Dear Senator Brown:

Under construction since September 1989, the $4.8 billion Denver International Airport (DIA) opened for business on February 28, 1995. At your request, we have reviewed (1) DIA construction cost growth, (2) differences between DIA's financial consultant's report and audited financial statements relating to Denver Airport System's bond debt, and (3) Securities and Exchange Commission (SEC) jurisdiction over municipal bonds and the status and scope of its DIA investigation. In addition, as you also requested, we plan to send you a separate report at a later date on cash flows and operating results from DIA operations.

To respond to your request, we reviewed construction cost reports and related information, we examined the financial consultant’s report and audited financial statements, and we reviewed legislation and SEC regulations pertaining to municipal financing. We held extensive discussions with DIA and SEC officials on the issues presented in this report.

Results in Brief

Construction of DIA began in September 1989, and the first firm construction cost estimate was $2.08 billion, reported by the City of Denver in a May 1990 Official Statement prepared to promote the sale of airport revenue bonds.

Actual construction costs to the date DIA opened totaled $3.004 billion, close to $1 billion over the original estimate. Most of the cost increases were due to changes in the scope of the airport, such as the addition of an automated baggage system and widening and lengthening concourses. In addition to the $1 billion growth in construction costs, a 16-month delay in opening DIA due to automated baggage system complications increased capitalized construction interest by about $300 million.

Comparing data presented in the September 1994 bond prospectus by Leigh Fisher Associates, DIA’s financial consultant, to audited financial statements, raised two differences you asked us to research. First, annual amounts payable on bond debt for the years 1995 to 2000 were $69 million
to $118 million a year lower in the Leigh Fisher Associates report than in the financial statements. Second, total bond debt shown in the Leigh Fisher Associates report was $3.464 billion, whereas audited financial statements, adjusted for the September 1994 bond sale, reported bonds payable of $3.872 billion.

A major reason for the differences in the two financial reports is that the reports had different purposes and covered different time periods and scopes. The financial statements were audited as of December 31, 1993, and were designed to present the financial position at that date of the Denver Airport System (including both DIA and Stapleton International Airport) in accordance with generally accepted accounting principles. The Leigh Fisher Associates report was prepared as of August 18, 1994, and was designed to present financial forecasts solely for DIA based on certain assumptions about future events.

Major differences in annual payments due on bond debt reflect Leigh Fisher Associates’ assumptions that certain bonds would be refinanced in 1995 (which was accomplished in June 1995), principal would be prepaid on bonds, and lower interest rates would be paid on variable rate bonds. In addition, estimated revenues from passenger facility charges (PFCs) of about $40 million to $45 million a year were subtracted from annual debt service amounts in the Leigh Fisher Associates report, but not in the financial statements.

For total bonds payable, the primary difference between the financial statements and the Leigh Fisher Associates report was that the financial statements included all debt of the airport system, while the Leigh Fisher Associates report showed only bond debt that was used for the DIA construction project. Thus, the Leigh Fisher Associates report did not include about $293 million in bonds sold in 1984 and 1985 for Stapleton International Airport improvements and DIA land acquisition and project planning, or certain other bonds used for purposes other than DIA construction.

While municipal securities are exempt from the registration requirements and civil liability provisions of the Securities Acts of 1933 and 1934, they are not exempt from the antifraud provisions of those acts. SEC’s Rule S-X covers the form and content of financial statements required for corporate bond issues, but does not apply to municipal bond issues. The SEC is currently investigating DIA’s disclosures of baggage system issues, using the Commission’s authority under the antifraud provisions.
Background

In 1988, the City of Denver agreed with Adams County to acquire a 53-square-mile site for a new airport, to be built to replace Stapleton International Airport. At that time, in a conceptual estimate, the cost of the airport was set at $1.34 billion. In May 1989, voters in Denver approved a plan to build Denver International Airport. Site preparation and construction began in September 1989. The first formal construction budget, set at $2.08 billion, was produced in May 1990.

Financing for DIA has included about $508 million from the Federal Aviation Administration (FAA) in grants and facilities and equipment funds, and about $3.8 billion in bonds sold to the public. Since May 1990, 12 airport revenue bond sales have been completed, with the most recent sale of $329.3 million of bonds in June 1995. Funds from the June 1995 sale are primarily designated for refinancing bonds sold in 1984 and 1985. Following the June 1995 bond sale, the City of Denver reported senior bonds payable totaling $3.481 billion plus subordinate1 bonds payable totaling $300 million.

Each bond sale for DIA has been promoted by an Official Statement issued by the City of Denver containing details on the terms and conditions of the bond sale, a description of the airport project, financial and operational statistics and projections, contractual agreements with airlines, and information on risks and litigation. Appended to each official statement are (1) a report of the airport consultant, presently Leigh Fisher Associates (formerly the airport consulting practice of KPMG Peat Marwick) and (2) audited financial statements for the Denver Airport System, presently audited by Deloitte & Touche LLP.

The information in these official statements is presently the subject of an SEC investigation and several lawsuits. The Denver office of the SEC is conducting an investigation to assess whether Denver made adequate disclosures of the problems with the airport baggage system. In addition, five lawsuits have been filed on behalf of investors in Denver Airport Bonds, alleging that they were not properly informed of the risks associated with their investments.

DIA has attracted enormous local and national media attention, much of it focused on the various investigations that have been conducted on the airport. In addition to the work being done by the SEC, several other reviews and investigations have been undertaken, including a Federal

1Subordinate bonds are secured by a pledge of the net revenues of the Denver Airport System subordinate to the pledge of net revenues securing senior bonds.
Bureau of Investigation inquiry into contracting practices, the Department of Transportation Inspector General’s review of the possible misapplication of airport revenues, and the Denver District Attorney’s investigations of contracting and construction practices.

Objectives, Scope, and Methodology

To determine amounts and causes of cost growth in the DIA project, we

- reviewed construction budgets and cost reports;
- interviewed officials in DIA’s construction division to obtain explanations of reasons for certain scope changes in the project;
- examined change orders to construction contracts; and
- reviewed official statements issued by the City of Denver on the DIA project to identify disclosures made by Denver on construction cost increases.

To reconcile annual debt service liabilities and total bonds payable from audited financial statements as of December 31, 1993, to the Leigh Fisher Associates report issued by Denver for the September 1994 bond sale, we

- reviewed these two reports in detail;
- reviewed audit workpapers prepared by Deloitte & Touche to document the methods they used to compute annual debt service and bonds payable;
- interviewed officials at DIA’s finance office and obtained explanations of methods used in computing debt service amounts in the Leigh Fisher Associates report;
- held discussions with DIA’s financial consultant, Leigh Fisher Associates, and obtained and reviewed detailed supporting schedules prepared by them; and
- reviewed DIA’s Plan of Finance prepared by First Albany Corporation, DIA’s bond financing consultant.

Reconciliations of differences between the reports were prepared for us by DIA finance officials, and we traced the details of these reconciliations to financial records at DIA’s finance office.

To address the issue of SEC jurisdiction over municipal bonds and the status and scope of the SEC investigation at DIA, we met with SEC officials at SEC Headquarters in Washington, D.C., and held discussions with SEC investigators at their Denver office. We reviewed testimony given by SEC’s Chairman before Senate and House Committees in January 1995 to obtain SEC’s formal position relative to its jurisdiction over the municipal bond
markets. We also reviewed SEC’s legal foundation for jurisdiction over municipal financing and compared federal securities laws to Colorado securities laws. Our reviews of documentation noted above and our discussions with officials cited are the basis for the statements made in this report. We did not complete an investigation or a comprehensive audit of the information we are reporting. Readers of this report should be aware that investigations now under way by the SEC and others could conceivably disclose additional details that could conflict with information presented in this report.

We requested comments on a draft of this report from the Director of Aviation, Denver International Airport, of the City of Denver, who provided us with written comments. In his comments, reprinted in appendix I, the Director did not disagree with the facts in this report but provided additional rationale for why the cost of completing the airport increased.

### Construction Cost Growth at DIA

The total cost of DIA is about $4.8 billion, about $3 billion of which are construction costs incurred by the City of Denver. Other major cost categories are $915 million in capitalized interest; $599 million in costs of facilities paid for by airlines, FAA, and rental car companies; and $261 million for land acquisition and project planning.

#### Table 1: Cost of Denver International Airport

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost to Denver Airport System</td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>$3,004</td>
</tr>
<tr>
<td>Airport planning and land</td>
<td>261</td>
</tr>
<tr>
<td>Capitalized interest</td>
<td>915</td>
</tr>
<tr>
<td>Bond discounts</td>
<td>43</td>
</tr>
<tr>
<td><strong>Total cost to Denver Airport System</strong></td>
<td><strong>4,223</strong></td>
</tr>
<tr>
<td>Cost to others</td>
<td></td>
</tr>
<tr>
<td>FAA’s facilities and equipment</td>
<td>199</td>
</tr>
<tr>
<td>United Airlines’ special facilities</td>
<td>261</td>
</tr>
<tr>
<td>Continental Airlines’ special facilities</td>
<td>73</td>
</tr>
<tr>
<td>Rental car facilities</td>
<td>66</td>
</tr>
<tr>
<td><strong>Total cost to others</strong></td>
<td><strong>599</strong></td>
</tr>
<tr>
<td><strong>Total costs of Denver International Airport</strong></td>
<td><strong>$4,822</strong></td>
</tr>
</tbody>
</table>

Source: Based on information from the City and FAA.
Construction costs grew from a May 1990 budget of $2.08 billion to a total at airport opening of $3.004 billion, resulting from several substantial scope changes in the project. One major scope change was the decision in 1991 to build an automated baggage system costing about $290 million in direct construction costs, but which ultimately delayed the opening of DIA by about 16 months. This 16-month delay increased capitalized interest for the project by about $300 million.

The earliest firm cost estimate for constructing DIA, excluding land acquisition and project planning, was $2.08 billion, and was contained in the City's Official Statement for the May 1990 bond issue. In June 1991, the City entered into an agreement with United Airlines which included, among other things, the City agreeing to design and construct Concourse B in accordance with United's facilities requirements. By February 1992, the construction estimate was up to $2.7 billion, driven up largely by the agreement with United Airlines. This $620 million construction cost increase resulted from widening and lengthening concourses ($250 million); the initial costs for the automated baggage system ($200 million); and other changes including completion of the terminal, electronic upgrades, apron improvements, and partial grading of a sixth runway ($170 million).

By February 1994, DIA construction cost estimates had risen another $220 million, raising the total to $2.92 billion. The largest single factor in this round of cost increases was a decision to move the cargo area from the north side of DIA to the south side, primarily to satisfy the demand by cargo carriers for better access to Interstate 70. This cargo area move cost about $59 million. The balance was primarily for numerous airport improvements made under agreements with United and Continental Airlines, additional airport fire and maintenance equipment, a commuter airline fueling facility, and upgraded lighting to conform to new FAA regulations.

At the date of DIA's opening, February 28, 1995, construction costs totaled $3.004 billion, about $80 million over the February 1994 amount. This $80 million was principally for modifications to the automated baggage system and for a back-up baggage system.

In addition to growth in DIA construction costs, delays caused by problems with the automated baggage system cost an additional $300 million in capitalized interest. Capitalized interest is similar to construction interest on a home building project. Before ground is broken, the borrower signs
for a construction loan. As months pass during construction of the home, interest is charged on the construction loan. If a project runs over by several months, thousands of dollars of additional interest costs are absorbed into the cost of the home. In the case of DIA, about $300 million was absorbed into the cost of the project due to the 16-month delay in opening the airport because of problems with the baggage system. All told, capitalized interest for the entire construction period was $915 million.

Reconciliation of Airport Bond Debt

Your office compared data in Leigh Fisher Associates' report supporting the September 1994 bond sale to Denver Airport System’s financial statements as of December 31, 1993, and raised two questions. First, annual amounts payable on bond debt were lower in the Leigh Fisher Associates report compared to the audited financial statements by $69 million to $118 million a year for the years 1995 through 2000. Second, total bond debt was lower in the Leigh Fisher Associates report ($3.464 billion), than in the audited financial statements, adjusted for the September 1994 bond sale ($3.872 billion).

It is important to note that these two financial reports, while closely related, had different purposes and covered different time periods and scopes. The financial statements were audited as of December 31, 1993, and were designed to present the financial position at that date of the Denver Airport System, including both DIA and Stapleton, in accordance with generally accepted accounting principles. The Leigh Fisher Associates report was prepared as of August 18, 1994, and was designed to present financial forecasts for 1995 through 2000 for DIA based on certain assumptions about future events.

Annual Amounts Payable on Bond Debt

Annual debt service requirements in the audited financial statements were based on the legal liabilities that existed on each of Denver's bond issues at the financial statement date. Annual debt service amounts, $69 million to $118 million a year lower, were reported in the Leigh Fisher Associates report based on certain assumptions about future events including (1) successful refinancing of the 1984/85 bonds, (2) prepayment of certain bonds with the proceeds of FAA grants, and (3) lower than maximum interest rates on variable rate bonds. Two of these assumptions have been realized: (1) bonds were refinanced in June at 5.7 percent interest and (2) interest of about 5 percent has been paid on variable rate bonds during 1995.
Another primary reason for lower annual debt service amounts in the Leigh Fisher Associates report was the assumption that estimated passenger facility charge (PFC) revenues would be used to reduce debt service amounts. During its first 3 months of operations, DIA collected PFCs at amounts meeting or exceeding projections. Figure 2 and associated notes provide a detailed reconciliation and further explanation of the reasons for differences in annual debt service amounts reported in the audited financial statements dated December 31, 1993, and the annual debt service amounts reported in the Leigh Fisher Associates report dated August 18, 1994.
Figure 2: Reconciliation of Annual Debt Service Requirements

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt service per audited financial statements dated December 31, 1993</td>
<td>$302,483,647</td>
<td>$302,494,239</td>
<td>$302,490,626</td>
<td>$283,481,467</td>
<td>$282,340,512</td>
</tr>
<tr>
<td>Add: Debt service liability for repayment of 1994A bonds delivered on September 8, 1994 (Note 1)</td>
<td>+18,194,650</td>
<td>+24,294,650</td>
<td>+33,070,800</td>
<td>+37,633,600</td>
<td>+42,053,600</td>
</tr>
<tr>
<td>Total debt service liability on financial statements, as adjusted</td>
<td>$320,678,297</td>
<td>$326,788,889</td>
<td>$335,561,426</td>
<td>$321,415,067</td>
<td>$324,394,112</td>
</tr>
<tr>
<td>Total debt service on airport system revenue bonds, Leigh Fisher Associates report</td>
<td>$204,052,000</td>
<td>$243,714,000</td>
<td>$246,819,000</td>
<td>$252,052,000</td>
<td>$253,744,000</td>
</tr>
<tr>
<td>Amount by which audited financial statements exceeded Leigh Fisher Associates report</td>
<td>+117,626,297</td>
<td>+83,074,889</td>
<td>+88,742,426</td>
<td>+69,363,067</td>
<td>+70,650,112</td>
</tr>
</tbody>
</table>

Reconciling items:
- Refinance of 1984/85 bonds (Note 2) | $36,206,000 | $30,523,000 | $30,523,000 | $11,786,000 | $11,787,000 | $11,780,000 |
- Assumed prepayments of debt from FAA grants (Note 3) | $7,406,000 | $1,530,000 | $3,057,000 | $4,593,000 | $5,883,000 | $5,883,000 |
- Assumed 5 percent interest rate on variable rate bonds (Note 4) | $9,200,000 | $9,200,000 | $9,200,000 | $9,200,000 | $9,200,000 | $9,200,000 |
- Estimated revenues from passenger facility charges (Note 5) | $38,405,000 | $40,480,000 | $41,584,000 | $42,717,000 | $43,879,000 | $45,076,000 |
- Stapleton special facility bonds paid from non-DIA sources (Note 6) | $1,411,000 | $1,419,000 | $1,419,000 | $1,141,000 | $0 | $0 |
- 1994 interest to be paid in 1995 from capitalized interest reserves (Note 7) | $23,252,752 | $0 | $0 | $0 | $0 | $0 |
- Adjustment on amortization of 1994A bonds (Note 8) | $745,545 | $(77,111) | $(40,574) | $(73,933) | $(88,888) | $(1,289,188) |

Total of items accounting for difference between audited financial statements and the Leigh Fisher Associates report | $117,626,297 | $53,074,889 | $88,742,426 | $69,363,067 | $70,650,112 | $73,228,188 |

Source: This reconciliation was prepared partly by DIA Finance Office officials and partly by GAO. Information prepared by DIA officials was recomputed by GAO and tracked by GAO to source documents.
NOTES TO FIGURE 2

1. To reconcile the audited financial statements to the Leigh Fisher Associates report, annual debt service on the bonds sold in September 1994 needs to be added, because these amounts were included in the Leigh Fisher Associates report.

2. The Leigh Fisher Associates report assumed that Denver would refinance and restructure the 1984 and 1985 bonds. In fact, the 1984 and 1985 bonds were refinanced and restructured in June 1995. The 1984 and 1985 bonds carried interest rates of 8.125 percent to 10.50 percent and required large debt payments during the years 1995 to 2000. These bonds were refinanced in June 1995 at an average rate of about 5.7 percent, with most of the principal payments deferred to the years 2020 and 2025. This was an important step toward DIA's plan of finance which proposes to allocate debt relatively equally for each year out to 2025, when all existing bond issues will be fully amortized.

3. The Leigh Fisher Associates report assumed that Denver will receive FAA grants in 1995 through 1998, as indicated in FAA's letter of intent. The assumption was that $117.6 million in FAA grants will be used to prepay principal on variable rate bonds, resulting in a reduction of the debt service liability in future years.

4. The Leigh Fisher Associates report assumed that future interest rates on variable rate bonds would be 5 percent annually, while the financial statements assumed rates at either 7.5 or 7.0 percent, depending on the specific bond issue. Interest rates paid on variable rate bonds in 1995 averaged about 5 percent.

5. The Aviation Safety and Capacity Expansion Act of 1990 authorizes the Secretary of Transportation to approve a locally imposed PFC of up to $3 per enplaned passenger. In May 1992, FAA approved the City of Denver's PFC application. The approval permits the City to collect up to $2.3 billion in PFC revenues to be applied towards the cost of the project. Because PFC revenues at DIA are reserved for payment of debt service, the Leigh Fisher Associates report subtracted estimated PFC revenues from total debt service.

6. The Leigh Fisher Associates report excluded debt service payable on special facility bonds at Stapleton International Airport because funds have been set aside from Stapleton lease revenues to service this debt.

7. Capitalized interest from the coupon date of November 15, 1994, to December 31, 1994, was $23,252,752. This 1994 interest liability was not payable until 1995 and was planned for payment using capitalized interest reserve funds.

8. Leigh Fisher Associates used a preliminary amortization schedule for 1994A bonds when computing its debt service amount. The final amortization schedule differed by the amounts shown.
Reconciliation of Total Bonds Payable

Total Denver Airport System bonds payable, on the December 31, 1993, audited financial statements as adjusted for the September 1994 bond sale, were $3,871,950,000. (See figure 3). Bonds payable reported in Exhibit B of the Leigh Fisher Associates report totaled $3,464,019,000. Information in these financial reports differed because the financial statements included all debt of the Denver Airport System (including DIA and Stapleton debt), whereas the Leigh Fisher Associates report was using Exhibit B to present only those bonds that provided funds to cover DIA construction and capitalized interest costs. Figure 3 and its accompanying notes present details on the differences between the two financial reports.
Figure 3: Reconciliation of Total Bond Debt Amounts: Audited Financial Statements Reconciled to City of Denver Official Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue bonds payable reported in the long-term liability section of the audited balance sheet of the City and County of Denver Airport System as of December 31, 1993</td>
<td>$3,547,895,000</td>
</tr>
<tr>
<td>Add: Principal in the 1994A bond issue (Note 1)</td>
<td>257,000,000</td>
</tr>
<tr>
<td>Current portion of bonds payable</td>
<td>67,055,000</td>
</tr>
<tr>
<td>Total liability for airport revenue bonds, as adjusted</td>
<td>$3,871,950,000</td>
</tr>
<tr>
<td>Total bond debt reported in the Leigh Fisher Associates report, Exhibit B (Including an estimated $225 million in the 1994A bond issue)</td>
<td>3,464,019,000</td>
</tr>
<tr>
<td>Add:</td>
<td></td>
</tr>
<tr>
<td>Adjustment for the actual 1994A bond issue ($257 million less $225 million) (Note 1)</td>
<td>32,000,000</td>
</tr>
<tr>
<td>Principal amount of 1984 bonds, which were excluded from Exhibit B (Note 2)</td>
<td>103,875,000</td>
</tr>
<tr>
<td>Principal amount of 1985 bonds, which were excluded from Exhibit B (Note 2)</td>
<td>189,575,000</td>
</tr>
<tr>
<td>Capital appreciation bonds (Note 3)</td>
<td>79,806,000</td>
</tr>
<tr>
<td>Stapleton special facility bonds (Note 4)</td>
<td>46,345,000</td>
</tr>
<tr>
<td>Less:</td>
<td></td>
</tr>
<tr>
<td>Assumed 1995 financing included in Exhibit B (Note 5)</td>
<td>(43,670,000)</td>
</tr>
<tr>
<td>Exhibit B reconciled to financial statements</td>
<td>$3,871,950,000</td>
</tr>
</tbody>
</table>

Source: This reconciliation was prepared partly by DIA Finance Office officials and partly by GAO. Information prepared by DIA officials was recomputed by GAO and tracked by GAO to source documents.
NOTES TO FIGURE 3

1. The financial statements were adjusted by GAO to reflect the $257 million in bonds that were sold in September 1994. The Leigh Fisher Associates report included an estimated bond sale amount of $225 million, and therefore an adjustment of $32 million was required because the actual amount of bonds sold in September 1994 was $257 million.

2. The Leigh Fisher Associates report excluded principal balances for the 1984 and 1985 bond issues of the Denver Airport System because it was accounting only for those sources of funds that were applied to the DIA construction project. Funds derived from the 1984 and 1985 bonds were used for improvements at Stapleton Airport and for land acquisition and DIA project planning.

3. The audited financial statements presented the full appreciated value at maturity of the capital appreciation bonds. The Leigh Fisher Associates report showed an amount $79.8 million lower which reflected the actual cash proceeds generated from the sale of the capital appreciation bonds. For example, part of the $79.8 million difference is reflected in the capital appreciation bonds sold as part of DIA’s 1991D bond series. The bond purchasers paid $18,671,391 for bonds that mature in the years 2003 through 2006. The audited financial statements reported these bonds at their full maturity value of $53,020,000, whereas the Leigh Fisher Associates report was showing a source of funds statement accounting only for the proceeds of $18,671,391.

4. Stapleton Airport bonds were excluded from the Leigh Fisher Associates report because it was accounting only for sources of funds used in the DIA construction project.

5. The bonds payable amount in the Leigh Fisher Associates report included a forecasted sale of additional bonds in 1995 of $43.67 million. This amount was removed to reconcile to the financial statement amount.
SEC Issues

While municipal securities are exempt from the registration requirements and civil liability provisions of the Securities Acts of 1933 and 1934, they are not exempt from the antifraud provisions of those acts. When allegations of fraud associated with a municipal bond issue are made, the SEC, at its discretion, may launch an investigation, as it has in the case of DIA. The SEC is currently investigating DIA’s disclosures of information related to baggage system issues, to include all Official Statements and supporting documentation covering the period 1990 to the present. The SEC has not released any information on the results of its work because its investigation is ongoing.

In response to your request for information on the potential applicability of the SEC’s Rule S-X to DIA revenue bonds, we reviewed Rule S-X and met with SEC officials to discuss their application of Rule S-X and its companion, Rule S-K. These are the primary criteria SEC uses in regulating issuers of corporate bonds, but they are not requirements imposed on issuers of municipal bonds. Rule S-X covers the form and content of financial statements and requires that a corporate bond prospectus include 2 years of audited balance sheets and 3 years of audited income statements and cash flow statements. Rule S-K covers qualitative issues in a bond prospectus such as adequacy of disclosures, legal matters, and corporate general management issues.

SEC officials told us that their review of corporate debt issuances applies a standard of whether disclosures were made in good faith on a reasonable basis when they were made. Further, this standard is applied principally to those disclosures of a material nature that could reasonably be presumed to affect an investor’s decision. Also, omission of material information is an important consideration. SEC officials emphasized that it is not possible to speculate if SEC jurisdiction over approval of DIA Official Statements would have resulted in different disclosures.

The market for municipal securities has been largely unregulated at the federal level, basically due to broad exemptions in both the Securities Act of 1933 and the Securities Exchange Act of 1934. However, some changes began to occur in the 1970s in response to abusive practices by dealers in municipal securities and to increasing numbers of retail investors in this market. The Securities Acts Amendments of 1975 established a limited regulatory scheme for the municipal securities market through provisions for the mandatory registration of municipal securities brokers and dealers. Other actions taken by SEC in recent years have strengthened its stance on the quality of disclosures demanded of municipal bond issuers.
<table>
<thead>
<tr>
<th>Year</th>
<th>Action taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>SEC adopted Exchange Act Rule 15c2-12, requiring underwriters to obtain and review issuers’ Official Statements prior to selling bonds, and to provide copies of Official Statements to customers.</td>
</tr>
<tr>
<td>1993</td>
<td>SEC published a Staff Report on the Municipal Securities Market which underscored the need for improved disclosure practices in the primary and secondary municipal securities markets.</td>
</tr>
<tr>
<td>1994</td>
<td>SEC published the Statement of the Commission Regarding Disclosure Obligations of Municipal Securities Issuers and Others wherein it formalized its position regarding obligations of municipal securities issuers under the antifraud provisions of federal securities laws. Further, this document emphasized the importance of using audited financial statements and established procedures for disclosing material events subsequent to the initial offering.</td>
</tr>
</tbody>
</table>

In response to your request, we compared the 1933 Securities Act’s and the 1934 Securities Exchange Act’s standard of liability for professionals involved with the preparation and issuance of Official Statements with standards imposed on professionals by Colorado law in the same regard. We found that Colorado, like a majority of the states, has substantially adopted section 101 of the Uniform Securities Act as a basic fraud provision. The antifraud provision in Colorado’s statute mirrors the federal antifraud provisions. Both make it unlawful for any person, in connection with the offer, sale, or purchase of any security, directly or indirectly, to defraud or “to make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading.”

In addition, we note that with respect to corporate, as opposed to municipal securities, section 11 of the 1933 act, as well as Colorado law, makes accountants civilly liable for material misstatements or omissions in corporate registration statements. Further, the SEC may bar any professional from appearing or practicing before it if the Commission finds that the professional has willfully violated any provision of the securities law, including both the antifraud provisions and the prohibition on material misstatements.\(^2\)

We performed our work between January and July 1995 in accordance with generally accepted auditing standards. We have discussed the contents of this report with officials of the City of Denver and they agree with its contents. Written comments from the Director of Aviation, DIA, of the City of Denver, are included in appendix I.

\(^2\)17 C.F.R. subsections 201.2(e)(1)(iii) and 201.2(e)(3)(i).
As arranged with your office, unless you announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies of this report to the Secretary of Transportation; the Director, Office of Management and Budget; the City of Denver; and interested congressional committees. We will also make copies available to others on request.

Please contact me at (202) 512-9542 if you or our staff have any questions concerning this report. Major contributors to this report are listed in appendix II.

Sincerely yours,

Lisa G. Jacobson
Director, Civil Audits
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Abbreviations

DIA Denver International Airport
FAA Federal Aviation Administration
PFCs passenger facility charges
SEC Securities and Exchange Commission
Rule S-X Form and content of financial statements
Rule S-K General disclosures in a bond prospectus
CITY AND COUNTY OF DENVER

DEPARTMENT OF AVIATION

James C. DeLong
Director of Aviation

Denver International Airport
Airport Office Building
8500 Peña Boulevard
Denver, Colorado 80249-6340
(303) 944-2200

August 15, 1995

Mr. Gene L. Dodaro
Assistant Comptroller General
United States
General Accounting Office
Washington D.C. 20548

Dear Mr. Dodaro:

I appreciate your providing me the opportunity to respond to the GAO draft report to Senator Hank Brown entitled Denver International Airport: Analysis of Cost Growth and Debt Structure. Your report describes the project scope changes that resulted in an overall increase in the total construction cost of Denver International Airport. I would like to discuss what I believe caused those scope changes.

Over the past 25 years, a number of cities have attempted but failed to construct new airports. Examples include St. Louis, Miami, Austin, Houston, Boston, Chicago and San Diego. As to why Denver succeeded while so many others failed is worthy of analysis. Major projects of this nature fail for a number of reasons; one being the ability of relatively small pockets of opposition to undermine the ambitions of those who support the effort. Denver, however, very early in the process sought and received the support of the community through a series of referendums thus neutralizing those bent on blocking the program.

One of the groups that inevitably objects to a new major airport program is the airline industry. Opposition is predictable and quite understandable recognizing the airline industry’s continuing financial difficulties. The airlines’ resistance to Denver’s major public works project to a large degree accounts for why so many changes occurred relatively late in the design construction process.

The airline industry was reluctant to provide detailed facility requirements for their respective operations while publicly opposing the project. Due to lack of input, the City elected to move forward with “generic” solutions during the design development phase.
Mr. Gene L. Dodaro  
August 15, 1995  
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The City’s decision to proceed was absolutely the only way the project could be completed. Waiting until the airlines were willing to support the project would have simply made Denver one more city that tried but failed.

Nevertheless, the result of this course of action was a number of late requests for changes made by the airlines once they recognized the inevitability of the project. Because of these, Denver faced a difficult decision, should it proceed with the generic design which, while adequate, did not suit the specific needs of the user, or should the City adopt where practical, requests which would make that airline more competitive in the national and international arena?

The latter approach was followed however with a “quid pro quo.” Those airlines requesting changes, specifically UAL and Delta, had to agree to pay those associated costs and enter into a long-term contractual commitment to underwrite the airport. These terms were ultimately accepted by virtually every airline currently serving Denver.

In a perfect world where airlines think and act strategically, waiting until all requirements are identified would be the preferred course of action. Unfortunately we don’t live in such an environment. The approach that was followed ultimately achieved what no other city has accomplished...completion of a new airport.

Thank you for the opportunity to make these comments.

Very truly yours,

James C. DeLong
Director of Aviation

JCDish

cc: Vicki Braunagel
    Debbie DeMuth
Appendix II
Major Contributors to This Report

| Denver Regional Office | Lowell Hegg, Assistant Director |
|                       | Frank Sutherland, Senior Evaluator |
|                       | John Furutani, Evaluator         |

| Office of the General Counsel | Thomas H. Armstrong, Assistant General Counsel |
|                               | Barbara Timmerman, Senior Attorney     |
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