



November 8, 1999

Honorable Mayor and City Council
City of Albuquerque, New Mexico

We are pleased to submit the Comprehensive Annual Financial Report of the City of Albuquerque, New Mexico, (City), for the fiscal year ended June 30, 1999. The report was prepared by the Finance and Administrative Services Department. The responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. As indicated by the opinion of our independent auditors, the report fairly presents the financial position and results of operations of the City as measured by the financial activity of its various funds and account groups. The report has been set forth in a manner that will give the reader a broad understanding of the City's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the City's financial activities.

The City's Comprehensive Annual Financial Report consists of five major sections: (1) the introductory section, of which this narrative is a part, (2) the financial section, which contains the financial statements of all funds of the City, (3) the statistical information section, which includes general information about the City and comparative data for prior fiscal years, (4) single audit information, which includes federal grant information as required by the Single Audit Act, and (5) State Compliance and Operational Findings. Included after the Schedule of Grant Activity are the related findings and recommendations by the City's independent auditors.

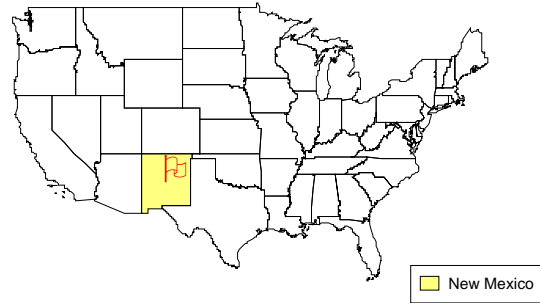
It is important to note that the report is designed in such a manner that the "general purpose financial statements" in Exhibits A-1 through A-6 and the Notes to the Financial Statements fully present and disclose the financial position and results of operations of all funds of the City. All other exhibits and schedules are presented to provide more detailed information, the totals of which correspond with data presented in the general purpose financial statements.

The Comprehensive Annual Financial Report (CAFR) of the City includes all government activities, organizations and functions for which the City is financially accountable. The criteria used to determine financial accountability are based upon and consistent with the pronouncements of the Governmental Accounting Standards Board, which sets criteria for defining the financial reporting entity. The City of Albuquerque is a major municipal government providing a full range of services to approximately 446,400 citizens. Included in these services are traditional city functions such as police and fire protection, culture and recreation, public works, road and traffic signal maintenance, water and sewer services, and refuse collection. In addition, the City operates parking facilities, a transit system, an international airport, corrections and detention facilities, and a housing authority. The City does not have any other relationships with organizations not included in this CAFR of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

ECONOMIC CONDITION AND OUTLOOK

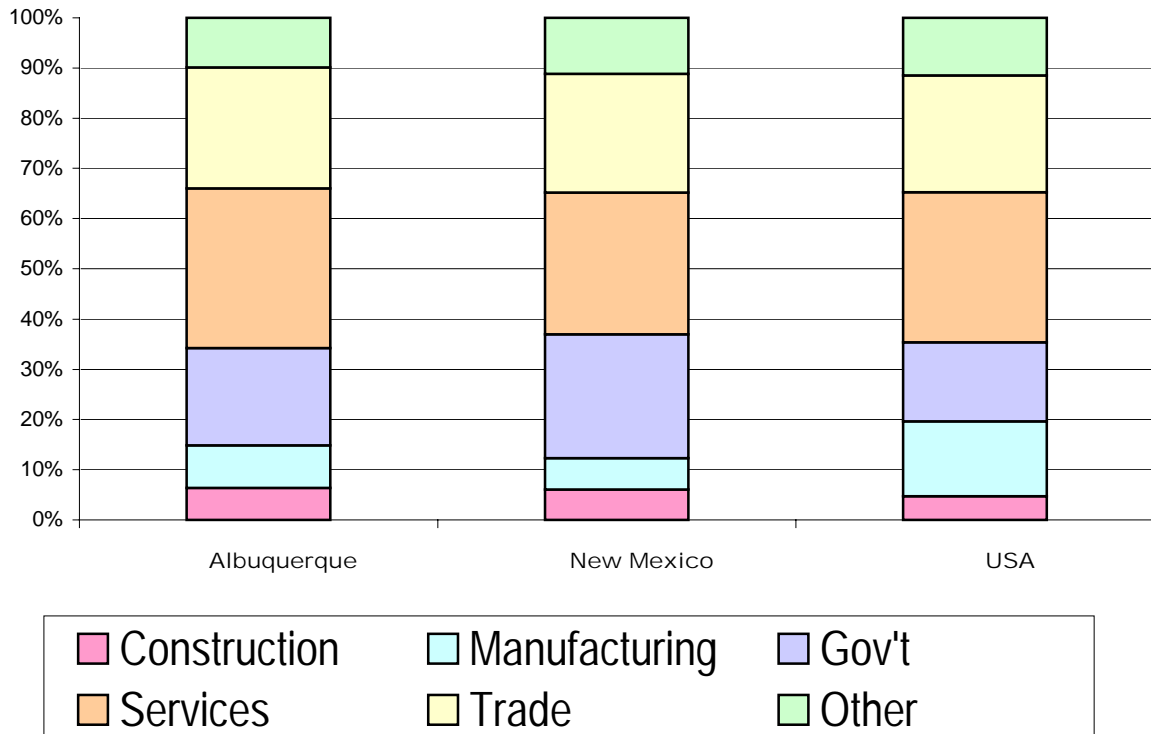
Summary of Local Economy

Albuquerque is the largest city in New Mexico, accounting for roughly one-quarter of the state's population. Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval and Valencia Counties. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.



The Albuquerque economy is strong and has a growing diversity. Strong broad-based growth was experienced in the 1990's. Annual growth in non-agricultural employment peaked at 6.1% in 1994 slowing to 2% in 1997. This trend has continued in Albuquerque as well as the rest of the State of New Mexico. Employment growth in 1998 and first half of 1999 was below 2%. The New Mexico Department of Labor (DOL) estimates that unemployment for the Albuquerque MSA for June 1999 was 4.9% up from 4.2% in June 1997. Personal income growth has followed a similar trend. As shown in the following chart Albuquerque has much the same employment composition as the U.S. as a whole. Manufacturing is smaller, but has held relatively stable as a share of employment, while its share has declined in the U.S.

SECTORAL COMPOSITION OF NON-AG EMPLOYMENT-1998



Although employment growth has slowed, Albuquerque continues to be an attractive place for business to locate and expand. Several customer service centers have expanded or recently opened creating thousands of jobs. Manufacturing jobs continue to form and Albuquerque has become one of the largest semiconductor regions in the U.S.

Major Industries

Services. The service sector is the largest source of employment in the MSA, accounting for 32% non-agricultural civilian employment in 1998. This sector has also has experienced strong growth. It is a diverse classification and includes jobs in medical services, hotels, amusement, movies, legal work, commercial research, business services engineering and architectural services. As a major regional medical center the medical service industry has several of the largest employers in the area. Business services are also an important subsector it includes the growing temporary employment agencies and many of the call centers and back office operations. To give some sense of the diversity of these operations, MCI Consumer Markets employs over 1,000 in their telemarketing operation; Citicorp employs some 700 at a credit processing center that is continuing to expand; America Online service center employs near 1,000; Baxter Healthcare employs 550 in a customer payment processing center; and Southwest Airlines, American Airlines (Trace Miller) and Radisson all have opened reservation centers. Gateway 2000 has completed a 50,000 square foot facility employing 240 that could ultimately employ 500 workers answering customer questions, and Nations Bank is proceeding with plans for a credit card service center to employ over 1,000 people. In Albuquerque proper, VoiceStream Wireless has received industrial revenue bond authority for a customer service and technical support center that could employ 500. The Labor Department has reclassified some of these jobs to be included in other sectors. For instance Citicorp and Norwest Bank centers are included in the Finance Insurance and Real Estate sector.

Albuquerque is a major regional medical center and the health services industry has been one of the fastest growing sectors. Growth in this sector has slowed dramatically in part due to changes and uncertainties regarding health care financing, Medicare, and announced cutbacks at local medical centers.

Also included are Sandia National Labs and many of the high-tech research companies associated with the labs. Recently, a Sandia Research Park opened with its first occupant EMCORE breaking ground on a plant that will provide research facilities and manufacture of solar cells for satellites.

Trade (retail and wholesale). The trade sector is a strong catalyst for growth in the area. Many major national chains have expanded in the area and general growth and low interest has helped fuel consumer spending. The completion of Cottonwood Mall and other retail space does bring with it a concern that retail has been overbuilt in the area.

All sectors in the Albuquerque economy except the military have added jobs since 1993, but the most dramatic increases in employment have been in manufacturing, services, retail, and construction. Some of the growth in the 1990's was in areas that help diversify the economy and lay a sound foundation for the future, but there are also new vulnerabilities. Since 1994, each of the key sectors has experienced slower or negative growth.

Non Agricultural Employment in the Albuquerque MSA(000's)

Category	1998 Employment	Share of 1998 Employment	Growth 1998	Estimated Growth 1999	Avg. Growth 1993-98	Estimated Annual Growth 1999-2001
Total Non-Agricultural	338.58		1.6%	1.6%	3.3%	1.8%
Trade	81.82	24.2%	1.3%	0.7%	4.1%	1.4%
Services	107.59	31.8%	2.7%	3.2%	5.0%	2.1%
Government	65.64	19.4%	2.3%	0.9%	2.9%	1.5%
Manufacturing	28.68	8.5%	-2.2%	-2.2%	2.1%	2.2%
Construction	21.57	6.4%	-1.3%	0.6%	5.3%	1.8%
TCU	16.23	4.8%	4.7%	5.0%	5.9%	1.8%
FIRE	16.95	5.0%	0.9%	3.0%	2.3%	2.5%

Source: BBER, August 1999 FOR-UNM Forecast

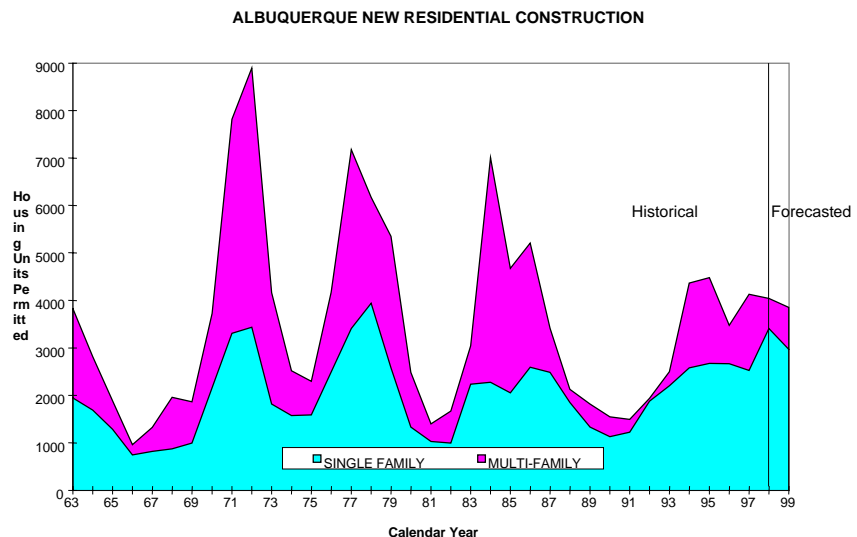
Manufacturing. Albuquerque's small manufacturing sector accounts for about 9% of total non-agricultural employment and is one of the area's most dynamic sectors. Investments by Intel and other high tech firms have helped to create a critical mass of activity in Albuquerque that has attracted interest by other firms; competitors, suppliers, and customers. Among those attracted is Sumitomo, a producer of the silicon wafers used in the manufacture of computer chips. Sumitomo recently received approval for \$265 million in industrial revenues bond authority to expand its local plant. Silmax Corporation began recycling silicon wafers at its Albuquerque plant in 1995. Tri-Gas, which produces gases used by semi-conductor and other industries, has expanded its local operations. Control Systems, in Rio Rancho, makes

equipment for computer chip manufacturers. Also present in the Albuquerque MSA are firms specialized in various aspects of clean-room technology. At the other end of the production process, Albuquerque Economic Development reports interest, in locating to Albuquerque, by software manufacturers.

Unfortunately, the critical mass of electronics activity has created new vulnerabilities. The financial problems in Asia have hit the local Albuquerque semiconductor industry. Intel, Philips and Motorola faced some reductions in labor force. Sumitomo's planned expansion has been put off until the end of 1999. Also, Levi Strauss closed its New Mexico plants laying off about 500 workers in the Albuquerque area. Employment growth in the manufacturing sector shows this trend. Employment growth has slowed from a high of 7.9% in 1993 to an actual decline of 2.2% in 1998; the first half of 1999 has not fared better. Even so, new manufacturers coming on line and adding employment offset many of these losses. Allied Signal has received an Industrial Revenue Bond to refurbish the old Levi Strauss plant and build small gas turbine generators. This is in light of planned investments by Karsten and Cavco (two manufactured housing firms), CVI Laser, Trend Plastics, MCT Industries, and Insight Lighting.

Construction. The construction sector is a source of growth and volatility in the Albuquerque economy. Growth in employment and in gross receipts in construction tends to be quite cyclical. This is exemplified in the residential building market.

Lower mortgage rates continue to help hold up single-family housing starts. Single-family housing permitted within the City slowed in 1996, but has been strong since. 1999 is on pace to outdistance 1998, one of the best years on record. New multi-family construction did well in the second half of 1997—1600 units permitted for the year—but there has been little permitted since. Vacancy rates for apartments have increased above 10% and it appears that many of the new homes are being sold to former apartment dwellers. Low interest rates and the construction of more affordable housing have helped this trend. As interest rates increase BBER expects that new single-family units will slow from about 3800 in 1999 to 2700 units in 2000 and 2300 in 2001. New multi-family construction will continue to be slow and BBER forecasts that the remainder of 1999 through 2001 will be only 500 to 700 units per year.



There are some major public projects: the Albuquerque Sunport master plan has some major reconstruction planned; the County courthouse and new jail are progressing; and the Metropolitan Court is planning to build a new courthouse. The retail market has shown surprising strength with Albuquerque attracting investments by national chains. Despite concerns that Albuquerque is over built in retail, CB Commercial figures indicate that vacancy rates for retail properties in the metropolitan area averaged just over 8% at year-end. In the office area, the situation is in marked contrast to that of the late 1980's. Including sublease space, the overall vacancy rate for office buildings at the end of 1997 stood at 12%. There has been basically no speculative office construction. Almost everything is build-to-suit. Some of the office vacancies are actually occasioned by new entrants (e.g., back-office operations) who decide to build a permanent facility to house their expanding Albuquerque operations. A bright spot occurs in non-building construction; the federal government has increased road funding in New Mexico dramatically—48% to \$258 million annually. A major (nearly \$200 million) two-year effort to improve the Interstate system through Albuquerque is scheduled to begin in early 2000. The City's passage of the quarter cent transportation tax will provide about \$24 million per year for 10 years in street renovations, transit operations and bike pedestrian trails.

Government. The total number of government employees in the Albuquerque MSA increased by almost 9,000 between 1991 and 1997. The gain was all at the state and local level. Federal government has been something of a drag on the Albuquerque economy since the late 1980's. Military employment has declined in every year since 1989, and there have been reductions in federal government employment in each year since 1993. Reductions in federal military spending have

been responsible for losses in employment at General Electric, Honeywell Defense Avionics, and BDM. Employment at Sandia National Laboratories, which is operated by Lockheed Martin, was relatively stable until recently, but total reductions in employment at Sandia – regular and contract employees – since 1994, total 1700. Sandia National Laboratory currently has a workforce of 6,600 people. Funding from the federal government for the nuclear weapons program and nuclear surety now seem relatively secure as Sandia assumes new roles in a post-Cold War period involving nuclear non-proliferation, arms control, and stockpile maintenance. Sandia is also more aggressive in its pursuit of technology transfer and is embarking upon a new technology park to house private sector businesses with which the lab is collaborating.

Kirtland AFB, with its diverse operations, has done relatively well in the waves of base consolidations and closures. The realignment proposed by the Air Force in 1995 was subsequently withdrawn after the true costs were calculated. Recently, Phillips Laboratory was reorganized and became part of the Air Force Research Laboratory, headquartered out of Wright Patterson Air Force Base in Ohio. The reorganization means a loss of some 200 positions at Kirtland. The positions lost are command positions and not research positions, so important to the local economy in the incomes paid and the contracts let. Offsetting the losses at Phillips, Kirtland AFB is slated to gain a new flight simulator center. The new Theater Air Command and Control Simulation Facility is expected to result in more than 200 new full time jobs and many more part-time jobs. Kirtland will also gain some 73 new military positions in the 58th special Operations Wing. The National Guard Armory in near-by Rio Rancho is slated to get a \$300 million Patriot Missile unit in the near future.

Future Economic Outlook

Growth has recently slowed, and the BBER expects much of the same for 1999 and 2000. Employment growth in 2000 is expected to be near the 1999 growth of approximately 1.6%. They expect to increase to 2.1% in 2001. This growth will be led by increases in the service, retail and manufacturing sectors. The forecast of moderate growth for the Albuquerque MSA in 1999 and 2000 is subject to upside risk, but the downside risks come from many directions: the possibility of a national recession; further adverse impacts from the Asia financial problems; a prolonged slump in tourism; and inadequate wage growth. On the upside, Albuquerque has evidenced activity over the past few years and has attracted considerable national attention as a city on the move and as a desirable place not only to visit but also to live and do business. Once heavily dependent on defense, the metropolitan area economy has expanded and diversified. Significant investments by producers of semi-conductors and other high technology firms have helped to create the critical mass necessary to attracting further investments by suppliers, customers, and other producers.

DEPARTMENT EFFORTS AND ACCOMPLISHMENTS

Each year, the City selects a department to highlight its efforts and accomplishments. In 1999, it is our pleasure to highlight the City's Environmental Health Department. The Albuquerque Environmental Health Department is over forty years old, having been formed in the 1950s to address the public health and environmental needs of a growing community. The Department began with basic sanitation and food inspection programs throughout the City and County, and has grown over the years to include a comprehensive array of environmental services, provided by a staff of over 150 people in six locations throughout the City.

The Department's mission is to protect the environment and the public health through the core public health functions of assessment, policy development, and assurance - that is, by determining the environmental and public health problems of the community, developing and seeking adoption of effective programs and policies, and assuring these services reach the intended populations with the intended outcomes. To insure it fulfills these functions, the Department conducts data collection and analysis, on-site evaluation of facilities, applied field research, public outreach and education, and technical assistance to the business community. Some of its public health programs include air quality, groundwater monitoring, landfill remediation, hazardous waste management, integrated vector management, food and swimming pool protection, noise control, body art business inspection, plan review, auto emissions inspection, remote sensing and oxygenated fuels, and animal services. Field programs are strengthened by a program support division that provides epidemiological, environmental education, fiscal, and clerical services.



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As a long-term goal, the Environmental Health Department seeks the sustainability of a community in which both current and future citizens have a sufficient standard of living, good jobs, a sense of belonging and place, and a healthy environment. The Department recognizes that reaching such a goal requires interdependent thinking and action, and that environmental goals must be linked with economic and social goals in order to make progress towards sustainability. To that end, the Department has begun internal initiatives to provide staff development and communication support necessary to be effective advocates for sustainability. The Department also participates as one of the key departments in Mayor Baca's Quality Growth Council, a team of departments including Public Works, Planning, Environmental Health, Transit, Economic Development and others which meets regularly with the Mayor's top staff to implement coordinated policy on growth management. The City also has an active Indicators Progress Commission that recommends and tracks progress on indicators of community-wide sustainability.

The Environmental Health Department collects and analyzes data about the state of our environment through County-wide air monitoring stations and a system of regional groundwater monitoring wells, as well as through plotting requests for mosquito spraying, the neighborhood location of animal bites, food borne illness outbreaks, noise complaints, and other environmental data on the Albuquerque Geographical Information System (AGIS), a powerful tool which allows spatial analysis of data and presents a visual picture of patterns of environmental problems and illnesses. The Department utilizes AGIS to plan mosquito prevention activities, assess distribution of environmental sites, and target Department resources more effectively to areas of greatest need.

Several years ago, the Department conducted an environmental equity study in conjunction with the University of New Mexico Department of Economics to look at the distribution of environmental sites in the Metro area along with population demographics. The study found that areas close to major transportation corridors and with low voter participation rates were more likely to have certain types of environmental sites. The Department is following up this study by incorporating health status data into the AGIS to examine possible correlations between environmental sites and community health outcomes.

One area of particular concern is the health of children in our community. The Department is undertaking a study of asthma rates throughout the County, utilizing the AGIS to determine whether patterns of children's asthma exist in certain areas of the County and working with other health agencies to design the most effective intervention strategies. In addition, with funds provided by the US EPA and with additional support from Department staff, the Department is sponsoring a "Kids at Risk" pilot project in conjunction with the American Lung Association of New Mexico and the Sawmill community, to train community volunteers to conduct indoor environmental assessments and to identify improvements that homes, day care centers, and schools can make to reduce environmental threats to children.

A Sustainable Business Initiative is currently under development by Department staff. This initiative will establish a partnership with the business community to identify best management practices leading to zero emissions and elimination

of unnecessary production and regulatory costs through implementation of system-wide pollution prevention. In cooperation with the New Mexico Green Zia Pollution Prevention Program, the Department will provide support and recognition to those companies undertaking this business and environmental quality improvement program.

The Department has made great improvements in its Animal Services programs. Beginning this year, all animals will be micro chipped and spayed or neutered before they are adopted, insuring a speedy return to their family if they become lost, and helping to solve the area's animal overpopulation problem. The Department has recently rebuilt its animal shelters to provide a more humane environment, and staff work with a community Animal Advisory Committee to raise the standard of humane animal care in our community.

The Department operates an integrated vector management laboratory and field station, where the entomologist and staff raise *Gambusia minnows* (mosquito-eating fish) to be distributed free of charge to the public to help with larval control; conduct pesticide resistance studies to improve vector management and reduce unnecessary use of chemicals; employ the latest research data on natural vector controls to minimize pesticide use and increase effectiveness of mosquito control efforts; and process trapped rodents and fleas for plague analysis by the Centers for Disease Control.

Our community has recently been re-designated from non-attainment to maintenance of attainment for air quality, but because air pollution levels remain close to federal standards, the Department actively advocates for infill, mixed use land development to promote transit and pedestrianism, regional cooperation on air quality programs, and a multi-modal transportation system to reduce vehicle miles traveled.

The Department operates a vehicle emissions re-test station, offering free re-tests to vehicles that have undergone a tune-up after failing an emissions test. The Vehicle Management Division also operates two Remote Sensing Units, which have the ability to analyze the emissions of specific vehicles in traffic and take a picture of the vehicle's license plate, to allow the Department to identify gross polluting vehicles within and outside of the County. The Division analyzes samples of fuel sold during the winter months for oxygen content to assure compliance with the County-wide air improvement strategy.

The following activities illustrate the broad spectrum of environmental and public health services provided to the public, as well as indicating the level of public support and demand for environmental and public health protection. In the past year, the Department:

- Provided daily pollen counts to the general public and medical community.
- Responded to over 150 complaints related to indoor air quality issues.
- Expanded its Animal Services volunteer program, recruiting and training nearly 50 volunteers who provided adoption-counseling services to individuals looking for a new pet. Additionally, a pilot program with Youth Offenders Services was implemented which offers mentorship opportunities to troubled youth by teaching them to train dogs who are in need of new homes.
- Lowered the risk of exposure to pesticides for chemically sensitive residents and increased the efficiency and productivity of biological control efforts, pesticide resistance testing, and mosquito surveillance by using the Geographic Information System.
- Expanded the Household Hazardous Waste Collection Center to provide neighborhood collection sites in all quadrants of the City.
- Established a Materials Reuse Center, where discarded but still usable household products are available to the public free of charge, saving the cost of their disposal as a hazardous waste.
- Performed weekly monitoring to ensure the safety of communities around a former landfill from explosive gases.
- Implemented the newly enacted Body Art Ordinance to protect the public from disease and injury associated with improper body art practices.
- Conducted a record 263 undercover audits of Air Care Stations to discourage consumer fraud.
- Established the Supplementary Environmental Program, which takes monetary penalties from air quality violators and puts it back into community projects.

- Devoted over six thousand hours responding to citizen noise complaints, and reviewed proposed developments to prevent noise conflicts in future land uses.
- Plotted the human plague positive cases from 1960 through the present against the orthographic images of the east side of the Sandias, and analyzed the areas of new housing overlaid with canyons and arroyos in order to predict (see Figure 1) where new plague cases would be most likely to occur. This will also help determine where public outreach on plague prevention would be most effective.

BERNALILLO COUNTY HUMAN PLAGUE CASES, 1960-1999

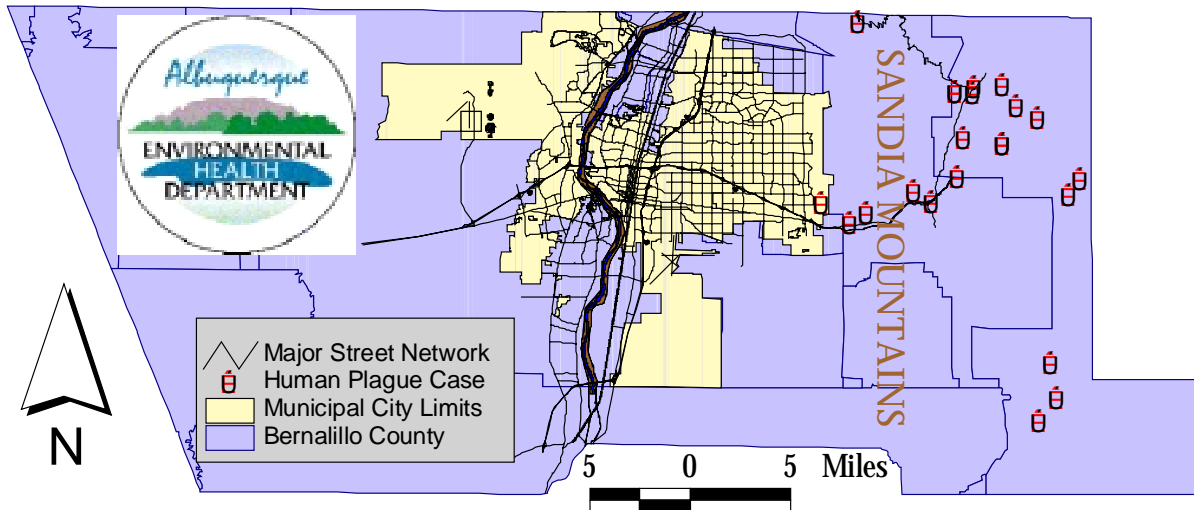


Figure 1

The Department adopted the following vision statement in 1997:

“Albuquerque is a special place. Its rivers, volcanoes, lofty mountains, visibility, blue skies and sunsets, its sunshine, diverse people and hospitality are unparalleled.

Our challenge as a community is to sustain the very environment that attracts more and more people to live here, and to protect the health of all of our residents and visitors. The Albuquerque Environmental Health Department has a special role and ability to address this challenge because of the combination of its talented people, its environmental expertise and commitment to the environment, and its dedication to excellence. Our employees care about the community because they live in it.

As employees, we are united by our sense of purpose, and committed to creating an internal environment of mutual trust in which employees are involved, appreciated, and respected, and which creativity, teamwork, satisfaction and enjoyment can flourish. Before citizens can act, they must understand their personal relationship to the environment and the importance of their individual actions. Once a community understands this relationship, it can act individually and collectively to preserve its environment through daily choices. Therefore, we are committed to communicating with and educating our corporate and neighborhood citizens and to fostering partnerships so that environmentally sensitive decisions become commonplace.

To this vision of a committed community partnership, and to our unique environment and the public’s health, we dedicate our time, our enthusiasm, and our resources.”

Environmental Health Department continues to preserve our environment for the present and for future generations to come.

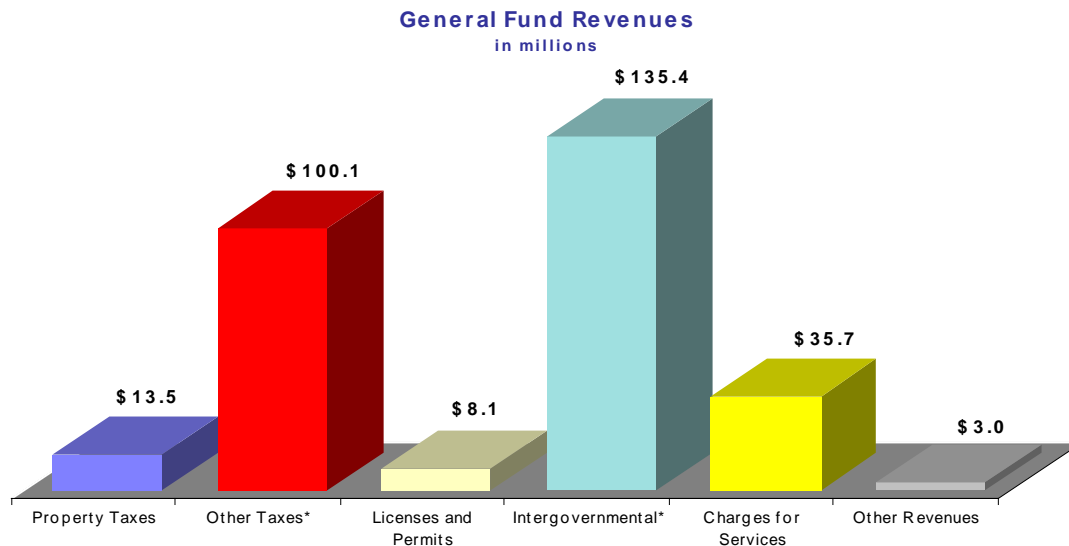
FINANCIAL INFORMATION

Internal control structure. The Finance and Administrative Services Department is responsible for providing financial services for the City including financial accounting and reporting, payroll and accounts payable disbursement functions, cash and investment management, debt management, purchasing, computer information systems, property management and risk management.

City management is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the government are protected from loss, theft or misuse and to ensure adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Accounting principles for municipalities are embodied in pronouncements of the Governmental Accounting Standards Board. The Financial Accounting Standards Board, the American Institute of Certified Public Accountants and the Government Finance Officers Association also impact and influence current governmental accounting standards. The internal control structure is designed to provide reasonable, but not absolute assurance that control objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived while the establishment of an appropriate internal control structure requires estimates and judgments from management. All internal control evaluations occur within the above framework. We believe that the City's current internal control structure adequately safeguards assets and provides reasonable assurance of proper recording of financial transactions.

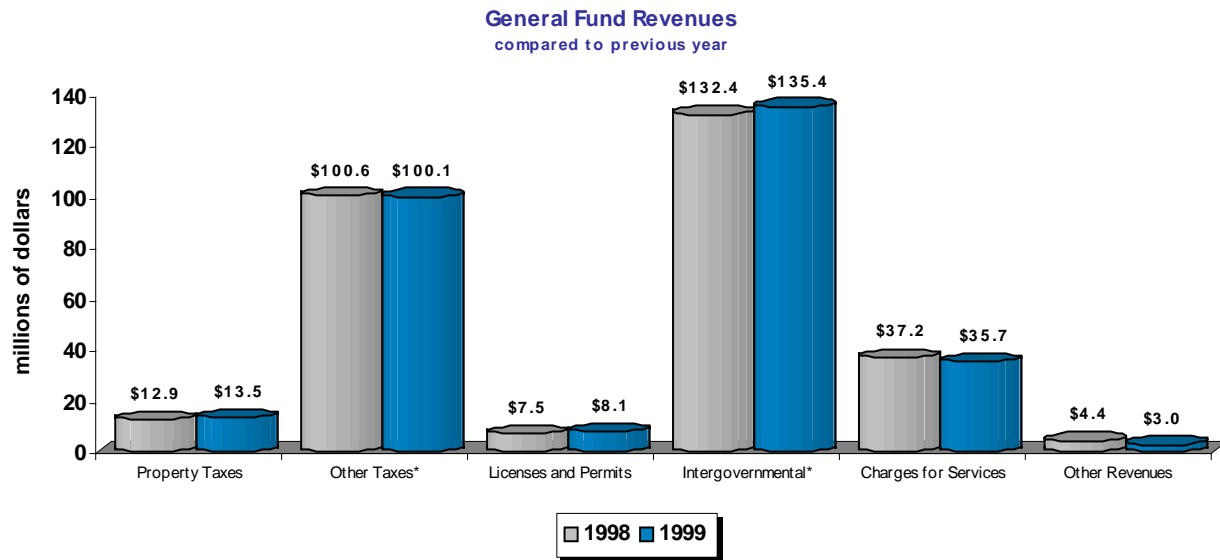
Budgetary controls. The development and approval of the annual budget is the beginning of the financial transaction process. After approval of the budget by City Council, budgetary control is maintained by a formal appropriation and encumbrance system. The appropriated amounts reflected in the accompanying financial statements represent departmental budgets by program; it is this level at which expenditures may not exceed appropriations. Encumbrances, which represent commitments for the purchase of goods or services, are shown as a reservation of fund balance in the governmental funds. Certain encumbrances will be reappropriated in fiscal year 2000 for programs that had adequate reversions for the year ended June 30, 1999.

General government functions. General government operations are accounted for in the General Fund. Total General Fund revenues for fiscal year 1999 were \$296 million, an increase of 0.3% or \$1.0 million from 1998. The decrease of \$1.4 million in the Other Revenues category is primarily due to a reduction in interest revenues. Approximately \$600 thousand of this decrease was due to the insurance program being moved out of the General Fund in 1999, while another \$400 thousand is due to GASB #31 which requires that investments be presented at market value with the effective change from prior fiscal year reflected through interest income.



* Includes gross receipts taxes of \$206.6 million or 69.5% of total revenues.

The amount of City revenue from various sources and the changes from the previous year are shown below.



* Includes gross receipts taxes of \$206.6 million or 69.5% of total revenues.

Taxable property valuations were \$5.7 billion in 1999, a \$187 million increase from the previous year. Current property tax collections were 93.19% of the levy, compared to 92.60% in the prior year. Except for 1987 and 1989, current tax collections for the past decade have consistently exceeded 90% of the levy. The ratio of total collections (current and delinquent) to the current tax levy in 1999 was 100.03% compared to 97.05% in 1998. Allocation of the property tax for 1999 and the preceding two fiscal years is based on the following mill levy:

<u>Purpose</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>
Operational mill levy:			
Residential	2.279	2.228	2.179
Non-residential	2.482	2.544	2.544
Debt service levy	8.976	8.976	8.976

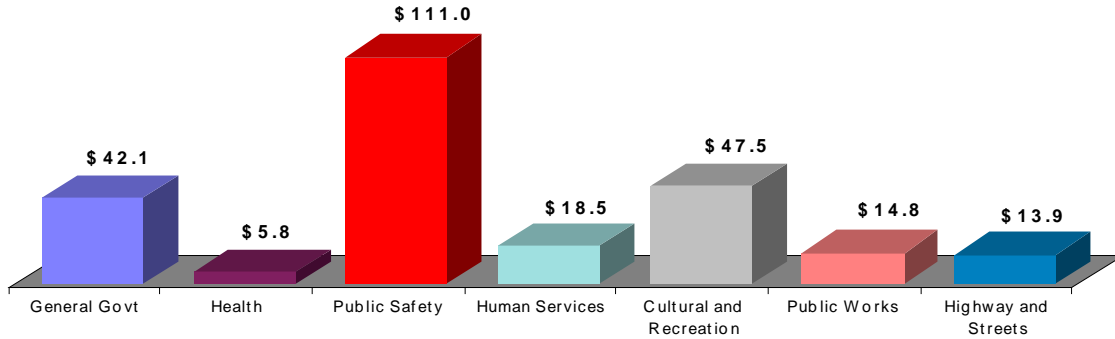
The gross receipts tax rate on receipts within the City was 5.8125% at June 30, 1999. The breakdown and sources of the gross receipts tax rate are as follows:

	<u>Tax Rate</u>	<u>Percent of Total Rate</u>
State General Fund	3.2750%	56.34%
Bernalillo County distribution	.2500	4.30
Municipal distribution - State shared	1.0000	17.20
Municipal distribution - in lieu of previous		
.25% municipal tax - State shared	.2250	3.87
City of Albuquerque general purpose	.5000	8.60
City of Albuquerque basic services	.2500	4.30
City of Albuquerque open space	.2500	4.30
Municipal infrastructure gross receipts tax	<u>.0625</u>	<u>1.08</u>
	5.8125%	100.00%

Additional information about revenues, tax rates, and levies is presented in the statistical section of this report.

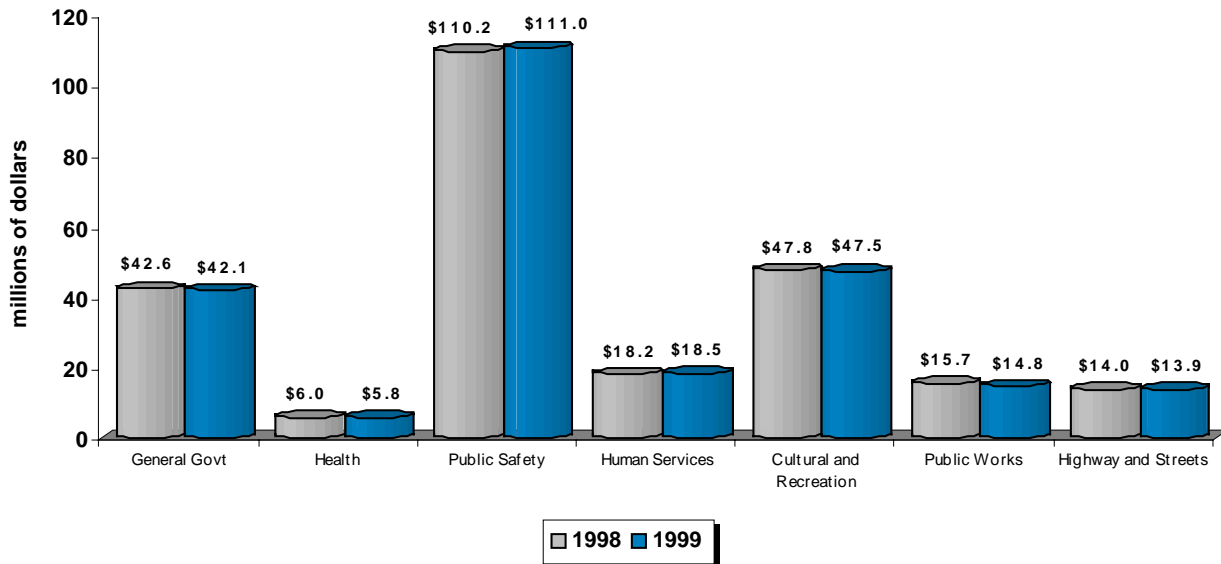
General Fund expenditures totaled \$254 million, a decrease of \$1.0 or 0.4% less than 1998. General Fund expenditures for major functions of the City and the changes from the previous year are shown in the following two charts.

General Fund Expenditures
in millions



As noted above, General Fund expenditures remained relatively the same in 1999.

General Fund Expenditures
compared to previous year



The changes in fund equity for the General Fund for the year ended June 30, 1999, were as follows (in thousands of dollars):

Fund equity, July 1,	\$ 44,695
Revenues	295,872
Operating transfers in	1,371
Expenditures	(253,693)
Operating transfers out	<u>(44,148)</u>
Fund equity, June 30	<u>\$ 44,097</u>

Fund equity (in thousands of dollars) of the General Fund at June 30, 1999, consisted of the following:

Reservations of fund balance:	
Reserved for operations	\$ 14,686
Reserved for encumbrances	4,352
Other reservations	438
Unreserved fund balance	24,666
Residual equity transfer	<u>(45)</u>
Total fund equity	<u>\$ 44,097</u>

Enterprise operations. The City operates six enterprises to provide services to its citizens: an international airport, a joint water and sewer system, parking facilities, refuse collection and disposal, a transit system, and golf courses. The following is a summary of the operations of these enterprises during 1999.

Airport Fund. Operating revenues of the Airport Fund totaled \$42.8 million for 1999, compared to \$42.4 million in the previous year, an increase of 1.0%. Operating expenses, including \$21.3 million of depreciation, were \$37.3 million. Operating expenses before depreciation and amortization increased by 8.6% from 1998. After consideration of non-operating revenues and expenses, the Airport had a net income of \$2.4 million compared to a net income of \$3.5 million in 1998. The decrease was primarily due to higher general operating expenses of \$1.8 million.

Golf Course Fund. Revenues of the Golf Course Fund were \$3.8 million, a 4.1% increase from the prior year. Operating expenses, including depreciation of \$371 thousand, were \$3.6 million, an increase of 3.6%. The operating income for 1999 was \$134 thousand; net income was \$240 thousand, a decrease from \$205 thousand in 1998.

Joint Water And Sewer Fund. Operating revenues for the year ended June 30, 1999 totaled \$99.0 million, an increase of 11.3% over 1998. Operating expenses for 1999, including depreciation and amortization of \$42.5 million, were \$98.2 million, an increase of 4.6%. Operating expenses before depreciation and amortization increased by 4.8%. The operating income for 1999 was \$778 thousand, compared to an operating loss of \$4.9 million in 1998. The fund experienced a net loss of \$3.5 million compared to a net loss of \$9.2 million in 1998. The reduction in the net loss is primarily due to the increase in revenues in 1999 of \$10.0 million. The higher revenues were a result of a rate increase during the year and a reduction in rainfall in 1999.

Parking Facilities Fund. The operating loss of the Parking Facilities Fund was \$74 thousand in 1999 compared to an operating loss of \$291 thousand in 1998. The fund incurred a net gain of \$925 thousand in 1999 compared to a net gain of \$373 thousand in 1998. This increase was primarily due to a \$214 thousand decrease in interest expense and a \$192 thousand increase in revenue.

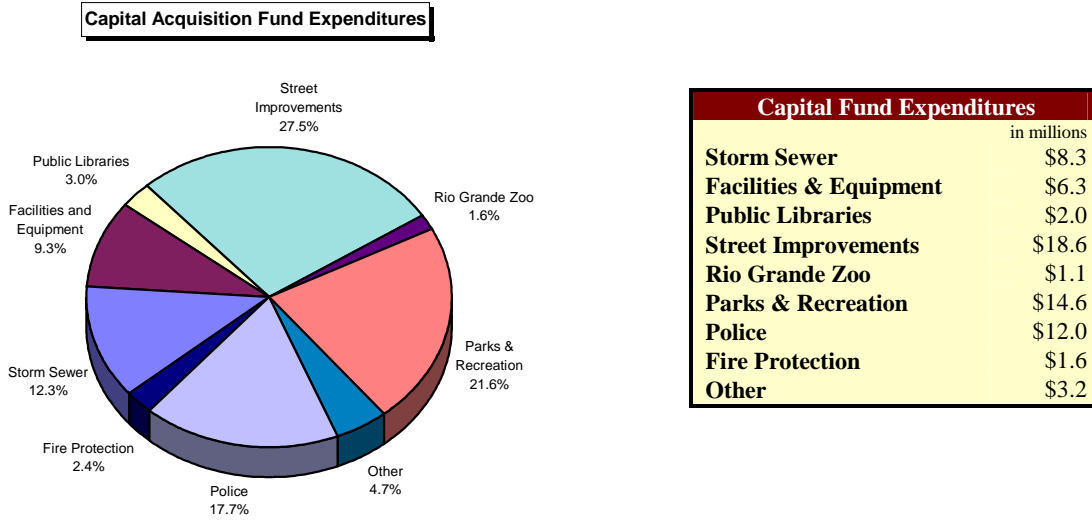
Refuse Disposal Fund. Operating revenues of the Refuse Disposal Fund increased by \$2.0 million in 1999 to \$33.4 million, an increase of 6.5%. Operating expenses increased by \$890 thousand to \$31.1 million. Operating expenses included depreciation and amortization of \$4.3 million for 1999 and \$3.8 million for 1998. Operating income for 1999 was \$2.3 million, an increase of \$1.1 million from 1998. Net income increased to \$1.4 million in 1999, after a net income of \$36 thousand in 1998 primarily due to increased revenues and lower interest expense.

Transit Fund. The operating revenues of the Transit Fund decreased by \$448 thousand to \$2.6 million, while operating expenses increased by \$1.0 million to \$23.5 million. The resulting increase in the loss from operations was \$1.5 million, to \$21.0 million. Operating subsidy transfers from the General Fund for 1999 were \$16.1 million, the same as in 1998. The net loss for the year was \$3.5 million compared to \$2.3 million the prior year.

Debt administration. The ratio of general obligation net bonded debt (net of balances set aside for debt service) to the taxable valuation and the amount of bonded debt per capita are useful indicators of the debt position of the City. At June 30, 1999, the net general bonded debt of the City was \$140.7 million, 2.49% of the taxable valuation as compared to 2.95% at June 30, 1998. The net bonded taxable debt per capita was \$315.21 at June 30, 1999 compared to \$384.75 for the prior year.

The outstanding general obligation debt at June 30, 1999 was \$190.8 million. During fiscal year 1999, the City issued \$21.6 million of general obligation bonds. The general obligation bonds of the City continue to have excellent ratings of "Aa3" by Moody's Investors Service, "AA" by Standard & Poor's and "AA" by Fitch Investor Service.

Capital projects funds. During 1999, total expenditures for the Capital Acquisition Fund were \$67.7 million compared to \$82.6 million in the prior year. These expenditures were for the purposes shown below.



Capital Fund Expenditures	
	in millions
Storm Sewer	\$8.3
Facilities & Equipment	\$6.3
Public Libraries	\$2.0
Street Improvements	\$18.6
Rio Grande Zoo	\$1.1
Parks & Recreation	\$14.6
Police	\$12.0
Fire Protection	\$1.6
Other	\$3.2

Cash management. Pursuant to the Fiscal Agent Ordinance of the City, a pooled cash investment program was in place, and cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. It is the City's policy to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. Investments and deposits in the City's common investment pool totaled \$509.1 million at June 30, 1999. Of this amount, \$89.0 million was invested in repurchase agreements and \$420.1 million in securities of the Federal government and its related agencies and certificates of deposit.

The City's portfolio average life at June 30, 1999 was 682 days. The average yield on the investment portfolio was 5.54% at the end of June 1999 and 5.73% at the end of June 1998. Interest earned totaled \$24.5 million during the fiscal year. Cash, investments, and accrued interest balances (pooled and non-pooled) at the end of the year for the last five years are as follows:

1999	\$421,801,503
1998	\$397,759,130
1997	\$390,531,617
1996	\$470,354,797
1995	\$457,302,573

Risk management. The City operates its Risk Management program as an Internal Service Fund; accountability and managerial control over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques. "Insurance premiums" are received from the operating departments in the form of transfers. The added risk control and prevention techniques include employee accident prevention training and a wellness program.

The transfers to the Risk Management fund from the operating (insured) departments were \$12.6 million compared to transfers in the prior year of \$13.1 million. Claim reserves (current and long-term) as of June 30, 1999 were \$30.8 million, a decrease from \$36.2 million from the previous year. The Fund experienced a net loss of \$2.7 million in 1999, a decrease from the net loss of \$10.2 million in 1998.

The deficit fund equity increased to \$2.8 million at June 30, 1999 from the \$91 thousand deficit fund equity at June 30, 1998. The increase in deficit equity was primarily due to a reversal of a prior decision by the New Mexico Supreme Court regarding the validity of a claim challenging the former cap of tort claim damages. This \$6.2 million loss was recognized in fiscal year 1998 after the adoption of the fiscal year 1999 budget which did not include the effect of that loss in adopting the premium rates charged to other City funds. Due to a more favorable loss experience than projected for fiscal year 1999, the projected deficit of \$4.2 million deficit fund equity was reduced to \$2.7 million. The City expects to eliminate this deficit by June 30, 2001 by increasing the annual assessment to all operating funds and through an improved loss experience that the City expects to achieve.

OTHER INFORMATION

Year 2000 Issues. In 1996, the City of Albuquerque initiated a concentrated effort in planning and upgrading the central financial systems applications. After the initial assessment of the Year 2000 (Y2K) requirements a budget request was prepared and approved by the City administration as part of the General Obligation bond proposal that was submitted to the voters in the fall of 1997. A total of \$800,000 was approved for the remediation of core computer systems and software. In January 1998, the Y2K Project Initiation Plan was implemented which covers the remediation of systems affected by the Y2K for the entire City. During the FY99 budget process an additional \$5 million was approved by the City Council for the Y2K effort. Contractors have been hired for code remediation, independent testing, and project management. An inventory of all systems has been completed and the systems prioritized based on mission critical status. A total of eight priority categories have been identified as follows: 1) waste water, 2) police and fire radio system, 3) police and fire emergency system (e911), 4) water system, 5) traffic signals, 6) police and fire embedded systems, 7) financial systems and 8) human resources/payroll. These systems are receiving priority funding.

Each prioritized system has a project manager and team responsible for preparing a project plan that identifies the specific tasks and time frame including the technical issues of converting the systems or switching to compliant systems. Each manager reports the project status to the City's Information Services Committee (ISC) on a monthly basis. All conversions to Y2K systems include installation of the software in a separate test region, developing test data, and running test scripts. The test data results are reviewed by both the user department staff as well as the technical staff prior to acceptance and final transfer of the compliant system to the production region. As of this date, the core accounting systems (financial, human resources and payroll) have been upgraded to Y2K compliant versions. The Y2K status of the other systems identified above can be found in Note 26 on page 65. The complete Y2K effort for the City is posted on the City's web site and can be accessed on the Internet via <http://www.cabq.gov/y2k/>.

Independent audit. New Mexico state law requires that independent public accountants perform an annual audit of a governmental unit's accounting records and Comprehensive Annual Financial Report. The firm of KPMG Peat Marwick LLP has performed the audit for the year ending June 30, 1999. Federal law also requires that a single audit be performed for federal grant funds as required by the Single Audit Act and OMB Circular A-133. The independent auditors' report on the financial statements and schedules is included in the financial section of this report. The independent auditors' reports related specifically to the single audit are included in the Single Audit Section.

Awards. The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Albuquerque for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1998. The City has received this prestigious award every year since 1980. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year. This report has also been prepared to meet GFOA standards and will be submitted for review.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year ended June 30, 1999. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

Acknowledgments. The preparation of this report could not have been accomplished without the dedicated services of the staff of the Finance and Administrative Services Department. We wish to express our appreciation to all members of the Department who contributed to its preparation and recognize the major effort of the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report. We also wish to thank each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Vickie Fisher
Deputy Chief Administrative Officer

Anna Lamberson
Director, Finance and Administrative Services
Department