



December 22, 2005

Honorable Mayor and City Council
City of Albuquerque, New Mexico

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Albuquerque, New Mexico, (City), for the fiscal year ended June 30, 2005. The report was prepared by the Department of Finance and Administrative Services. 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. 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.

This is the fourth year the City has prepared the CAFR using the new financial reporting requirements as prescribed by the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* (GASB 34). This GASB Statement requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management's Discussion & Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the report of the independent auditors.

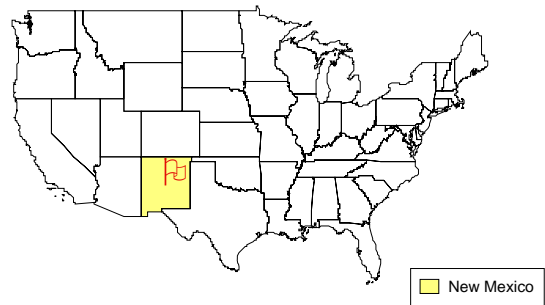
The City's Comprehensive Annual Financial Report consists of five major sections:

- (1) **The Introductory Section** includes this letter of transmittal that provides information about the organizational structure of the City, the City's economy, internal control structure, budgetary controls, cash management, and risk management.
- (2) **The Financial Section** is prepared in accordance with the GASB 34 requirements by including the MD&A and the Basic Financial Statements including notes. The Basic Financial Statements include government-wide financial statements that present an overview of the City's entire financial operations and the fund financial statements that present the financial information of each of the City's major funds, as well as non-major governmental, proprietary, fiduciary, and other funds. Also included in this section is the Independent Auditors' Report on the financial statements and schedules.
- (3) **The Statistical Information Section** contains tables with general information about the City and comparative data for prior fiscal years.

- (4) **Single Audit Information** includes the Schedule of Expenditures of Federal Awards as required by the Single Audit Act, and the related findings and recommendations by the City's independent auditors.
- (5) **State Compliance and Operational Findings** include certain schedules required by the State Auditor's Office.

The 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 on, 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 484,000 citizens.

Included in these services are traditional city functions such as police and fire protection, cultural and recreational activities and venues, storm drainage, road and traffic signal maintenance, and refuse collection. Effective July 1, 2003 water and sewer services that used to be provided by the City are now provided by the Albuquerque-Bernalillo County Water Utility Authority, which is operated by the City under the terms of a Memorandum of Understanding with the Authority. 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 relationships with any other 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, Valencia and Torrance 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 has an industry composition not unlike that of the U.S. as a whole, except that manufacturing is a smaller portion of employment. In the 1960s manufacturing made up over 30% of the U.S. economy, but by 2003 the manufacturing share of employment had declined to 11%.

Major Industries

Services: The service sector is the largest source of employment in the MSA, accounting for 41% of the non-agricultural civilian employment in FY/05. This sector continues to grow in importance in both Albuquerque and the U.S. It is a diverse sector including jobs in medical services, hotels, amusement, movies, legal work, commercial research, business services, food services, engineering, and architectural services. It includes temporary employment agencies, call centers, back office operations, and employment

at SNL, which is expanding in response to national homeland security issues. The Sandia Research Park has several high-tech occupants taking advantage of the location and ability to access SNL facilities and staff. Also located on the Park is the SNL International Programs Building. This houses the Cooperative Monitoring Center and International Security Center. The function of these programs is to strengthen national and international security and reduce the threat of weapons of mass destruction.

As a major regional medical center, the medical services industry has several of the largest employers in the area. The health services industry had been one of the fastest growing sectors in the Albuquerque area. Even with recent uncertainties regarding health care financing particularly Medicare, and some local consolidations and/or acquisitions, growth has continued at a rapid pace.

Trade (retail and wholesale): The trade sector is a strong catalyst for growth in the area. Many major national chains have expanded into the area and general growth and low interest rates have helped maintain relatively stable levels of consumer spending.

Albuquerque MSA Employment in Thousands

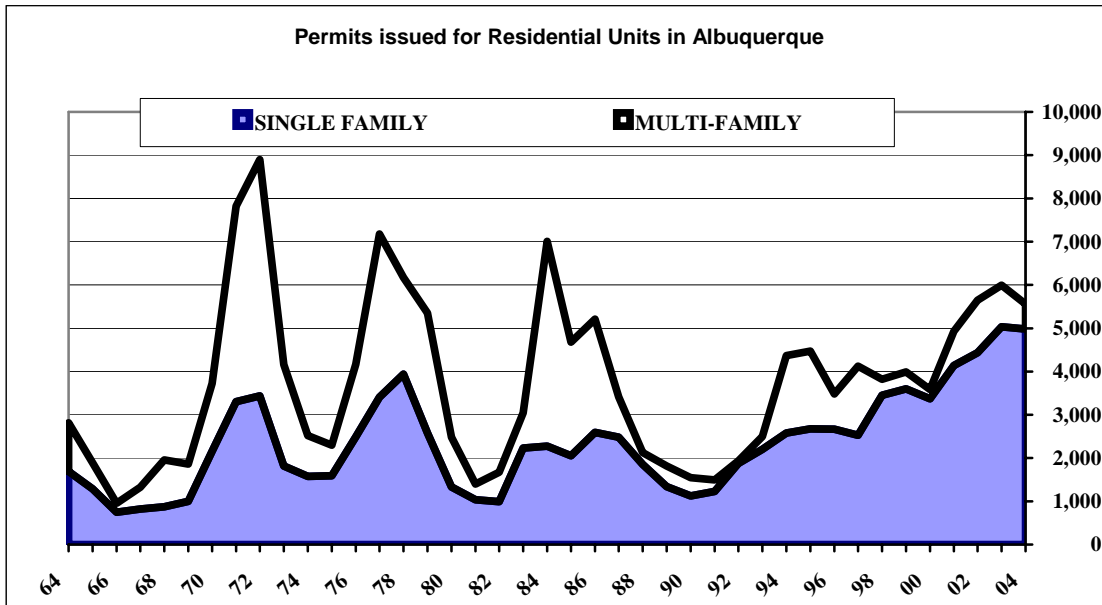
NAICS CATEGORY	Employment FY2005	Share of FY/05 Employment	Growth FY/04 to FY/05	Compound Annual Average FY/00 to FY/05
Total Nonfarm Employment (does not include military)	374.28		2.2%	1.2%
Natural Resources and Mining and Construction	26.73	7%	7.9%	3.7%
Manufacturing	22.62	6%	-0.7%	-3.4%
Trade, Transportation, and Utilities	66.38	18%	0.7%	0.2%
Information	8.89	3%	-10.2%	-3.9%
Financial Activities	19.33	5%	1.9%	-0.2%
Aggregate of Services	154.50	41%	3.1%	2.2%
Professional and Business Services	59.85	16%	3.0%	0.7%
Educational and Health Services	46.38	12%	5.9%	4.6%
Leisure and Hospitality	36.26	10%	0.0%	2.0%
Other Services	12.01	3%	2.2%	2.2%
Government	75.83	20%	2.4%	2.1%
MILITARY	6.76	NA	1.0%	0.6%

Manufacturing: Albuquerque's small manufacturing sector accounts for about 6% of total non-agricultural employment. Investments by Intel and other high tech firms are helping to create a critical mass of activity in Albuquerque that is expected to attract the interest of other firms including competitors, suppliers, and customers. Forbes Magazine and others now rate Albuquerque as one of the top high tech centers in the U.S. Unfortunately, some firms in the semiconductor and high-tech areas have not fared well, with Philips Semiconductors closing their Albuquerque operation in October 2003 and Lightpath Technology consolidating its operations in Florida. The over-expansion and collapse of the telecommunications industry has been a major contributing factor. The manufacturing sector lost about 5,000 jobs from FY/01 to FY/04. The losses are slowing with a modest recovery in the semi-conductor industry. Tempur-Pedic a high tech mattress firm is constructing a facility that will employ about 300 workers when it opens in December 2005. Eclipse Aviation is expanding its operations at the Albuquerque Sunport and has plans to move to expanded facilities at the industrial park near the Double Eagle airport in 2007 after it has delivered its first jets.

Construction: The construction sector is a source of both growth and volatility in the Albuquerque economy. Growth in employment and in gross receipts in construction tends to be quite cyclical as shown in the following chart for the residential building market. Booms in 1972, 1978, and 1984 were very large, accentuated by the multi-family housing market and certain tax rules that encouraged large developments. Through the 1990s, there has been a more or less sustained growth in single-family home construction. Low interest rates and stable or reduced prices for much of the period helped fuel the growth. The lower priced homes also allowed many potential apartment dwellers to purchase houses. This is part of the reason the number of multi-family units permitted has been limited. Even with the large number of single-family units,

the total number of units is far short of the peaks experienced in the 1970s and 1980s. The value of construction permits per home increased by 27% for FY/05 following an increase of 7% in FY/04. This means that even though the number of residential permits slightly declined in FY/05, the total value of permits increased.

The following chart illustrates residential construction permits issued:



New commercial construction slowed substantially in 2003, from a peak in 1995, but much of this is offset by construction classified as additions and alterations. The expansion of the Indian casinos at Isleta, Sandia, Santa Ana, and Acoma Pueblos has helped increase construction employment in the area in the past few years. Sandia National Labs has two construction projects that ultimately will spend close to half a billion dollars. One, the Center for Integrated Nanotechnology (CINT), a \$75 million project, now complete in the Sandia Research Park. The other is the Microsystems and Engineering Sciences Applications (MESA). This is inside the labs and will ultimately cost around \$450 million. A major mixed use development, infill project is underway, with a mix of retail and residential, and a creation of an open air mall. In FY/05, construction started on the rebuilding of the interstate exchange at Coors and I-40, as well as substantial reconstruction on major portions of I-40 within the City.

Government: The total number of government employees in the Albuquerque MSA increased by 7,800 between 1995 and 2001, with the majority of the increase attributable to the classification of Indian casino workers as local government employees. 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. In contrast, the new Sandia Research Park and the push for technology transfer from the labs, is reflected in the growth of high tech industries in central New Mexico. Funding from the federal government for the nuclear weapons program and homeland security now seem relatively secure as SNL assumes new roles in a post-9/11 environment. Kirtland AFB, with its diverse operations, has done relatively well in the waves of base consolidations and closures, even gaining in the most recent Base Realignment and Closure (BRAC). Military employment in FY/03 to FY/05 increased by 271 jobs. Even so, military employment is down by about 1,000 from FY/95.

Future Economic Outlook

In the near term, Albuquerque will continue to face many of the same challenges as the nation while the economy stabilizes after the terrorist attacks of September 11, and while facing the uncertainty related to federal spending due to the demands of rebuilding after the hurricanes in the Gulf states. How we deal with the threat of terrorism at home will have long term impacts on the economy and how Albuquerque and the U.S. will grow. Employment growth remains moderate with the second quarter of 2005 showing growth of 1.8%. However, manufacturing is not expected to rebound significantly until the semiconductor and telecommunications industries nationwide more fully recover. On the plus side, New Mexico has generally weathered this recession better than its neighbors. Only recently have Colorado and Texas added jobs to their economies. Arizona had growth of 2.4%, but had suffered much more severe declines. Lodger's tax, after remaining flat for several years, grew nearly 5% in FY/04 and posted solid growth of 3.2% in FY/05; hopefully this will hold, but high gasoline prices tend to discourage tourism in New Mexico. High tech industry is growing and many of the small manufacturing firms have experienced substantial growth. The broadening of the industrial base to include aviation and mattress production will help Albuquerque continue to grow and prosper. The City believes it is well positioned to attract new investment by suppliers, customers, and other producers. As discussed above SNL is a source of strength for the local economy. SNL has devoted a great deal of research to terrorism and homeland security. The mission to protect the nuclear weapons arsenal has become even more critical. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. A large facility will be built at the labs as a joint project between Sandia and Los Alamos National labs to expand abilities in this area.

Additional historic economic information is presented in the statistical section of this report.

FINANCIAL INFORMATION

Internal control structure: The Department of Finance and Administrative Services 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, 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. It also ensures adequate accounting data is 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 the 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 at 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 in limited circumstances for property purchases. Those encumbrances have been reappropriated in fiscal year 2006 for programs that had adequate reversions for the year ended June 30, 2005.

Taxes: Taxable property valuations were \$8.3 billion in fiscal year 2005, a \$401.7 million (5.09%) increase from the previous year. Current property tax collections for fiscal year 2005 were 96.31% of the levy, compared to 95.7% in the prior year. Except for fiscal year 2000, 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 2005 was 99.8% compared to 99.9% in 2004. Cumulative total collections for the last ten years are 99.3% of the cumulative billings.

Allocation of the property tax for fiscal year 2005 and the preceding two fiscal years is based on the following mill levy:

<u>Purpose</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operational mill levy:			
Residential	3.019	2.014	2.019
Non-residential	3.544	2.544	2.544
Debt service levy	7.976	7.976	8.976

The gross receipts tax rate on receipts within the City was 6.75% at June 30, 2005. Increases during the year occurred with an increase of 0.5% effective January 1, 2005, an increase which offset the deduction of food and some medical services. At the same time, Bernalillo County increased their tax by 0.1875%. The breakdown and sources of the gross receipts tax rate at June 30, 2005 are as follows:

	<u>Tax Rate</u>	<u>Percent of Total Rate</u>
State General Fund	3.7750%	55.9%
Bernalillo County distribution	.4375	6.5
Municipal distribution - State shared	1.0000	14.8
Municipal distribution - in lieu of previous .25% municipal tax - State shared	.2250	3.3
City of Albuquerque general purpose	.5000	7.4
City of Albuquerque public safety	.2500	3.7
City of Albuquerque basic services	.2500	3.7
City of Albuquerque transportation infrastructure	.2500	3.7
Municipal infrastructure gross receipts tax	<u>.0625</u>	<u>1.0</u>
	<u>6.7500%</u>	<u>100.0%</u>

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

Cash management: Pursuant to the Fiscal Agent Ordinance of the City, a pooled cash investment program is 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 \$639.2 million at June 30, 2005. Of this amount, \$240.0 million was invested in repurchase agreements and \$399.2 million in securities of the Federal government and its related agencies and certificates of deposit.

The City's portfolio average life at June 30, 2005 was 230 days. The average yield on the investment portfolio was 2.8% at the end of June 2005 and 2.0% at the end of June 2004. Net earnings totaled \$15.0 million during the fiscal year. Pooled cash, investments, and accrued interest balances (in millions) at the end of the year for the last five years are as follows:

2005	\$639.2
2004	595.9
2003	491.4
2002	323.2
2001	451.1

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 an executive safety committee to oversee employee accident prevention training and a wellness program.

The transfers to the Risk Management fund from the operating (insured) departments were \$32.5 million compared to transfers in the prior year of \$28.7 million. Claim reserves (current and long-term) as of June 30, 2005 were \$50.3 million, an increase from \$47.6 million in the previous year. The Fund experienced a change in net assets of \$3.9 in 2005, an increase from the net loss of \$1.1 million in 2002.

The deficit fund equity decreased to \$8.7 million at June 30, 2005 from the \$12.6 million at June 30, 2004. The City has implemented a five-year recovery plan and anticipates eliminating the deficit by June 30, 2007 by increasing the annual assessment to all operating funds, as well as improving the City's loss experience through aggressive management.

OTHER INFORMATION

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 Neff & Ricci LLP has performed the audit for the year ending June 30, 2005. 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, 2004. 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. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year beginning July 1, 2004. 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 Department of Finance and Administrative Services. We wish to express our sincere 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,

Gail D. Reese, CPA
Chief Financial Officer