care	6,100
7. IBM Boulder	Data Processing	5,800
8. Wal-Mart	General Merchandisers	5,600
9. Exempla Healthcare	Health Care	5,300
10. Kaiser Permanente	Health Care	4,100

### LARGEST PRIVATE EMPLOYERS (cont.)

<u>Company</u>	<u>Products</u>	<u>Employment</u>
11. EchoStar Communications Corp.		
	Satellite Television	4,000
12. Coors Brewing Co.	Beverages	3,300
13. Safeway, Inc.	Grocery Stores	3,200
14. University of Denver		
	Private University	3,000
15. United Parcel Service		
	Parcel Delivery	2,900
16. University of Colorado Hospital		
	Health Care, Research	2,900
17. Sun Microsystems Inc.		
	Network Computer Services	2,800
18. Target Corp.	General Merchandisers	2,700
19. Storage Technology Corp.		
	Computer Storage Devices	2,600
20. First Data Corp.	Payment Systems	2,600

*Source: Development Research Partners.*

Three Colorado companies made the Forbes October 2003 list of the 200 best small public companies. CSG Systems ranked 85, Spectralink was 104<sup>th</sup> and Denver-based StarTek landed at 132. To qualify for the list, companies must have 12-month sales between \$5 million and \$600 million, a stock price of about \$5 per share, and a five-year average return on equity of at least 5%.

Ten Colorado companies made the 2003 Inc. list of the 500 fastest-growing private companies nationwide. The companies included on the list provide a variety of goods and services, ranging from distributing household cleaning products to restaurants to technical consulting to systems integration.

Eight companies headquartered in Colorado now reside on the Fortune 500 list. These companies include Qwest Communications

(136), First Data (242), TransMontaigne (249), EchoStar Communications (327), Ball (351), Level 3 Communications (429), Adolph Coors (430), and Newmont Mining (500).

### INTERNATIONAL TRADE

Denver's position in the international community was enhanced in 1995 with the opening of Denver International Airport. Denver International Airport offers daily, non-stop service to over 130 U.S. cities and international flights to London, Frankfurt and several major cities in Canada and Mexico.

Denver is on the 105th meridian, the exact midpoint between Tokyo and Frankfurt, allowing companies to conduct business with both countries in the same business day. Further, a location between Canada and Mexico positions the Denver metropolitan area to benefit from opportunities presented by the North American Free Trade Agreement (NAFTA).

Denver is the home of 28 foreign consulates. Six of these consular missions are staffed by career diplomats including Guatemala, Japan, Mexico, Peru, Canada, and the United Kingdom. The remaining 22 missions are staffed by honorary consuls general, consuls or vice consuls.

Colorado exports grew 10.6% to \$6.1 billion in 2003 – more than twice the U.S. export growth average of 4.4%. Colorado exports to NAFTA partners Canada and Mexico increased to \$1.97 billion in 2003, representing nearly one-third of the state's total value of exported products. Four of the state's top five exports in 2003 were technology-related products. Two of the five top products showed negative growth rates of about 4% while exports for the top export product increased 45% from 2002 to 2003.

Colorado's largest exports were:

- ◆ Digital monolithic integrated circuits (\$809 million, +44.7%)
- ◆ Parts for automatic data processing machines (\$521 million, -3.8%)
- ◆ Automatic data processing units (\$343 million, +5.6%)
- ◆ Meat (\$225 million, +27.3%)
- ◆ Automatic data processing input or output units (\$194 million, -4.2%).

Canada continues to be Colorado's top trading partner, with exports increasing 0.4% to \$1.4 billion. Mexico is now the state's second largest trading partner, with exports increasing 54.0% to \$570 million. The state's third largest export market is Japan, with exports increasing 1.4% to \$443 million. Other top trading partners include South Korea, Malaysia, Germany, France, Netherlands, United Kingdom, and China.

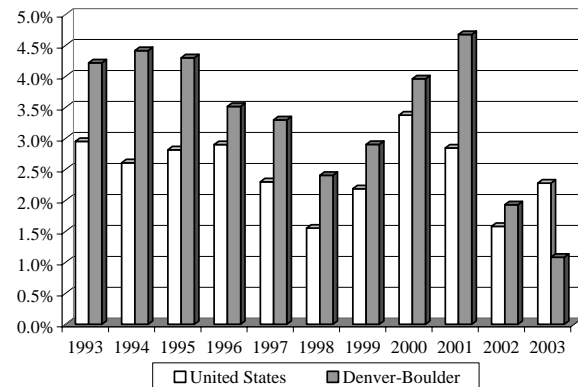
About 9.5% of Denver metropolitan area jobs may be credited to international business, according to a 2004 study by Dr. Tucker Hart Adams and colleagues at the University of Denver Graduate School of International Studies. This includes direct employment of 17,100 workers at foreign-owned businesses and 29,000 employees at companies that export their goods and services. Another 76,800 jobs are generated from multiplier effects, bringing total employment due to globalization to 122,900.

## **INFLATION**

The Denver-Boulder Consumer Price Index, which is typically used to measure the inflation rate, increased at a rate higher than the national rate each year from 1992 through 2002. The inflation rate in the Denver metropolitan area finally fell below

the national rate in 2003. The Denver-Boulder inflation rate fell to 1.1% in 2003, down from 1.9% in 2002.

### **INFLATION RATES**



*Source: U.S. Department of Labor, Bureau of Labor Statistics.*

Nationally, the consumer price index rose 2.3% in 2003 compared to a 1.6% increase in 2002. Prices began to rise across the country as the national recovery strengthened throughout 2003.

The consumer price index is derived from a market basket of eight major categories of products including food and beverages, housing, apparel, transportation, medical care, recreation, education and communication, and other goods and services. The average price of all major categories of products increased in 2003 with the exception of apparel. The average price of apparel items declined 1.8% throughout the Denver metropolitan area.

Price increases moderated in 2003. In particular, the cost of housing increased only 0.5% for the year. This was in sharp contrast to increases of 5.0% or more per year in 1999, 2000, and 2001. Medical care costs also moderated, increasing 0.4% in 2003 compared to 3.6% in 2002.

## INCOME

Colorado ranked first in the nation between 1990 and 2000 with total personal income growth of 5.1% per year. Nationally, personal income grew an average of 4.2% per year during that same period.

The rate of increase in total personal income has slowed. Total personal income in Colorado grew 2.8% in 2003, below the national growth rate of 3.3%. Total personal income in Colorado increased to an estimated \$156 billion.

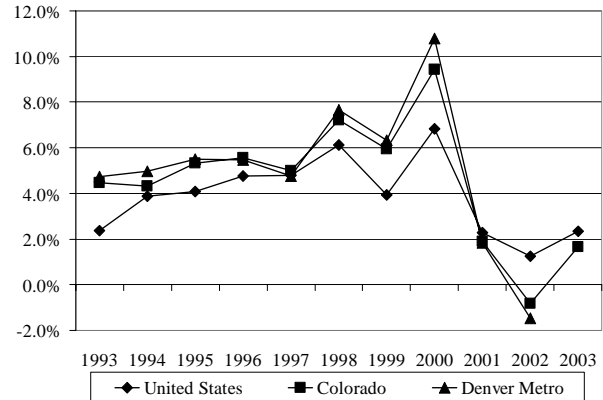
Per capita personal income in Colorado increased 1.7% from 2002 to 2003. This represents an improvement over 2002 when per capita personal income declined. Per capita personal income of \$34,283 in 2003 in Colorado ranks as the ninth highest in the nation. Nationally, per capita personal income increased 2.3% to \$31,632 in 2003.

The most recent data available for county-level personal income is from 2002. Total personal income in the Denver metropolitan area decreased 0.2% in 2002. The City and County of Denver experienced a slightly larger decline in total personal income of 0.3% in 2002.

The per capita personal income level in the Denver metropolitan area was \$38,418 in 2002, down 1.5% from 2001. Per capita personal income throughout the Denver metropolitan area ranges from \$43,109 in Arapahoe County to \$27,387 in Adams County.

Per capita personal income in the City and County of Denver of \$40,448 in 2002 ranked as the fourth highest county in the state, behind Pitkin, Arapahoe, and Boulder Counties. The City and County of Denver continues the historic trend of being higher than both the Denver metropolitan area and the state.

## PER CAPITA PERSONAL INCOME GROWTH RATES



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Another frequently used income measure is median household effective buying income (EBI), an after-tax household income measure. This income measure is prepared by Sales and Marketing Management using different income measures and estimates, so there is no relationship between it and the previously mentioned per capita personal income figures. EBI in the Denver metropolitan area of \$47,308 is 24.4% above the national average of \$38,035, according to figures released in September 2003. EBI ranged from \$69,432 in Douglas County to \$37,261 in the City and County of Denver.

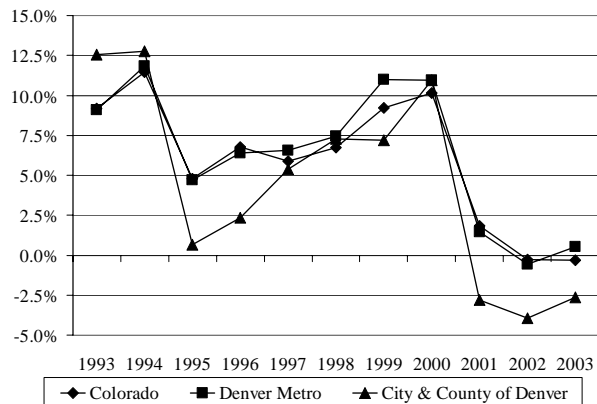
Denver-area average hourly wages decreased to \$19.65 in May 2003, down 5.6% from \$20.82 in July 2002, according to the U.S. Department of Labor. The hourly wage decrease is not surprising considering the lackluster economic conditions prevailing during the points in time in which the estimates were made.

## RETAIL TRADE

The Denver metropolitan area is the center of a large geographic region for retail, wholesale and distribution activities. Its market area reaches out to a vast portion of the western and central United States.

Consumer spending increased in 2003 at the national level due to an improving economy, an increase in consumer confidence and low mortgage rates. Retail and food services sales increased 5.4% in 2003. With the 2.3% national inflation rate, consumers drove a 3.1% real increase in retail sales as the national economic recovery gained momentum

### RETAIL TRADE SALES GROWTH



Source: Colorado Department of Revenue.

Spending patterns have been more modest in the Denver metropolitan area. Total retail sales (in all industries) increased 1.3% in 2003, compared to a 0.5% decrease in 2002. Retail trade sales, which is a subset of total retail sales that includes all of those establishments that most people think of as “retailers,” increased 0.5% to \$35.5 billion in 2003. This was a welcome change after the 0.6% decrease experienced in 2002.

The largest category of retail trade sales in the Denver metropolitan area is motor vehicles and auto parts, followed by food and beverage stores, and general merchandisers. The largest increase in retail trade activity between 2002 and 2003 occurred in non-store sales, which includes catalog and Internet sales activity. Health and personal care, service stations, and electronics also experienced healthy growth rates.

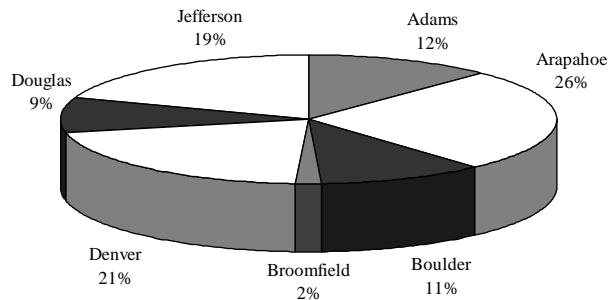
### Retail Trade Sales by Industry (in \$millions)

Industry	2002	2003	Change
<b>Retail Trade:</b>			
Motor Vehicle and Auto Parts	\$8,871	\$9,004	1.5%
Furniture and Furnishings	\$1,450	\$1,426	-1.7%
Electronics and Appliances	\$1,162	\$1,227	5.6%
Building Materials / Nurseries	\$2,597	\$2,488	-4.2%
Food/Beverage Stores	\$5,555	\$5,672	2.1%
Health and Personal Care	\$775	\$852	9.9%
Service Stations	\$1,615	\$1,726	6.8%
Clothing and Accessories	\$1,628	\$1,663	2.1%
Sporting/Hobby/Books/Music	\$1,258	\$1,283	2.0%
General Merchandise/Warehouse	\$4,524	\$4,576	1.1%
Misc. Store Retailers	\$1,964	\$1,431	-27.1%
Non-Store Retailers	\$464	\$692	49.2%
<b>Total Retail Trade</b>	<b>\$31,865</b>	<b>\$32,039</b>	<b>0.5%</b>
Food / Drinking Services	\$3,490	\$3,505	0.4%
<b>TOTAL</b>	<b>\$35,355</b>	<b>\$35,544</b>	<b>0.5%</b>

Source: Colorado Department of Revenue.

The City and County of Denver and Arapahoe County traditionally post the highest level of retail trade sales in the Denver metropolitan area. In 2003, about 21% of the retail trade sales in the Denver metropolitan area occurred in the City and County of Denver and 26% occurred in Arapahoe County.

## 2003 RETAIL TRADE SALES BY COUNTY



Source: Colorado Department of Revenue.

Boulder County posted the strongest annual growth rate in 2003, with total retail sales increasing 4.5% over the 2002 level. Retail sales increased in all counties with the exception of Broomfield, Denver and Douglas counties.

## RESIDENTIAL REAL ESTATE

Total home construction activity in the Denver metropolitan area declined 18.1% in 2003, with single-family detached homes falling 8.2%, single-family attached homes slipping by 15.1%, and multi-family construction falling 54.5% compared to 2002. Residential construction has reached its lowest point since 1993.

There were 12,656 single-family detached homes permitted in 2003, which falls below the most recent ten-year average of 14,424 single-family homes permitted each year. Adams, Broomfield and Denver counties posted an increase in single-family home permits. The greatest number of single-family detached homes was permitted in Adams County. There were 3,740 single-family homes permitted in Adams County, a 1.3% increase over 2002. Douglas County

permitted the second largest number, with 2,574 single-family homes permitted in 2003, a 16.0% decline compared to 2002.

The strongest percentage increase in single-family detached home activity occurred in the City and County of Broomfield with a total of 398 homes permitted, a 24.8% increase compared to 2002. Home construction activity at the former Lowry Air Force Base and former Stapleton Airport sites led Denver County to a total of 1,482 homes permitted, a 0.5% increase compared to 2002.

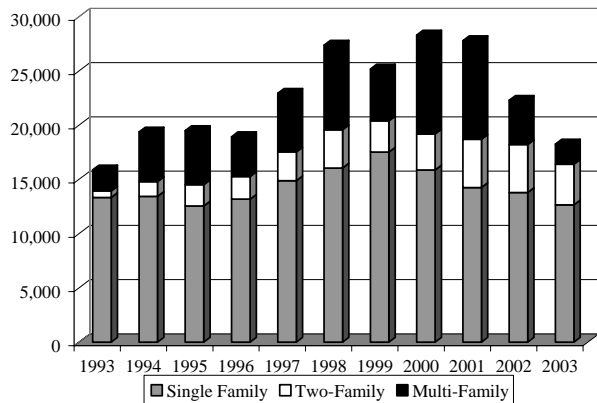
The greatest number of single-family attached home permits were issued in Denver County with 1,035 units permitted, but this represented a 16.8% decrease over last year. Boulder County issued the second greatest number of permits (506), a 17.7% increase compared to last year. Single-family attached homes include condos, duplexes, townhomes and the like.

Multi-family or apartment construction declined by 54.5% in 2003, reaching just 1,858 units. Activity was far below the ten-year average of 5,538 new units. Construction declined in all of the Denver metropolitan area counties with the steepest declines reported in Douglas and Adams counties.

The decline in apartment construction is welcome considering that apartment vacancies continue to stay above 10%. The apartment vacancy rate was 10.9% in the fourth quarter of 2003, only slightly below the record vacancy rate of 11.7% in the fourth quarter of 2002.

The vacancy rate declined in all counties except Adams and Jefferson counties from 2002 to 2003. The highest vacancy rate of 19.0% is in Douglas County.

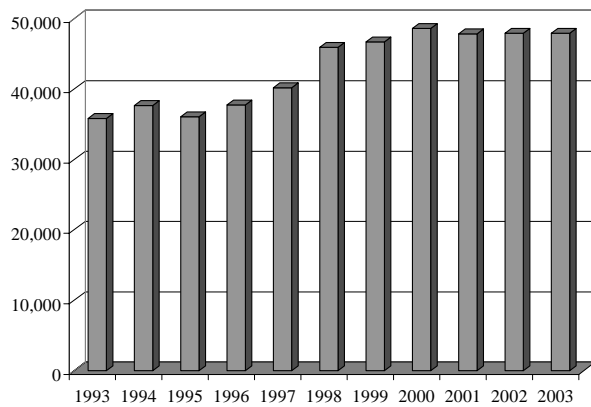
### NEW HOME CONSTRUCTION



Source: Home Builders Association of Metro Denver.

In response to higher vacancy levels, the fourth quarter 2003 average monthly rental rate of \$814 remains unchanged from the fourth quarter of 2002. Apartment rents vary by county, ranging from \$1,076 in Douglas County to \$760 in Denver. Apartment owners are offering discounts and concessions, such as free utilities, rent-free first months, and low deposits, in the hopes of attracting tenants.

### DENVER METROPOLITAN HOME SALES



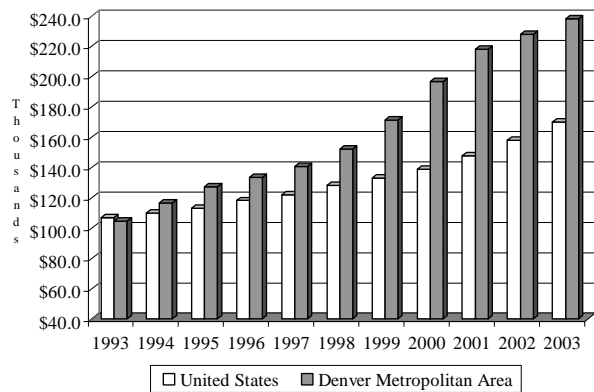
Source: MetroList Inc.

Sales activity of previously-owned homes increased slightly in 2003. Existing home sales in the Denver metropolitan area reached 47,966 homes and condominiums, a 0.1% increase from the 2002 sales total of

47,919. The value of homes sold in the Denver metropolitan area reached \$10.2 billion, an increase of about 4% compared to 2002. Low interest rates continue to encourage home sales across the country.

Home prices have moderated due to increased inventory, slower in-migration activity, flat labor markets, and sluggish economic conditions. The median price of an existing single-family home is \$238,200 in the Denver metropolitan area, compared to the national median of \$170,000. The Denver metropolitan area experienced a 4.4% increase in the median home price in 2003 compared to the national increase of 7.5%.

### MEDIAN HOME PRICES



Source: National Association of REALTORS.

The average price of a single-family detached home in the Denver metropolitan area rose to \$277,856 in 2003, a 3.3% increase over 2002. The average price of a condominium increased 4.2% in 2003 to \$175,215. Home prices in the Denver metropolitan area had been appreciating at rates greater than the national level from 1992 to 2001, so this moderation in price increase represents a welcome market correction.

Rising wages from the previous economic expansion landed a record number of

Americans in a home-ownership position. According to a recent U.S. Census Bureau study, the home ownership rate in the Denver metropolitan area increased from 55.7% in 1990 to 68.2% in 2000. The combination of increased home ownership rates and the prolonged economic slowdown with significant layoffs has led to an increase in home foreclosures.

There were 9,422 home foreclosures in 2003 compared to 6,539 in 2002, the highest level since 1991. Still, foreclosures are well below the record of 17,122 in 1988. According to market analysts, those most vulnerable to home foreclosures include those who bought their homes within the past two years and borrowed heavily against them.

### **COMMERCIAL REAL ESTATE**

The Denver metropolitan area experienced a boom in nonresidential construction activity from 1998 through early 2001 with a plethora of office, industrial, retail and entertainment projects. Development continued in 2002 and 2003, but at a slower pace than previous years. Major redevelopment projects are still under construction at many sites throughout the metropolitan area such as the former Lowry Air Force base, the old Stapleton International Airport, and others.

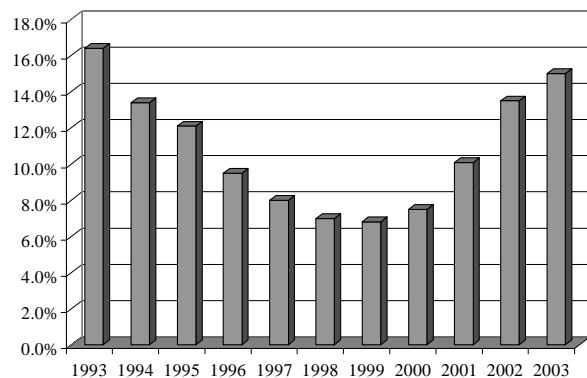
#### **Office Activity**

There was 1.2 million square feet of new office space in 37 buildings constructed during 2003 according to CoStar Realty Information, Inc. Of this space, 1.4 million square feet was constructed in 10 buildings of 100,000 square feet or more. Of these buildings, only two were completed on a speculative basis. The remaining buildings constructed tended to be small, user-occupied facilities.

The direct vacancy rate of office properties throughout the Denver metropolitan area rose to 15.0% by the end of 2003, up from 13.5% at the end of 2002.

In the face of rising vacancy rates, the average office lease rate has dropped to \$17.38 per square foot, down from \$19.04 at the end of 2002. Class A lease rates are averaging about \$20 per square foot, down from \$22 per square foot. Class B and Class C average lease rates have dropped slightly, ranging from \$14 to \$16 per square foot in the fourth quarter of 2003.

#### **OFFICE VACANCY RATE**



Sources: CB Richard Ellis (1992-98); CoStar Realty Information, Inc.(1999-2003).

Even so, the Denver metropolitan office market compares favorably with other markets across the country. According to the first quarter 2004 *U.S. Market Data* report produced by Cushman and Wakefield, Inc., the office vacancy rate of 16.0% in downtown Denver is only slightly higher than the national average of 15.2%. The suburban office vacancy rate of 19.0% in the Denver metropolitan area is lower than the national suburban average of 20.3%.

Downtown Denver offers some of the lowest priced office space in the world. According to the January 2004 *Global Market Rents* report by CB Richard Ellis, Denver

occupancy costs are lower than most worldwide cities. With an annual occupancy cost of \$17.84 per square foot, Denver falls far below the highest occupancy costs of \$149.17 per square foot in London but above the lowest rate of \$11.75 per square foot in Durban, South Africa. According to the report, the average lease rate in downtown Denver of \$17.84 per square foot represents a 10.4% drop from a year earlier.

### **Industrial Activity**

The industrial market has slowed with about 2.2 million square feet of new industrial product completed in 2003 compared to 2.9 million square feet in 2002.

As of the beginning of 2004, there was about 1.3 million square feet of industrial space under construction in nine buildings. Over 78% of this space was under construction in the east I-70 market area. The northeast market has been one of the most active industrial markets in the Denver metropolitan area, spurred on by the recent completion of E-470. The 47-mile toll-road presents significant development opportunities for all types of commercial and residential properties.

The industrial vacancy rate rose to 7.5% in the fourth quarter of 2003, up from 6.3% for the same quarter in 2002. Industrial lease rates dropped to \$4.72 per square foot at the end of 2003, down from \$5.46 per square foot at the end of 2002.

The direct vacancy rate in flex buildings increased from 15.3% in the fourth quarter of 2002 to 18.2% at the end of 2003. Construction activity in this market segment has slowed substantially with only 277,000 square feet of new flex space introduced in 2003, down from 978,000 square feet of space built in 2002. Two new buildings were under construction at the beginning of 2004

and will add about 30,900 square feet to the flex space inventory. The average lease rate of \$8.02 per square foot is down slightly from \$8.34 per square foot in the fourth quarter of 2002.

### **Redevelopment Activity**

Major redevelopment projects are underway throughout the Denver metropolitan area, offering opportunities for a mix of residential, commercial, educational and open space uses.

The decommissioned army medical center at Fitzsimons is being developed into the largest (578 acres) medical science and care related redevelopment project in the United States. Fitzsimons is undergoing a \$4.3 billion renovation and transformation into one square mile dedicated to excellence in patient care, education, research and development. The 227-acre campus of the University of Colorado Health Sciences Center and the University of Colorado Hospital will anchor the redevelopment project. In addition, the Children's Hospital and the VA Hospital are relocating to the Fitzsimons campus. The Colorado Bioscience Park Aurora at Fitzsimons is attracting private bioscience companies that need to be in close proximity to the medical facilities. The Fitzsimons master plan calls for up to 15 million square feet of new construction housing 32,000 employees. Development plans also include residential and commercial development.

The former Lowry Air Force Base opened its Town Center in September 2002, with dozens of new retail and office tenants. Lowry now has over 2,000 housing units completed in all price ranges, out of the 4,000 units planned for the project. The Lowry redevelopment recently won the prestigious "Business Park of the Year"

award from the National Association of Industrial and Office Properties. The award is the latest in a long line of recognition for Lowry.

Forest City Enterprises is redeveloping the 4,700-acre former Stapleton Airport site, the largest infill development site in the nation. The Stapleton Redevelopment Project was awarded the prestigious "Stockholm Partnerships for Sustainable Cities Award" recently for innovative solutions for sustainable development. At build-out, the project will include 12,000 homes, 3 million square feet of retail space, and 10 million square feet of office space.

Other major real estate development projects currently underway throughout the Denver metropolitan area include the \$350 million Convention Center expansion, a \$200 million Convention Center hotel, \$90 million Denver Zoo expansion, \$63 million Art Museum expansion, \$750 million Lakewood Belmar project, and \$500 million in new hospital construction.

### **Retail Activity**

An affluent population and a large geographic service area have combined to establish a strong and diverse retail sector. The 2003 estimate of per household retail sales in the Denver metropolitan area of \$39,155 ranks the area 11<sup>th</sup> among the 30 largest metropolitan areas in the country. This strength in retail sales activity fosters a healthy retail real estate market.

About 300,000 square feet of new retail was built in the Denver metropolitan area in 2003. Vacancy rates dropped to 5.9% in the fourth quarter of 2003, down from 6.9% in 2002. Rental rates remain relatively stable at \$14 per square foot triple net.

The Denver metropolitan area offers 11 geographically dispersed malls which are

500,000 square feet or larger, including the new Colorado Mills "shoppertainment" regional mall in Lakewood, FlatIron Crossing in Broomfield and Park Meadows in Douglas County. These new suburban malls complement the centrally-located, one million-square-foot Cherry Creek Shopping Center, which has been one of the area's top tourist destinations since it opened in 1990.

### **TRANSPORTATION**

The central location and dominant role of the Denver metropolitan area in the western United States have combined to make the area one of the country's most important transportation hubs. All modes of transportation, except water, converge in the Denver metropolitan area, providing excellent access to the rest of the United States and the world.

#### **Highways**

The Denver metropolitan area has three major highway systems, including I-25 as the north-south route, both I-70 and I-76 providing east-west access, and the 470 beltway.

T-REX, the Transportation Expansion Project, is currently the largest multi-modal project under construction in the United States. The \$1.67 billion project will widen Interstates 25 and 225 and build a 19-mile light rail line in the southeast Denver metropolitan area. The project began in June 2001 and is expected to be completed by the end of 2006.

Roughly three-quarters of the beltway around the Denver metropolitan area has been completed to date, including the C-470 highway, E-470 tollway, and the Northwest Parkway. The most recently completed segment of the beltway, the 11-mile Northwest Parkway tollway, was completed in November 2003 and connects E-470 and

I-25 at 157<sup>th</sup> Avenue. Alignments and improvements to existing roadways to connect the Northwest Parkway to west I-70 are under review.

### **Mass Transit**

The Regional Transportation District (RTD) serves the mass transit needs of the Denver metropolitan area. RTD operates 1,127 buses on 179 routes and 49 light rail vehicles on 16 miles of track. The District also operates 67 Park-N-Ride free parking lots for commuters using any of its 20 light rail stations and 10,348 bus stops. RTD also operates 36 free hybrid-electric buses along the 16th Street Mall in Downtown Denver, transporting visitors from one end of the mile-long pedestrian mall to the other.

RTD presently operates two light rail lines. The C Line (orange) travels from Littleton/Mineral Station to Union Station in Lower Downtown. There are 12 stations along this 13-mile line that includes the Central Platte Valley light rail spur. The D Line (green) also begins at the Littleton/Mineral Station but splits off from the C Line into downtown Denver continuing to the 30th and Downing Station in Five Points. Ridership on these lines continues to exceed projections.

The Southeast Corridor Light Rail line is now under construction as part of the T-REX project. This 19-mile line running along I-25 from Lincoln Avenue in Douglas County to Downtown Denver is scheduled to open in 2006. This line will carry an estimated 20,000 passengers daily.

### **Air**

Denver International Airport is a 53-square-mile facility with six runways, three concourses, and 93 gates. The recently opened 16,000-foot sixth runway is the longest runway in North America, allowing

increased airport efficiency and increased lift for international flights. Denver International Airport is approximately 23 miles northeast of Downtown Denver, a 30- to 35-minute drive.

In a J.D. Power and Associates' 2003 passenger satisfaction survey, travelers ranked Denver International Airport the number one airport in the United States and the number two airport in the world, behind Frankfurt Airport. Travelers ranked Denver International Airport tops because of its terminal facility, immigration and customs area, check-in process, food and beverage offerings, gate areas, and ease of exiting the airport.

Denver International Airport averaged nearly 1,398 flight operations and about 102,800 passengers every 24 hours in 2003, making it the fifth busiest airport in North America and tenth busiest in the world. Total passenger traffic at Denver International Airport was 37.5 million in 2003, up 5.2% from 2002.

Denver International Airport serves as a major hub for United and Frontier Airlines. These airlines, along with about 24 other commercial carriers, serve over 130 domestic and international destinations with nonstop service. International destinations served by nonstop service from Denver include London, Frankfurt, and several major cities in Mexico and Canada.

Eleven cargo airlines and 20 major and national airlines provide cargo services at Denver International Airport. Denver International Airport handled 717 million pounds of cargo in 2003, 107 million pounds of mail and 610 pounds of freight and express.

## **TOURISM**

The tourism industry includes travel, outdoor recreation, and conventions. A Longwoods International study reveals that about 9.7 million visitors spent \$2.3 billion in the Denver area in 2003, a decline from the 10.2 million visitors who spent \$2.4 billion in Denver during 2002. This was the first annual decline in tourism for the Denver metropolitan area in a decade. Declines were linked to the Iraq war, the struggling economy and the city's sluggish convention business due to the convention center expansion. The number of leisure travelers dropped 4% to 7.8 million while business travel fell 8% to 1.9 million visitors. Nationwide business travel declined 6% in 2003 compared to 2002.

The City and County of Denver is recognized as an entertainment center with all of the excitement and activity throughout downtown and the surrounding areas. The Central Platte Valley, which is adjacent to downtown Denver, is home to Six Flags Elitch Gardens amusement park. Coors Baseball Field and the Lower Downtown (LoDo) area provide a variety of entertainment and residential options. The Denver metropolitan area is rich in open spaces and offers several museums, the Denver Zoo, the U.S. Mint, the Botanic Gardens, and the second largest arts center in the country.

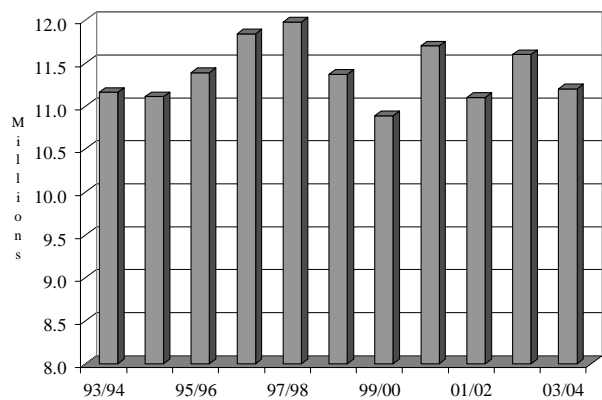
The City and County of Denver is one of only a handful of cities in the country with seven professional sports teams: the NFL Denver Broncos; the NBA Denver Nuggets; the MLB Colorado Rockies; the NHL Colorado Avalanche; the MLS Colorado Rapids; the AFC Colorado Crush; and the NLL Colorado Mammoth.

These sports teams have a significant economic impact on the Denver metropolitan area and have led to major investments in new sports venues. The \$180 million Pepsi Center, located in the Central Platte Valley, hosts four professional sports teams and numerous sporting events and other special events throughout the year.

The \$400 million, 76,125-seat Invesco Field at Mile High football stadium hosts Denver Broncos football games as well as Colorado Rapids soccer and large public events.

Denver serves as a gateway to Colorado's mountain recreation areas, offering a host of summer and winter entertainment options. The number of skier visits to Colorado slopes during the 2003-2004 season dropped 3.4% to an estimated 11.2 million visitors. A skier visit is defined as one lift ticket sold or given away for all or part of one day.

**COLORADO SKI LIFT TICKETS SOLD**



*Source: Colorado Ski Country USA.*

Conventions are also a major source of tourism activity in Denver. The expansion of the Colorado Convention Center is underway and should be completed by the end of 2004. The outlook for convention business prior to completion of the expansion is below previous levels as convention planners are reluctant to schedule their meetings during the

construction activity. However, interest in Denver as a convention site remains strong and bookings should increase as completion of the expanded Colorado Convention Center nears.

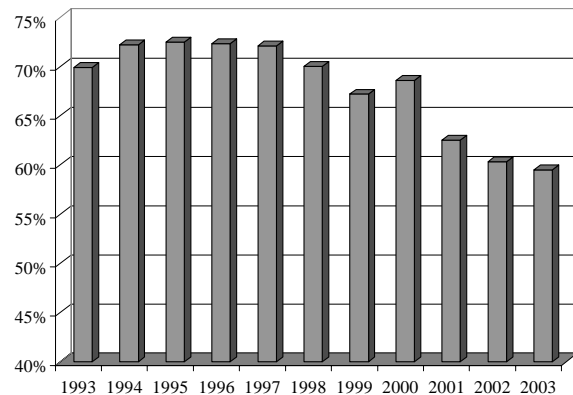
The expansion will double the size of the existing convention center and will boast six exhibition halls, a new ballroom, and a 5,000-seat auditorium. When completed, the expanded Colorado Convention Center will be the sixth largest convention center west of the Mississippi River and the 15<sup>th</sup> largest in the nation.

Groundbreaking occurred in June 2003 for a convention center headquarters hotel that is planned to open in 2005. The facility will be owned by the Hotel Authority established by the City and County of Denver and will be operated by Hyatt Hotels. The new hotel will be located across the street from the Colorado Convention Center and will add meeting rooms, banquet facilities and approximately 1,100 hotel rooms.

The hotel occupancy rate averaged 59.5% in 2003, down from the average rate of 60.3% achieved in 2002. This was the lowest annual occupancy rate since 1989. Occupancy rates dropped in all Denver metropolitan area submarkets, with the exception of the Northeast Denver submarket.

The hotel occupancy rate in the Northeast Denver submarket increased 1.7 percentage points in 2003. The occupancy rate in the Boulder submarket was down 0.9 percentage points, the Highway 36 Corridor experienced a decline of 0.8 percentage points, the South/Southeast submarket fell by 0.1 percentage points, and the Downtown submarket decreased 0.4 percentage points. Occupancy in West Denver and North Denver experienced the largest drops with 4.0 percentage point decreases in each area.

### HOTEL OCCUPANCY RATES



Source: Rocky Mountain Lodging Report.

Average hotel room rates also finished the year lower, averaging \$84.79 for 2003 compared to \$86.05 for 2002. The Rocky Mountain Lodging Report survey covers about 30,000 hotel rooms, or about 80% of the Denver metropolitan area supply.

### SUMMARY

Economic conditions throughout the Denver metropolitan area improved in 2003 compared to 2002, but 2003 was still a year of recession for the region. Total nonagricultural employment declined by 2.2% in 2003, following a 2.9% decline in 2002. This means that the Denver metropolitan area lost 69,000 jobs during 2002 and 2003, representing the majority of the state's employment loss of 75,000 jobs. Only two of the 12 NAICS supersectors, financial activities and educational/health services, posted an increase in 2003.

The unemployment rate in the Denver metropolitan area increased from an average of 5.9% in 2002 to 6.2% in 2003. This was the second year in a row that the Denver metropolitan area jobless rate was above the national average.

The decline in employment activity resulted in minimal increases in personal income. Total personal income in Colorado increased 2.8% in 2003. While this represented an improvement over 2002 when total personal income only increased 0.8%, it was still below the national growth rate of 3.3%. Still, the per capita personal income level in Colorado of \$34,283 is the ninth highest in the nation.

While retail trade sales increased 0.5% in the Denver metropolitan area in 2003, consumer spending across the country rose a solid 5.4%. Office vacancies, a strong indicator of business growth and vitality, rose to 15.0% by the end of 2003, up from 13.5% at the end of 2002. Total new single-family and multi-family residential permits declined 18.1% in 2003 to 18,269 units, with most of the decline occurring in multi-family activity.

Denver was named as one of the nine most livable large cities in the United States by the Partners for Livable Communities, a national nonprofit organization. The 2004 livability list was based on creativity and the ability to prepare for the new economy. Creative Places are defined as attractive places to live, work, play, visit, retire, raise a family, attend a university, grow a business and enjoy diversity.

Further, Denver ranked 14th among the top 20 Boom Towns with populations of more than 1 million, according to *Business 2.0* magazine. The cities were ranked according to the expected number of jobs to be added in the next four years.

While the years 2002 and 2003 brought significant economic challenges to the Denver metropolitan area, the long-term potential of the area remains strong.

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**APPENDIX  
ECONOMIC INDICATORS**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>POPULATION (July 1)</b>										
United States (thousands)	263,126	266,278	269,394	272,647	275,854	279,040	282,224	285,318	288,369	290,810
Colorado	3,712,062	3,811,077	3,902,451	3,995,923	4,102,491	4,215,984	4,335,540	4,441,377	4,516,847	4,567,991
Denver Metropolitan Area	2,070,132	2,115,508	2,166,886	2,218,872	2,280,781	2,349,188	2,415,043	2,471,682	2,514,123	2,538,199
City and County of Denver	504,249	507,723	518,255	527,442	533,406	545,517	555,782	560,365	562,409	567,450
<b>POPULATION GROWTH RATE</b>										
United States	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.1%	1.1%	1.1%	0.8%
Colorado	3.0%	2.7%	2.4%	2.4%	2.7%	2.8%	2.8%	2.4%	1.7%	1.1%
Denver Metropolitan Area	2.2%	2.2%	2.4%	2.4%	2.8%	3.0%	2.8%	2.3%	1.7%	1.0%
City and County of Denver	0.6%	0.7%	2.1%	1.8%	1.1%	2.3%	1.9%	0.8%	0.4%	0.9%
<b>NET MIGRATION</b>										
Colorado	77,529	70,335	61,950	63,495	75,592	79,772	78,449	67,245	36,704	16,541
Denver Metropolitan Area	25,985	28,093	33,104	33,532	42,659	47,396	41,965	32,136	9,775	6,562
City and County of Denver	(927)	6	6,454	4,768	1,429	6,663	4,361	(2,308)	(5,301)	(1,824)
<b>NONAGRICULTURAL EMPLOYMENT</b>										
United States (millions)	114.3	117.3	119.7	122.8	125.9	129.0	131.8	131.8	130.3	129.9
Colorado (thousands)	1,755.9	1,834.4	1,900.4	1,979.5	2,056.7	2,131.5	2,212.6	2,225.4	2,182.5	2,150.4
Denver Metropolitan Area	1,084.8	1,126.9	1,162.2	1,213.5	1,259.9	1,308.7	1,364.8	1,368.5	1,328.2	1,299.5
(thousands)										
City and County of Denver	405,198	411,706	418,299	431,229	446,364	455,642	469,140	461,996	438,891	425,692
<b>NONAGRICULTURAL EMPLOYMENT GROWTH RATE</b>										
United States	3.2%	2.6%	2.1%	2.6%	2.6%	2.4%	2.2%	0.0%	-1.1%	-0.3%
Colorado	5.1%	4.5%	3.6%	4.2%	3.9%	3.6%	3.8%	0.6%	-1.9%	-1.5%
Denver Metropolitan Area	4.3%	3.9%	3.1%	4.4%	3.8%	3.9%	4.3%	0.3%	-2.9%	-2.2%
City and County of Denver	1.8%	1.6%	1.6%	3.1%	3.5%	2.1%	3.0%	-1.5%	-5.0%	-3.0%

**APPENDIX  
ECONOMIC INDICATORS**

<b>2003 INDUSTRY EMPLOYMENT</b>	<b>United States</b>		<b>Colorado</b>		<b>Denver Metropolitan Area</b>		<b>City &amp; County of Denver</b>			
	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
Natural Resources & Mining		0.4%		1.3%		0.6%		0.9%		0.9%
Construction		5.2%		7.1%		6.7%		4.5%		4.5%
Manufacturing		11.2%		7.4%		7.1%		5.8%		5.8%
Wholesale & Retail Trade		15.8%		15.7%		15.9%		12.7%		12.7%
Transportation, Utilities, Warehousing Information		3.7%		3.2%		3.8%		5.9%		5.9%
Financial Activities		2.5%		4.0%		5.0%		4.8%		4.8%
Professional & Technical Services		6.1%		7.1%		8.0%		8.8%		8.8%
Educational & Health Services		12.3%		13.6%		15.8%		16.7%		16.7%
Leisure & Hospitality		12.8%		9.9%		9.9%		11.5%		11.5%
Other Services		9.3%		11.6%		9.7%		9.3%		9.3%
Government		4.2%		3.1%		3.1%		3.3%		3.3%
		16.6%		16.1%		14.4%		15.8%		15.8%

**UNEMPLOYMENT RATE**

United States	6.1%	5.6%	5.4%	4.9%	4.5%	4.2%	4.0%	4.7%	5.8%	6.0%
Colorado	4.2%	4.2%	4.2%	3.3%	3.8%	2.9%	2.8%	3.7%	5.7%	6.0%
Denver Metropolitan Area	3.9%	3.8%	3.8%	2.8%	3.2%	2.4%	2.3%	3.5%	5.9%	6.2%
City and County of Denver	5.0%	4.8%	5.0%	3.8%	4.1%	3.1%	3.0%	4.5%	7.1%	7.4%

**CONSUMER PRICE INDEX (CPI-U)**

United States	148.2	152.4	156.9	160.5	163.0	166.6	172.2	177.1	179.9	184.0
Denver-Boulder	141.8	147.9	153.1	158.1	161.9	166.6	173.2	181.3	184.8	186.8

**INFLATION RATE**

United States	2.6%	2.8%	2.9%	2.3%	1.6%	2.2%	3.4%	2.8%	1.6%	2.3%
Denver-Boulder	4.4%	4.3%	3.5%	3.3%	2.4%	2.9%	4.0%	4.7%	1.9%	1.1%

**APPENDIX  
ECONOMIC INDICATORS**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>TOTAL PERSONAL INCOME (millions, except as noted)</b>										
United States (billions)	\$5,843	\$6,152	\$6,521	\$6,915	\$7,423	\$7,802	\$8,430	\$8,713	\$8,910	\$9,208
Colorado	\$85,671	\$92,704	\$100,233	\$107,873	\$118,493	\$128,860	\$144,394	\$150,594	\$151,790	\$156,010
Denver Metropolitan Area	\$53,939	\$58,267	\$62,936	\$67,635	\$74,553	\$81,469	\$92,478	\$96,331	\$96,150	N/A
City and County of Denver	\$13,599	\$14,645	\$15,604	\$16,256	\$17,852	\$19,247	\$21,746	\$22,655	\$22,585	N/A
<b>TOTAL PERSONAL INCOME GROWTH RATE</b>										
United States	5.1%	5.3%	6.0%	6.1%	7.3%	5.1%	8.0%	3.4%	2.3%	3.3%
Colorado	7.5%	8.2%	8.1%	7.6%	9.8%	8.7%	12.1%	4.3%	0.8%	2.8%
Denver Metropolitan Area	7.4%	8.0%	8.0%	7.5%	10.2%	9.3%	13.5%	4.2%	-0.2%	N/A
City and County of Denver	6.0%	7.7%	6.6%	4.2%	9.8%	7.8%	13.0%	4.2%	-0.3%	N/A
<b>PER CAPITA PERSONAL INCOME</b>										
United States	\$22,172	\$23,076	\$24,175	\$25,334	\$26,883	\$27,939	\$29,847	\$30,527	\$30,906	\$31,632
Colorado	\$23,004	\$24,226	\$25,570	\$26,846	\$28,784	\$30,492	\$33,371	\$34,003	\$33,723	\$34,283
Denver Metropolitan Area	\$25,894	\$27,319	\$28,814	\$30,188	\$32,499	\$34,560	\$38,284	\$38,993	\$38,418	N/A
City and County of Denver	\$26,526	\$28,219	\$29,573	\$30,291	\$33,005	\$35,068	\$39,153	\$40,343	\$40,448	N/A
<b>PER CAPITA PERSONAL INCOME GROWTH RATE</b>										
United States	3.9%	4.1%	4.8%	4.8%	6.1%	3.9%	6.8%	2.3%	1.2%	2.3%
Colorado	4.3%	5.3%	5.5%	5.0%	7.2%	5.9%	9.4%	1.9%	-0.8%	1.7%
Denver Metropolitan Area	5.0%	5.5%	5.5%	4.8%	7.7%	6.3%	10.8%	1.9%	-1.5%	N/A
City and County of Denver	5.1%	6.4%	4.8%	2.4%	9.0%	6.3%	11.6%	3.0%	0.3%	N/A

**APPENDIX  
ECONOMIC INDICATORS**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>RETAIL TRADE SALES</b>										
United States (Billions)	\$2,382	\$2,502	\$2,656	\$2,778	\$2,917	\$3,165	\$3,377	\$3,476	\$3,564	\$3,757
Colorado (millions)	\$38,092	\$39,919	\$42,629	\$45,142	\$48,173	\$52,609	\$57,955	\$59,014	\$58,852	\$58,666
Denver Metropolitan Area (millions)	\$22,321	\$23,367	\$24,859	\$26,486	\$28,458	\$31,590	\$35,055	\$35,561	\$35,355	\$35,544
City and County of Denver (millions)	\$5,849	\$5,888	\$6,027	\$6,350	\$6,812	\$7,302	\$8,102	\$7,874	\$7,564	\$7,366
<b>RETAIL TRADE SALES GROWTH RATE</b>										
United States	8.2%	5.0%	6.1%	4.6%	5.0%	8.5%	6.7%	2.9%	2.5%	5.4%
Colorado	11.5%	4.8%	6.8%	5.9%	6.7%	9.2%	10.2%	1.8%	-0.3%	-0.3%
Denver Metropolitan Area	11.8%	4.7%	6.4%	6.5%	7.4%	11.0%	11.0%	1.4%	-0.6%	0.5%
City and County of Denver	12.8%	0.7%	2.4%	5.4%	7.3%	7.2%	11.0%	-2.8%	-3.9%	-2.6%
<b>MEDIAN HOME PRICE</b>										
United States (thousands)	\$109.8	\$113.1	\$118.2	\$121.8	\$128.4	\$133.3	\$139.0	\$147.8	\$158.1	\$170.0
Denver Metropolitan Area (thousands)	\$116.8	\$127.3	\$133.4	\$140.6	\$152.2	\$171.3	\$196.8	\$218.3	\$228.1	\$238.2
<b>EXISTING HOME SALES</b>										
Denver Metropolitan Area	37,685	36,038	37,755	40,185	45,951	46,742	48,611	47,832	47,919	47,966
<b>NEW RESIDENTIAL UNITS</b>										
<b>DENVER METROPOLITAN AREA</b>										
Single Family	13,441	12,560	13,182	14,890	16,058	17,523	15,873	14,262	13,793	12,656
Two-Family	1,355	1,965	2,093	2,647	3,527	2,883	3,321	4,442	4,425	3,755
Multi-Family	4,588	4,979	3,666	5,415	7,794	4,784	9,116	9,090	4,085	1,858
Total Units	19,384	19,504	18,941	22,952	27,379	25,190	28,310	27,794	22,303	18,269

**APPENDIX  
ECONOMIC INDICATORS**

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
<b>OFFICE VACANCY RATE</b>										
Denver Metropolitan Area	13.4%	12.1%	9.5%	8.0%	7.0%	6.8%	7.5%	10.1%	13.5%	15.0%
<b>HOTEL OCCUPANCY RATE</b>										
Denver Metropolitan Area	72.2%	72.5%	72.3%	72.1%	70.0%	67.2%	68.6%	62.5%	60.3%	59.5%
<b>SKI LIFT TICKETS SOLD</b>										
Colorado (millions)	94/95 11.1	95/96 11.4	96/97 11.8	97/98 12.0	98/99 11.4	99/00 10.9	00/01 11.7	01/02 11.1	02/03 11.6	03/04 11.2

N/A: Not Available

Sources: U.S. Department of Commerce, Bureau of the Census; Colorado Division of Local Government, Demography Section; U.S. Department of Labor, Bureau of Labor Statistics; Colorado Department of Labor and Employment, Labor Market Information; U.S. Department of Commerce, Bureau of Economic Analysis; Colorado Department of Revenue; National Association of REALTORS; Metrolist Inc.; Home Builders Association of Metro Denver; CB Richard Ellis; CoStar Realty Information, Inc.; Rocky Mountain Lodging Report; Colorado Ski Country USA.

APPENDIX B  
EXECUTIVE ORDER NO. 114

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## **EXECUTIVE ORDER NO. 114**

TO: All Departments and Agencies Under the Mayor

FROM: Mayor

DATE: October 29, 1996

SUBJECT: Securities Disclosure Policies and Practices of the City and County of Denver

### **I. Purpose**

- A. In connection with the issuance of certain bonds, notes, certificates of participation and other municipal securities, the City and its Enterprises are required to prepare and disseminate certain disclosure information in order to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, including a requirement for continuing disclosure of annual financial information and notices of certain material events.
- B. Such reporting and disclosure practices require close coordination on the part of the City in order to assure compliance with contractual Undertakings, promote uniformity in disclosures and reduce liability on the part of the City to holders of securities.
- C. This Order is issued in order to centralize the information dissemination process, to establish appropriate controls on Disclosure Statements made by the City, and to enable the City and its Enterprises to comply with Rule 15c2-12, in order to assure the City's access to the capital markets as a source of funds for necessary and useful public undertakings of the City. This Order is not intended in any way to limit any person's access to public records or information, nor to infringe upon the normal political process, in particular the right of any elected official of the City to review, discuss, release, comment upon or criticize any information.

## II. Definitions

- A. Meanings and Constructions. As used in this Order., the terms, “annual financial information,” “issuer,” “municipal securities,” “obligated person,” and “official statement” shall have the meanings ascribed hereto under Rule 15c2-12, and the following terms shall have the following meanings:
1. “1934 Act” means the Securities Exchange Act of 1934, as the same may be amended, modified and integrated at the time in question, together with any similar federal statute applicable to brokers, dealers or municipal securities dealers purchasing, selling or trading in securities issued by the City.
  2. “Compliance Officer” means the Manager of the Department of Revenue, ex-officio Treasurer of the City.
  3. “SEC” means the United States Securities and Exchange Commission and any successor federal agency having jurisdiction over the purchase, sale and offering by broker-dealers of securities such as those issued by the City.
  4. “Rule 15c2-12” means the Rule of that designation promulgated by the SEC under the 1934 Act, as the same may be amended, modified and interpreted at the time in question, together with any similar rule or regulation promulgated by a federal agency and applicable to the City and its securities.
  5. “Undertaking” means a contract designed to comply with the continuing disclosure requirements of Rule 15c2-12, entered into by the City and obligating the City to provide annual financial information and notices of the occurrence of certain events, if material.
  6. “Disclosure Statement” means any written or oral communication relating generally to the creditworthiness of the City or its Enterprises or specifically to the financial viability of particular projects being financed with municipal securities whose payment is supported by the City or one of its Enterprises. Such term includes annual financial information, information concerning the occurrence of events, and notices, conferences, reports, speeches and published material of any other sort made in a manner and under circumstances where it is reasonable to expect that such statement may reach and be relied upon by investors in the securities issued by the City or its Enterprises. Such term does not include any statement made or information provided by an elected official of the City unless such statement has been coordinated with and approved by the Compliance Officer for release to the public.

7. "Enterprise" means the Department of Aviation, the Wastewater Management Division of the Department of Public Works, [the Board of Water Commissioners], and any other section, division, agency or department of the City designated as an "Enterprise" pursuant to the Charter or by ordinance.

### III. Statement of Policy

- A. In order to assure compliance by the City with the disclosure requirements of Rule 15c2-12, it is the policy of the City that:
  1. No official statement relating to any municipal securities as to which the City or any of its Enterprises is the issuer or an obligated person for purposes of Rule 15c2-12 shall be issued or released to the public until and unless approved by the Compliance Officer.
  2. No Disclosure Statement concerning municipal securities as to which the City or any of its Enterprises is the issuer or an obligated person for purposes of Rule 15c2-12 shall be issued or released to the public by any employee, agent or official of the City in a way reasonably expected to be received and relied upon by investors in such securities until and unless such Statement and the release thereof shall be approved by the Compliance Officer.
  3. No Undertaking relating to municipal securities as to which the City or any of its Enterprises is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the City without the approval of the Compliance Officer.
  4. Unless required by law to do otherwise, prior to releasing to the public any Disclosure Statement intended to be made public, all non-elected employees, agents and officials of the City shall report to and file with the Compliance Officer any such Disclosure Statement, together with such additional information requested by the Compliance Officer, and each such employee, agent and official of the City shall consult with the Compliance Officer concerning such proposed Disclosure Statement.
  5. No Disclosure Statement, official statement or Undertaking in respect of any municipal securities as to which the City or any of its Enterprises is the issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the City without the approval of the Compliance Officer required by this Order shall be deemed to be a statement or undertaking by or on behalf of the City or such Enterprise.

IV. Rules and Regulations

The Compliance Officer shall promulgate and revise from time to time such rules and regulations as the Compliance Officer shall deem necessary to implement this Order, such rules and regulations to be binding upon all non-elected officials, employees and agents of the City.

Approved for Legality:

/s/ Daniel E. Muse  
Attorney for the City and County  
of Denver

Approved:

/s/ Wellington E. Webb  
Mayor

/s/ Bruce Baumgartner  
Manager of Public Works

/s/ Patricia Gabow, M.D.  
Manager of Health and Hospitals

/s/ Fidel Montoya  
Manager of Safety

/s/ Cheryl Cohen  
Manager of Revenue

/s/ Philip A. Hernandez  
Manager of Social Services

/s/ Betty Jean Brooks  
Manager of Parks and Recreation

/s/ Alonzo Matthews  
Manager of Parks and Recreation

/s/ James DeLong  
Manager of Aviation

