

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2002

This section of the City of Albuquerque's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$1.4 billion (net assets). Of this amount, \$108.5 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$90.1 million during the year.
- As of June 30, 2002, the City's governmental funds reported combined ending fund balances of \$283.6 million. Approximately 71% of this amount, \$201.6 million, is unreserved fund balance available for spending at the government's discretion. Of this amount, approximately \$122.4 million is unreserved fund balance in the Capital Acquisition Fund.
- At the close of the current fiscal year, unreserved fund balance for the general fund was \$19.8 million or 7.2 percent of the total general fund expenditures of \$274.5 million.
- The City's total long-term debt increased by \$26.6 million (three percent) during the current year. The key factors in this increase were issuances of \$92.4 million of general obligations bonds, of which \$39.7 million was issued for street and storm sewer improvements, \$20.7 million was issued for parks and recreation facilities, and \$8.0 million was issued for the construction of a new baseball stadium. \$42.6 million in revenue bonds were issued by the Albuquerque International Airport. Those proceeds plus additional monies were used to advance refund \$46.0 million of revenue bonds. \$30.0 million was issued by the Joint Water and Sewer fund to improve, repair, or extend the City's water and sewer system.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements, and 3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

The *statement of net assets* presents information on all of the City's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, culture and recreation, public works, health, human services, housing, highways and streets, and special assessments. The business-type activities of the City include an airport, joint water and sewer system, refuse disposal, golf courses, parking facilities, and transit system

The City does not have a relationship with any other government that would cause that government to be considered a component unit of the City.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts which are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements – i.e. most of the City's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General, Corrections and Detention, General Obligations Debt Service, and the Capital Acquisition funds, all of which are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major 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, Corrections and Detention fund, and the General Obligation Debt Service fund. A budgetary comparison statement has been provided for each of these funds. In addition, the City adopts an annual appropriated budget for other non-major funds. A budgetary comparison statement is presented in the aggregate for all of those funds.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers – either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary 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 the operations of the Albuquerque International Airport, Joint Water and Sewer system, Refuse Disposal, and Housing Authority, which are considered major funds of the City. In addition the following non-major funds are reported: Golf Course, Parking and Transit are combined into a single, aggregate presentation in the proprietary financial statements and individually in the combining statements elsewhere in this report.
- ***Internal Service funds*** are used to report activities that provide supplies and services for certain City programs and activities. These funds account for inventory warehousing and issues; worker's compensation, tort and other claims insurance coverage; vehicle maintenance and motor pool services; and communication services to City departments. In addition, these funds provide health insurance coverage to City employees. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City's Trust and Agency fund is reported under the fiduciary funds. Since the resources of this fund are not available to support the City's own programs, it is not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information (RSI)

The required budgetary comparison statements for the major funds are presented separately and in the basic financial statements. An aggregated budgetary comparison statement for the non-major budgeted funds is also presented there. The city is not required to provide other information in the RSI and therefore, no information is presented there.

Combining Statements

The combining statements referred to earlier in connection with non-major governmental funds, non-major proprietary funds, internal service funds, and fiduciary funds are presented immediately following the Notes to the Financial Statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the first year that the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements - and Management's Discussion and Analysis (MD&A) - for State and Local Governments. Because this reporting model changes significantly both the recording and presentation of data, the City has not restated prior fiscal years for the purpose of providing comparative information for the MD&A. In future years when prior-year information is available a comparative analysis of government-wide data will be included in this report.

NET ASSETS
June 30, 2002 (in millions)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Assets:			
Current and other assets	\$ 476.3	\$ 246.9	\$ 723.2
Capital Assets	<u>691.6</u>	<u>1,120.1</u>	<u>1,811.7</u>
Total assets	<u>1,167.9</u>	<u>1,367.0</u>	<u>2,534.9</u>
Liabilities:			
Long-term liabilities outstanding	358.0	544.0	902.0
Other liabilities	<u>161.2</u>	<u>72.6</u>	<u>233.8</u>
Total liabilities	<u>519.2</u>	<u>616.6</u>	<u>1,135.8</u>
Net assets:			
Invested in capital assets, net of related debt	439.6	601.2	1,040.8
Restricted	174.8	75.0	249.8
Unrestricted	<u>34.3</u>	<u>74.2</u>	<u>108.5</u>
Total net assets	<u>\$ 648.7</u>	<u>\$ 750.4</u>	<u>\$ 1,399.1</u>

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by \$1.4 billion at the close of the year.

The largest portion of the City's net assets (74.4percent) reflects its investment of \$1.04 billion in capital assets (e.g. land, buildings, and equipment less any related outstanding debt used to acquire these assets). 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 resources needed to pay this debt must come from other sources, since the capital assets cannot be liquidated for these liabilities.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Net Assets, continued

At the end of the current fiscal year, the City has positive balances in all three categories of net assets for the government as a whole, as well as for both the government and business-type activities.

Analysis of Changes in Net Asset

CHANGE IN NET ASSETS
(in millions of dollars)

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
REVENUES			
Program revenues:			
Charges for services	\$ 62.7	\$ 236.7	\$ 299.4
Federal and State grants	52.9	46.5	99.4
General revenues:			
Gross receipts taxes	116.3	-	116.3
Property taxes	72.2	-	72.2
Other taxes	23.7	-	23.7
State shared taxes and fees	146.3	-	146.3
Grants, investment income, and other	28.8	4.5	33.3
Total revenues	<u>502.9</u>	<u>287.7</u>	<u>790.6</u>
EXPENSES			
General government	52.8	-	52.8
Public safety:			
Corrections and detention	35.5	-	35.5
Fire protection	46.0	-	46.0
Police protection	99.0	-	99.0
Cultural and recreation	64.8	-	64.8
Public works	12.0	-	12.0
Health	10.4	-	10.4
Human services	51.7	-	51.7
Housing	2.2	-	2.2
Highways and streets	27.1	-	27.1
Special assessments	15.9	-	15.9
Interest expense	16.8	-	16.8
Airport	-	60.5	60.5
Joint Water and Sewer	-	107.0	107.0
Refuse Disposal	-	35.8	35.8
Housing Authority	-	24.2	24.2
Golf Course	-	4.2	4.2
Parking	-	4.0	4.0
Transit	-	30.6	30.6
Total expenses	<u>434.2</u>	<u>266.3</u>	<u>700.5</u>
Excess (deficiency) before transfers	68.7	21.4	90.1
Transfers	<u>(21.2)</u>	<u>21.2</u>	<u>-</u>
Increase (decrease) in net assets	<u>\$ 47.5</u>	<u>\$ 42.6</u>	<u>\$ 90.1</u>

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Changes in Net Asset, continued

The City's overall net assets were increased by \$90.1 million during the current fiscal year. However, this does not include depreciation expense on infrastructure assets of governmental activities that have not been capitalized from fiscal years ending after June 30, 1980 through the fiscal year ended June 30, 2001. The increases in net assets are explained in the governmental and business-type activities discussion below.

Governmental activities. Governmental activities increased the City's net assets by \$47.5 million, thereby accounting for 64 percent of the total growth in the net assets of the City. Since the City has not restated the financial statements for fiscal year ended June 30, 2001 to conform those statements to the provisions of GASB 34, the comparability of expenses is not feasible at this time. The City will provide such an analysis of expenses in subsequent annual reports.

Also, since the City has not capitalized infrastructure assets acquired prior to this fiscal year, the change in net assets does not reflect depreciation expense on those assets. City staff estimates that the depreciation expense on roadways could exceed \$40 million. The inclusion of that depreciation expense plus the amount to be recorded for storm sewers and bike trails could result in a very small positive change in net assets or possibly result in a negative change in net assets.

A comparison of revenues with the prior year is provided below:

- Due to a weakened economy, the gross receipts tax revenue and state shared taxes were virtually unchanged from that of the prior year.
- The investment earnings were reduced from \$24.1 million in fiscal year ended June 30, 2001 to 10.4 million in the current year. The primary cause for this reduction was due to the weakened investment market experienced by virtually all governments.
- The intergovernmental revenues from sources other than state shared taxes was reduced for federal and state grants by \$9.8 million that is offset by a \$4.0 million increase from the County of Bernalillo in connection with the joint shared operations of the Bernalillo County Corrections and Detention facilities.
- Other revenues for the current year were virtually unchanged from the previous fiscal year.

Business-type activities. Business-type activities increased the City's net assets by \$42.6 million, accounting for 36 percent of the total growth in the net assets of the City. Key factors of this increase are as follows:

- The Airport fund had a negative change in net assets of \$1.6 million in fiscal year 2002 compared to a \$7.1 million increase in 2001. It incurred an additional \$6.5 million in expenses during fiscal year 2002 over that of fiscal year 2001. However, with an increase in rates, the fund was able to increase its operating revenues by \$2.8 million. The passenger facilities charges (PFC) were reduced from the prior year by \$1.5 million. Much of the increase in expenses and reduction in PFC charges was a result of the September 11, 2001 events. In addition, the weakened investment market rates resulted in reducing investment earnings by \$2.5 million.
- Due to increased rates for water and sewer services, the Joint Water and Sewer fund increased its operating revenues by \$6.0 million over fiscal year 2001. The expenses remained stable and did not materially change from the previous fiscal year. The reduction in investment earnings from fiscal year 2001 was approximately \$1.1 million while interest expense decreased by \$1.9 million. In addition, capital contributions from developers for the current year was \$15.0 million compared to \$12.2 million for fiscal year 2001. The net assets of the fund increased by \$31.4 million during the year compared to \$24.2 million for the previous fiscal year. For this comparison, the "change in net assets" for the previous year was restated for a change required by GASB 34 where capital contributions of \$12.2 million are reported as revenue instead of being reported as a direct increase to fund net assets.
- For the Refuse Disposal fund, the reported change in net assets of \$2.5 million was reduced from \$3.7 million in fiscal year 2001. The primary change was due to reduced investment earnings of approximately \$310 thousand, increased expenses of \$1.4 million, and an increase in transfer to the General Fund by \$546 thousand.
- The Transit fund accounted for most of the change in the non-major funds with an increase of \$4.6 million in the transfer (an operating subsidy) from the General Fund to \$27.1 million from \$22.5 million as reported for the previous fiscal year. In addition, capital contributions from the Federal government increased by \$2.2 million.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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FINANCIAL ANALYSIS OF THE CITY'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 near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Permanent Funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$283.6 million, an increase of \$32.8 million in comparison with the prior year. Approximately 71% of this amount, \$201.6 million, is unreserved fund balance available for spending at the government's discretion. Included in unreserved fund balance is \$122.4 million in the Capital Acquisition Fund. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed; 1) to fund continued programs or projects in future fiscal periods (\$16.1 million), 2) for acquisition and management of open space and urban enhancement (\$39.3 million), and 3) to show that fund balance representing advances to other funds (\$25.9 million) is not available for spending.

Revenues for governmental functions overall totaled approximately \$514.7 million in the fiscal year ended June 30, 2002, which represents a decrease of \$14.2 million from last year. The major causes for the decrease were 1) investment earnings were reduced by \$13.7 million due to lower market rates and a reduction in cash and investments during the year, and 2) intergovernmental revenues decreased by \$4.4 million caused by reduced revenues from federal and state grants of \$9.9 million that is offset by an increase in revenues of \$4.0 million from the County of Bernalillo in connection with the joint operations of the Corrections and Detentions facilities and from state shared taxes of \$1.2 million.

Expenditures, totaling \$560.1 million, of governmental functions decreased by \$48.7 million from the previous year total of \$608.8 million. The primary cause of the decrease was from reduced debt service requirement of \$19.3 million, from reduced capital outlay expenditures of \$30.9 million, and reduced expenditures of \$4.1 million for public works. The decrease was offset by increases in expenditures for Corrections and Detention of \$1.9 million, fire protection of \$3.6 million and police protection of \$1.0 million. These increases generally reflect an increased awareness for security and for emergencies resulting from the September 11, 2001 events.

General Fund.

This is the City's chief operating fund. At the end of the current fiscal year, the total fund balance was \$36.6 million while the unreserved fund balance was \$19.8 million. The reserved fund balance of \$16.8 million is set aside 1) for unanticipated expenditures (\$16.2 million equaling 5.0 percent of recurring revenues), and 2) to indicate that non-current financial resource assets of \$0.6 million are unavailable to spend or already are committed for spending. Included in the unreserved fund balance is \$17.8 million designated for future appropriations and \$0.1 million for unrealized gain on investments since the unrealized gains are not available until the underlying securities are sold. The net change in fund balance for the current fiscal year was a decrease of \$3.6 million.

The total revenues of \$308.6 million for the current fiscal year was \$0.2 million less than for the previous fiscal year. The decrease largely resulted from weakened investment market rates that caused interest revenues to be significantly lower by \$2.2 million. This was largely offset by an increase in taxes of \$0.9 million and a \$1.2 million increase in intergovernmental revenues.

The total expenditures of \$274.5 million represents an increase of \$1.0 million over the previous fiscal year. The expenditures for fire and police protection increased by \$5.2 million due to an increased emphasis for security and emergency responses while the expenditures for highways and streets and health functions increased by \$1.2 million. These increases were offset by reductions in expenditures from the previous fiscal year for general government (\$1.0 million), culture and recreation (\$1.3 million), public works (\$0.6 million) and human services (\$2.5 million). The reductions were necessary due to a weakened economy that resulted in lower revenues than anticipated. See the General Fund budgetary highlights for an analysis with respect to budgets.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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FINANCIAL ANALYSIS OF THE CITY'S FUNDS, continued

Proprietary funds

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

At the end of the fiscal year, the unrestricted net assets (in millions) were as follows:

• Airport Fund	\$10.6
• Joint Water and Sewer Fund	48.1
• Refuse Disposal Fund	5.2
• Housing Authority Fund	8.6
• Non-major enterprise funds	<u>1.6</u>
Total	<u>\$74.2</u>

Included in the non-major enterprise funds amount is the golf course fund with negative unrestricted net assets of \$10,692. The other non-major funds have positive unrestricted net assets.

Internal service funds which are used to account for certain governmental activities had deficit unrestricted net assets of \$8.5 million. The Risk Management fund, an internal service fund, had deficit unrestricted net assets of \$14.1 million resulting from unanticipated judgment awards and claims against the City. The City is currently in a five year recovery plan to reduce the deficit unrestricted net assets to zero by the fiscal year ended June 30, 2007. All other internal service funds had positive unrestricted net assets.

Fiduciary funds

The only fund in this category is the City's Trust and Agency fund. This fund is used by the City to account for funds held for third parties and does not have an equity caption since the net of assets and liabilities are always zero.

General Fund budgetary highlights

The City's final budget differs from the original budget as a change in administration occurred in December 2001, leading to an increased emphasis on public safety. This required an intra-year increase in appropriations in public safety of \$5.1 million.

This requirement for additional public safety resources and economic weakness resulting in reduced operating revenues necessitated a mid-year de-appropriations bill.

In addition to reducing departmental budgets, a partial hiring freeze was in place most of the year. Retirements were encouraged and positions were not filled. Expenses were watched very closely and new disciplinary procedures regarding budgetary responsibility were imposed. All of these actions resulted in actual expenditures being \$4.1 million less than the original budget and \$6.5 million less than the budget as approved mid-year. General government activities actually returned unused monies to the General Fund in the amount of \$0.6 million, based on the mid-year budget. City cultural activities reverted \$1.5 million from the adjusted budget. Public Safety actually reverted \$2.7 million from their budget that was increased mid-year. All General Fund agencies answered the call for budgetary responsibility by carefully monitoring their expenses and returning funds.

Revenues were very hard to predict over this fiscal year as the economy continued to weaken. Revenues were \$12.7 million less than anticipated in the original budget and \$10.1 million less than the budget as projected at mid-year. Gross receipts tax, a major component of the City's operating revenue came in \$5.7 million less than the revised budget estimate and \$8.7 million less than the original budget. Close to a million dollars in revenue was lost in interest earnings as interest rates fell and cash balances declined. Revenues were weaker than budgeted in indirect overhead and CIP funded positions as personnel positions were reduced and construction activity was less than originally anticipated.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2002, amounts to \$1.8 billion (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements other than buildings, and equipment. The total increase in the City's capital assets for the current fiscal year was \$74.6 million or 4.3 percent.

CAPITAL ASSETS
(net of depreciation, in millions of dollars)

	<u>Governmental</u>		<u>Business-type</u>		<u>Total</u>	
	Activities		Activities			
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Land *	\$ 202.8	\$ 198.9	\$ 79.0	\$ 66.7	\$ 281.8	\$ 265.6
Other *	-	-	0.6	0.6	0.6	0.6
Buildings and improvements	50.6	50.0	141.7	132.2	192.3	182.3
Runways and improvements	-	-	118.0	130.8	118.0	130.8
Improvements other than buildings and runways	123.9	129.0	676.1	676.1	799.9	805.1
Equipment	30.5	31.3	52.7	49.3	83.3	80.7
Infrastructure	35.0	-	-	-	35.0	-
Construction in progress *	<u>248.8</u>	<u>219.5</u>	<u>51.9</u>	<u>52.5</u>	<u>300.7</u>	<u>272.0</u>
Total	<u>\$ 691.6</u>	<u>\$ 628.7</u>	<u>\$ 1,120.1</u>	<u>\$ 1,108.4</u>	<u>\$ 1,811.7</u>	<u>\$ 1,737.1</u>

* assets not depreciated

Major capital asset events during the current fiscal year included the following:

- In the *governmental activities*; infrastructure assets of \$35.0 million was added for roadways, storm sewers and bike trails. In addition a police helicopter was purchased for \$1.5 million, land for the Petroglyph park was acquired for \$2.0 million, Explora Science Center was completed costing \$2.2 million, land was acquired for open space costing 1.0 million, and replacement vehicles were acquired for the police (\$1.7 million) and for the fire department (\$2.3 million). The construction work in progress increased by \$29.3 million as a result of a new baseball stadium (\$4.9 million), a new community center, the Balloon Fiesta Park facility development, a new police crime lab and other facilities.
- In the *business-type activities*; parking structures for \$14.0 million, a water treatment site (\$10.9 million) for purifying the San-Juan Chama river water for drinking, water and sewer lines (\$12.9 million), buses (\$9.2 million) for the transit system, and the renovation and improvement of the Sewer treatment plant were added to capital assets. The construction work in progress decreased by \$0.6 million.

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations of \$1.03 billion of which \$131.9 million is due within the next fiscal year. The total bonded debt (net of un-amortized discounts, deferred amount on refunding and including un-amortized premiums) is \$912.7 million. The remaining debt is for loans, accrued vacation and sick leave pay, and claims payable.

During the fiscal year ended June 30, 2002, the City issued \$92.4 million of general obligation bonds for various construction projects including a new baseball stadium, improvements to streets and storm sewers and \$72.6 million of revenue bonds for improvements to the joint water & sewer system and for refunding \$46.0 million of Airport improvement bonds.

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MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

Debt Administration, continued

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens, and investors. The State's Constitution provides for a legal debt limit of four percent of taxable valuation. The ratio for the City of Albuquerque is 1.91 percent of the \$7.4 billion taxable value of property within the City's area. The City currently may issue up to an additional \$184.0 million of general obligation bonds. It has \$112.9 million of general obligation debt outstanding subject to the legal debt limit at June 30, 2002. In addition, the net general bonded debt per capita is \$308.01. The highest per capita amount in the last ten fiscal years was \$498.80 in the fiscal year ended June 30, 1994. Since then the City has generally reduced the per capita amount to a low of \$252.67 in fiscal year ended June 30, 2001.

The City's rating on uninsured general obligation bonds as of June 30, 2002 were:

Moody's Investors Service, Inc.	Aa3
Standard & Poor's Ratings Service	AA
Fitch , Inc.	AA

Since the close of the 2002 fiscal year, the City has not issued any general obligation bonds for the governmental activities, nor any revenue bonds for the business-type activities. It has entered into a loan agreement with the New Mexico Finance Authority for \$6.0 million to provide additional financing for the construction of the new baseball stadium.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2003 budget. Inflation and population growth were considered. Many of the revenues are influenced by the economy. Other factors such as known changes in law are factored in as appropriate. The Gross Receipts tax revenue forecast is highly influenced by economic conditions; inflation and employment growth are key indicators of this.

Economic conditions are expected to rebound from the national recession, but construction employment in the area will decline with the completion of the Big-I interchange and Intel's \$2 billion expansion project.

Revenues from charges for entry into City venues are increased from population growth and in some cases increased charges.

Property taxes revenues continue to grow as the economy expands, and for the operating revenues, the State limits growth based on inflation.

Revenues from internal funds are limited by slow growth in the number of City workers and wages in other City funds.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES, continued

The following table presents the underlying assumptions used in the budget process:

TABLE A
ECONOMIC ASSUMPTIONS UNDERLYING THE REVENUE ESTIMATES
as of March 2002

Fiscal Year	2001	2002	2003
NATIONAL ECONOMY:			
% Chg Real GDP	3.8%	0.5%	2.5%
% Chg U.S. Personal Income	6.6%	3.2%	4.5%
% Chg Non-Agric Employment	1.4%	-0.5%	0.7%
U.S. Unemployment Rate	4.2%	5.5%	6.0%
% Chg CPI-U	3.4%	1.9%	2.4%
Federal Funds Rate	5.8%	2.3%	2.9%
Ave. Refiners' Acquisition Price Oil	\$ 27.19	\$ 19.82	\$ 21.21
NEW MEXICO ECONOMY:			
% Chg NM Personal Income	6.1%	5.1%	4.9%
% Chg NM Non-Agric Employment	2.2%	0.8%	1.2%
NM Unemployment Rate	4.7%	5.3%	5.8%
ALBUQUERQUE MSA ECONOMY:			
% Chg Albq Personal Income	5.5%	3.6%	4.3%
% Chg Albq Non-Agric Employ	2.6%	0.3%	1.0%
% Change in Albq Const Employ	10.4%	-3.7%	-7.4%
Albq Unemployment Rate	3.2%	4.3%	4.7%
City Housing Authorizations (Units)			
Single Family Residential	3,812	4,095	4,150
Multi-Family Residential	758	653	447

Source: March 2002 forecasts provided nationally by the WEFA Group and locally by University of New Mexico, Bureau of Business and Economic Research, Economic Forecasting Service

The total original General Fund appropriation was \$336.5 million before interfund eliminations and \$289.7 million after eliminations. The before elimination appropriation was an increase over the fiscal year 2002 budget by \$9.6 million or 2.9%.

The international, national, state and local economies have continued to struggle, and the City has revised its revenue estimates twice. The original budget anticipated revenues of \$339.2. In early October, revenue projections were reduced by \$11.1 million to reflect changing expectations. The General Fund budget was reduced by \$4.6 million. A hiring freeze continues, as does a partial spending freeze. A second de-appropriations bill is now pending before Council to reduce the budget yet again by \$3.3 million.

The revenue outlook has modestly improved since the first appropriation reduction bill. The latest estimates predict an additional \$2.1 million in General Fund revenue, for a total revised revenue shortfall of \$9 million (rather than \$11.1 million).

The City is continually monitoring the revenue and expenditure picture. In this uncertain economic climate, additional changes may be required and the City stands poised to react quickly.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Director's office for the Department of Finance and Administrative Services of the City at Director's Office, DFAS, room 7057, One Civic Plaza N.W., Albuquerque, New Mexico 87102.