Management’s Discussion and Analysis
Management of the City and County of Denver (City) offers readers of the basic financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended December 31, 2020. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal. The focus of the information herein is on the primary government.

Financial Highlights
- The City’s assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $4,177,358,000 (net position). Of this amount, $493,599,000 represents a deficit of unrestricted net position.
- The City’s total net position increased by $46,748,000, including the restatement amount, or 1.13%, over the prior year amount.
- As of close of the current fiscal year, the City’s governmental funds reported combined ending fund balances of $1,973,703,000, a decrease of $42,974,000, including the restatement due to implementing GASB Statement No. 84, in comparison with the prior year. Approximately 6.23% or $122,907,000 of the total fund balance amount constitutes unassigned fund balance, which is available for spending at the City’s discretion.
- At the end of the current fiscal year, unassigned fund balance of the General Fund was $163,016,000, which represents 11.83% of total General Fund expenditures, including transfers out.
- The City’s total bonded debt decreased by $234,602,000 during the year. General obligation bonds decreased by $486,000 and revenue bonds decreased by $234,116,000.
- The City implemented GASB Statement No. 84, Fiduciary Activities. This statement enhances guidance for identifying fiduciary activities and financial reporting of those activities, which allows for increased consistency and comparability between reporting entities. The financial statements for governmental activities for the year ended December 31, 2020 have been restated as a result of the implementation.
- The City implemented GASB Statement No. 83, Certain Asset Retirement Obligations. This statement requires recognition of a liability and deferred outflow of resources related to certain asset retirement activities. There was no financial impact due to implementing this standard.
- The City implemented GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The implementation of this statement impacted both the governmental activities and business-type activities footnote disclosures.

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

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

The Statement of Net Position presents information on all of the City’s assets, liabilities, and deferred inflows/ outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

The governmental activities reflect the City’s basic services, including police, fire, public works, sanitation, economic development, culture, and recreation. Sales and property taxes finance the majority of these services.
The business-type activities reflect private sector-type operations, such as Wastewater Management; the Denver Airport System, including Denver International Airport (DEN); and Golf Courses, where fees for services typically cover all or most of the cost of operations, including depreciation.

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

**Fund Financial Statements**

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

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

The City maintains 22 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Human Services special revenue fund, each of which is considered to be a major fund. Data from the other 20 governmental funds are combined into a single aggregated presentation. Individual fund data for these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

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

The City uses **fiduciary funds** to account for assets held on behalf of outside parties, including other governments. The City uses fiduciary funds to account for pension, health and other employee benefits trust funds. In addition to employee related trust funds, the City accounts for private purpose trust funds and custodial funds in the fiduciary funds.

Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.
The **notes to basic financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information** in addition to the basic financial statements and accompanying notes is presented in the form of certain required supplementary information concerning the City’s budgetary comparison schedules the net pension liability, the net OPEB liability, and the implicit rate subsidy on other postemployment benefits.

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

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. In the case of the City, assets and deferred outflows exceeded liabilities and deferred inflows by $4,177,358,000 at the close of the most recent fiscal year. Net position of $2,613,295,000 (62.56%) reflects investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net positions of the City also include $2,057,662,000 (49.26%) of restricted net position. These are resources subject to external restrictions as to how they may be used by the City.

**Table 1** reflects the City’s net position (dollars in thousands) as of December 31, 2020 and 2019:

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Assets</td>
<td>$ 2,924,429</td>
<td>$ 2,848,629</td>
<td>$ 3,291,979</td>
<td>$ 4,005,054</td>
<td>$ 6,216,408</td>
<td>$ 6,853,683</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>6,435,750</strong></td>
<td><strong>6,208,856</strong></td>
<td><strong>9,086,868</strong></td>
<td><strong>9,141,857</strong></td>
<td><strong>15,522,618</strong></td>
<td><strong>15,350,713</strong></td>
</tr>
<tr>
<td>Deferred Outflows</td>
<td>398,413</td>
<td>545,152</td>
<td>123,589</td>
<td>149,888</td>
<td>522,002</td>
<td>695,040</td>
</tr>
<tr>
<td>Noncurrent Liabilities</td>
<td>3,972,348</td>
<td>3,889,421</td>
<td>6,602,324</td>
<td>6,834,923</td>
<td>10,574,672</td>
<td>10,724,344</td>
</tr>
<tr>
<td>Other Liabilities</td>
<td>399,732</td>
<td>288,776</td>
<td>313,820</td>
<td>368,317</td>
<td>713,552</td>
<td>657,093</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>4,372,080</strong></td>
<td><strong>4,178,197</strong></td>
<td><strong>6,916,144</strong></td>
<td><strong>7,203,240</strong></td>
<td><strong>11,288,224</strong></td>
<td><strong>11,381,437</strong></td>
</tr>
<tr>
<td>Deferred Inflows</td>
<td>566,456</td>
<td>524,081</td>
<td>12,582</td>
<td>9,625</td>
<td>579,038</td>
<td>533,706</td>
</tr>
<tr>
<td><strong>Net Position</strong></td>
<td><strong>$ 1,895,627</strong></td>
<td><strong>$ 2,051,730</strong></td>
<td><strong>$ 2,281,731</strong></td>
<td><strong>$ 2,078,880</strong></td>
<td><strong>$ 4,177,358</strong></td>
<td><strong>$ 4,130,610</strong></td>
</tr>
</tbody>
</table>
Table 2 reflects the City’s changes in net position (dollars in thousands) for the years ended December 31, 2020 and 2019.

<table>
<thead>
<tr>
<th>Net position - December 31</th>
<th>2020</th>
<th>2019</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>$</td>
<td>1,895,627</td>
<td>$ 2,051,730</td>
<td>$ 2,281,731</td>
<td>$ 2,078,880</td>
</tr>
<tr>
<td>Change in net position</td>
<td>14,252</td>
<td>4,177,358</td>
<td>306,736</td>
<td>4,130,610</td>
</tr>
<tr>
<td>Net position - January 1, as previously reported</td>
<td>2,051,730</td>
<td>1,882,536</td>
<td>2,078,880</td>
<td>1,941,338</td>
</tr>
<tr>
<td>Implementation of GASB Statement No. 84</td>
<td>11,093</td>
<td>-</td>
<td>11,093</td>
<td>-</td>
</tr>
<tr>
<td>Net position - December 31</td>
<td>$1,882,536</td>
<td>$2,078,880</td>
<td>$1,941,338</td>
<td>$4,141,703</td>
</tr>
</tbody>
</table>

Governmental activities decreased the City’s net position by $167,196,000 for the year ended December 31, 2020. Key elements of the decrease are as follows:

- Property tax and sales and use taxes totaled 90.37% of all tax revenues and 55.24% of all governmental activities’ revenues. Property tax recorded in the governmental funds totaled $510,841,000 for an increase of $31,495,000 (6.57%) while sales and use tax revenues of $791,510,000 were down $105,414,000 (11.75%).
compared to 2019, reflecting a significant drop in consumer spending for retail and food services as a result of the COVID-19 pandemic.

- Lodgers tax decreased $86,898,000 (64.83%) due to Denver’s economy being heavily impacted by the decrease in tourism due to the COVID-19 pandemic.

- Total governmental activities expenses increased $165,874,000 (7.02%) primarily due to costs related to the city’s response to the COVID-19 pandemic, which was supported by federal and state funds of approximately $189,000,000. These costs included supporting emergency sheltering, PPE, testing, and workplace safety purchases, as well as programs assisting with economic recovery, housing support, public health needs, food assistance and other programs. General government expenses increased $41,170,000 (7.44%), mainly due to costs associated with responding to the pandemic that were funded by federal grants. Public Safety expenses increased $131,465,000 (18.16%), in part due to hiring additional deputies and enhanced staffing, technology, training, equipment, and facilities. Transportation and Infrastructure expense decreased $71,955,000 (19.03%), mainly due to a decrease in personnel costs and capital project activity costs related to the construction of the National Western Center. Human Services expenses decreased $4,682,000 (2.86%) in part, due to a reorganization in the City that resulted in the formation of a new agency. Monies were transferred to that agency when they took over Denver’s Road Home program and other related activities. Pension and other post-employment benefits (OPEB) also contributed to the increase in expense in each functional area.

General government expenses in 2020 were $594,462,000 (23.52%) of total expenses. Public safety expenses $855,496,000 (33.85%) of total expenses. Transportation and Infrastructure’ expenses were $306,170,000 (12.11%) of total expenses. Cultural activities were $123,649,000 (4.89%) of total expenses. Human services’ expenses were $159,248,000 (6.30%) of total expenses. The remainder of the governmental activities expenses is comprised of health with $130,305,000 (5.16%), parks and recreation with $106,702,000 (4.22%) community development with $178,505,000 (7.06%), economic opportunity with $12,385,000 (0.49%), and interest on long-term debt of $60,650,000 (2.40%).
Business-type activities increased the City’s net position by $202,851,000. Key elements of this increase are as follows:

- Total revenues of $1,349,943,000 were $79,691,000 (5.57%) lower compared to prior year amounts. For the Denver Airport System, the change was primarily due to a significant reduction in air travel due to the COVID-19 pandemic. The Airport also received federal funding of $269,100,000 in CARES Act funds to pay debt service on its outstanding bonds. For Wastewater Management, there was a slight increase in revenue due to rate increases.

- Total expenses of $1,144,378,000 decreased by $79,315,000 (6.48%) when compared to the prior year. For the Denver Airport System, their expenses decreased primarily due to a reduction in non-essential contractual services, a reduction in legal claim/reserve and reduced hotel expenses associated with decreased occupancy. For Wastewater Management, there was a slight increase in expenses primarily due to contractual services associated with several large projects with the Mile High Flood District.
Revenues by Source - Business-Type Activities

Financial Analysis of the Government’s Funds

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

Governmental Funds

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

As of December 31, 2020, the City's governmental funds reported combined ending fund balances of $1,973,703,000, a decrease of $42,474,000, in comparison with the prior year. Approximately 6.23% or $122,907,000 of the total fund balance amount constitutes unassigned fund balance, which is available for spending at the City's discretion.

The General Fund is the chief operating fund of the City. As of December 31, 2020, unassigned fund balance of the General Fund was $163,016,000 while total fund balance was $289,881,000. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 11.83% of total General Fund expenditures, including transfers out, of $1,378,282,000 while total fund balance represents 21.03% of the same amount.

The total fund balance of the City's General Fund decreased by $80,200,000 (21.67%) during the year ended December 31, 2020. This is due to the effects of the COVID-19 pandemic that resulted in a significant decrease to the City’s primary source of revenue, sales and use tax.

With the exception of property tax revenue, almost every revenue source decreased slightly in 2020 due to the impact of the COVID-19 pandemic on the economy. General Fund revenues including transfers in, totaled $1,294,024,000, a decrease of $134,041,000 or 9.39%. Certain revenues in the General Fund that changed from 2019 to 2020 include:

- Sales and use taxes earned were lower by $81,620,000. This decrease is directly related to a decrease in retail and services consumer spending as a result of the pandemic.
- Property taxes were higher by $21,260,000 due primarily to increases in the assessed value of property taxed during 2020.
- Investment and interest income was higher by $2,420,000 due in part to growth in the financial markets from a slower market in 2019.

Fine and forfeitures revenue in the General Fund decreased of $8,985,000 largely due to a decrease in parking fine revenue.
Total General Fund expenditures, including transfers out, decreased by $70,358,000 or (4.86%). The primary drivers of this decrease are reduced hiring and holding vacant positions, reduced support for capital improvement programs and citywide furlough days.

The Human Services special revenue fund had a total fund balance of $82,503,000. This amounts to a net decrease in fund balance of $2,997,000 during the current year. The primary reasons for the change include a decrease in expenses of approximately $10,000,000 offset by an increase in transfers out of approximately $14,667,000 to provide funding for homeless services and capital improvements.

**Proprietary Funds**

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

Total net position of Wastewater Management was $827,290,000 and for the Denver Airport System net position was $1,407,188,000. Net position for all enterprise funds was $2,281,949,000. Other significant factors concerning the finances of the enterprise funds can be found in the discussion of the City’s business-type activities.

**General Fund Budgetary Highlights**

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

Original revenue estimates for 2020, prepared in the summer of 2019, assumed moderate growth in the local and national economies. Sales and use tax revenue was originally projected to grow by 5.8% over the 2019 revised forecast and total General Fund revenue was projected to increase by 6.7% over 2019 revised figures. In the summer of 2020, the original General Fund revenue forecast, including transfers in, was revised downward by $220,673,000 or 14.9% to account for the pandemic’s projected impact on the City’s revenue collections. To close this projected budget gap, the City deployed multiple tools to minimize impacts to core city services, especially in traditionally under-resourced communities, while maintaining our financial stability, including:

- using $94 million in reserves which the city maintains to ensure services continue even during severe economic downturns;
- requiring Career Service employees and appointees to take eight furlough days, for a budget savings of $16 million;
- generating $127 million in savings from their budgets including suspending personnel hiring.

**Capital Assets and Bonded Debt Administration**

**Capital Assets**

The City's capital assets for its governmental and business-type activities as of December 31, 2020, were $9,306,210,000 (net of accumulated depreciation). This investment in capital assets includes land and land rights, collections, buildings and improvements, equipment and other, park facilities, and, for governmental activities, infrastructure (including streets, alleys, traffic signals, bridges, fiber optic cable, and trails). Infrastructure-type assets of business-type activities are reported as buildings and improvements. The City’s capital assets by type at December 31, 2020 and 2019 are shown in **Table 3** (dollars in thousands)
Major capital asset activity for the year ended December 31, 2020, included the following:

- **Governmental Activities** - Work on the National Western Center (NWC) commenced and includes costs related to land acquisition within the NWC campus boundaries, preparation for rail consolidation, environmental analysis, preliminary design, engineering and construction.

- **Business-type Activities** - Wastewater’s net capital assets increased approximately $78,008,000 primarily due to the spending of bond proceeds, which increased collection system assets. The Denver Airport System had a 10.40% increase in capital assets due to additional capital assets entering service and additions to construction in progress related to the 2019-2022 capital program.

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

**Bonded Debt**

At December 31, 2020, the City had total bonded indebtedness of $7,213,810,000. Of this amount, $842,370,000 comprises debt backed by the full faith and credit of the City. The remainder of the City’s debt, $6,371,440,000 represents bonds and commercial paper notes secured by specified revenue sources (i.e., revenue bonds of the Denver Airport System, Wastewater Management, and excise tax revenue bonds). The City has no outstanding commercial paper notes as of December 31, 2020.

As of December 31, 2020, the City’s general obligation debt is rated AAA by Standard & Poor’s rating agency, Fitch Ratings, and Moody’s Investors Service. Outstanding bonded debt at December 31, 2020, and 2019, is reflected in Table 4 (dollars in thousands).

<table>
<thead>
<tr>
<th></th>
<th>Governmental Activities</th>
<th>Business-type Activities</th>
<th>Total Primary Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>General obligation bonds</td>
<td>$842,370</td>
<td>$842,856</td>
<td>$ -</td>
</tr>
<tr>
<td>Revenue bonds</td>
<td>589,430</td>
<td>611,596</td>
<td>5,782,010</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$1,431,800</td>
<td>$1,454,452</td>
<td>$5,782,010</td>
</tr>
</tbody>
</table>

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

**Requests for Information**

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to:

Controller’s Office
201 W Colfax Avenue, Dept 1109
Denver, CO 80202

This report is available online at www.denvergov.org/finance.