

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005

This section of the City of Albuquerque's (City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2005. 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 \$1.3 billion (net assets). Of this amount, \$138.3 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors in subsequent accounting periods.
- The government's total net assets increased by \$136.1 million during the year, principally as a result of the completion of several major capital improvement program projects.
- As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$372.3 million. Approximately 73.9% of this amount, \$275.0 million, is unreserved fund balance available for spending at the government's discretion. Included in this amount is approximately \$156.2 million in the Capital Acquisition Fund.
- At the close of the current fiscal year, unreserved fund balance for the general fund was \$42.7 million or 12.6% of the total general fund expenditures of \$337.8 million.
- The City's total long-term debt increased by \$64.7 million during the current year. The key factors in this change were: 1) the issuance of bonds and notes payable accompanied by additions to accrued vacation and sick leave pay and claims totaling \$251.5 million, and 2) debt reduction payments and liquidations of accrued liabilities totaling \$186.8 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements contain 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, absent extraordinary events.

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OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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.

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 safety and protection, culture and recreation, public works, public health, human services, housing, highways and streets, and special assessments. The business-type activities of the City include an airport, apartments, a baseball stadium, refuse disposal services, golf courses, parking facilities, and a 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. The City does, however, operate the water and waste water utility serving the City and its citizens that is owned by the Albuquerque Bernalillo Water Utility Authority under the terms of a Memorandum of Understanding that will expire on June 30, 2006.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that 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, 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 nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

The City adopts an annual appropriated budget for the General Fund. A budgetary comparison statement for the General Fund is presented in the Basic Financial Statements section of this report. A budgetary comparison statement for the General Obligation Debt Service Fund, a major fund, is presented in the Supplementary Information section. In addition, the City adopts an annual appropriated budget for other nonmajor governmental funds. Budgetary comparison statements for those funds are also presented in the Supplementary Information section.

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, Refuse Disposal, and Transit, which are considered major funds of the City. In addition the following nonmajor funds are reported: Apartments, Golf Course, Parking, Stadium, and Housing Authority.
- ***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 stock issues; workers' 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 proprietary 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.

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 statement for the General Fund is presented separately and in the basic financial statements. 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 nonmajor governmental funds, nonmajor proprietary funds, internal service funds, and fiduciary funds are presented immediately following the Notes to the Financial Statements.

**CITY OF ALBUQUERQUE, NEW MEXICO
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GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the fourth 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. Below is a comparative analysis of government-wide data for the most recently completed fiscal year and the prior fiscal year.

	NET ASSETS (in millions)						Total Percent Change 2004 - 2005
	Governmental Activities		Business-type Activities		Total		
	2005	2004	2005	2004*	2005	2004*	
Assets:							
Current and other assets	\$ 602.8	\$ 571.1	\$ 182.4	\$ 169.0	\$ 785.2	\$ 740.1	6.1%
Capital Assets	953.7	843.0	486.0	466.1	1,439.7	1,309.1	10.0%
Total assets	1,556.5	1,414.1	668.4	635.1	2,224.9	2,049.2	8.6%
Liabilities:							
Long-term liabilities outstanding	439.7	368.0	276.5	283.4	716.2	651.4	9.9%
Other liabilities	178.6	200.4	36.7	30.7	215.3	231.1	-6.8%
Total liabilities	618.3	568.4	313.2	314.1	931.5	882.5	5.6%
Net assets:							
Invested in capital assets, net of related debt	654.1	557.9	237.1	206.9	891.2	764.8	16.5%
Restricted	181.0	211.5	83.0	77.5	264.0	289.0	-8.7%
Unrestricted	103.1	76.3	35.1	36.6	138.2	112.9	22.4%
Total net assets	\$ 938.2	\$ 845.7	\$ 355.2	\$ 321.0	\$ 1,293.4	\$ 1,166.7	10.9%

* Restated see note 22

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 \$1.3 billion at the close of the year. The largest portion of the City's net assets (68.9%) reflects its investment of \$891.2 million 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.

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.

**CITY OF ALBUQUERQUE, NEW MEXICO
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GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Changes in Net Assets

	CHANGE IN NET ASSETS (in millions of dollars)						Total Percentage Change 2004 - 2005
	Governmental		Business-type		Total		
	Activities		Activities				
	2005	2004	2005	2004*	2005	2004*	
REVENUES							
Program revenues:							
Charges for services	\$ 87.1	\$ 83.9	\$ 129.1	\$ 125.0	\$ 216.2	\$ 208.9	3.5%
Operating grants and contributions	29.9	32.9	24.8	25.2	54.7	58.1	-5.9%
Capital grants and contributions	1.0	2.4	29.9	12.8	30.9	15.2	103.3%
General revenues:							
Gross receipts taxes	163.3	132.2	-	-	163.3	132.2	23.5%
Property taxes	92.6	88.2	-	-	92.6	88.2	5.0%
Other taxes	33.9	32.3	-	-	33.9	32.3	5.0%
State shared taxes and fees	167.9	161.8	-	-	167.9	161.8	3.8%
Grants, investment income, and other	57.5	33.4	1.7	0.1	59.2	33.5	76.7%
Total revenues	633.2	567.1	185.5	163.1	818.7	730.2	12.1%
EXPENSES							
General government	67.6	65.2	-	-	67.6	65.2	3.7%
Public safety:							
Corrections and detention	44.6	42.9	-	-	44.6	42.9	4.0%
Fire protection	55.6	50.9	-	-	55.6	50.9	9.2%
Police protection	109.7	102.7	-	-	109.7	102.7	6.8%
Cultural and recreation	82.1	66.8	-	-	82.1	66.8	22.9%
Public works	10.4	9.3	-	-	10.4	9.3	11.8%
Health	13.4	11.1	-	-	13.4	11.1	20.7%
Human services	50.6	48.5	-	-	50.6	48.5	4.3%
Housing	6.2	3.4	-	-	6.2	3.4	82.4%
Highways and streets	12.0	18.3	-	-	12.0	18.3	-34.4%
Special assessments	3.3	6.6	-	-	3.3	6.6	-50.0%
Interest expense	13.8	15.9	-	-	13.8	15.9	-13.2%
Airport	-	-	54.6	53.1	54.6	53.1	2.8%
Refuse Disposal	-	-	41.4	39.4	41.4	39.4	5.1%
Transit	-	-	37.9	29.8	37.9	29.8	27.2%
Non major enterprise funds	-	-	41.9	40.7	41.9	40.7	2.9%
Total expenses	469.3	441.6	175.8	163.0	645.1	604.6	6.7%
Excess (deficiency) before transfers	163.9	125.5	9.7	0.1	173.6	125.6	38.2%
Write off of Capital Assets	(45.4)	-	(1.3)	-	(46.7)	-	----
Transfers	(25.9)	(25.6)	25.9	25.6	-	-	----
Increase (decrease) in net assets	\$ 92.6	\$ 99.9	\$ 34.3	\$ 25.7	\$ 126.9	\$ 125.6	1.0%

* Restated see note 22

CITY OF ALBUQUERQUE, NEW MEXICO
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GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Changes in Net Assets, continued

The City's overall net assets increased by \$126.9 million during the current fiscal year. 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 decrease in net assets is explained in the governmental and business-type activities discussion below.

Governmental activities. Governmental activities increased the City's net assets by \$92.6 million.

Since the City has not capitalized infrastructure assets acquired prior to the fiscal year ending June 30, 2001, 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:

Gross receipts tax revenue and state shared taxes grew 12.6% as compared to the prior year.

Investment earnings were increased from \$4.3 million in fiscal year ended June 30, 2004, to \$12.5 million in the current year. The primary cause for this increase was the growth in the investment market experienced by virtually all governments and an increase in investment balances during the year.

Intergovernmental revenues plus operating and capital contributions from sources other than state shared taxes was decreased by \$4.4 million.

Other revenues for the current year were generally equivalent to or higher than the previous fiscal year.

Business-type activities. Business-type activities increased the City's net assets by \$34.3 million. Key factors of this increase are as follows:

The Airport fund had an increase in net assets of \$16.0 million in fiscal year 2005 compared to a \$2.2 million increase in 2004. The passenger facilities charges (PFC) increased slightly from the prior year. The September 11, 2001 events continued to have a slightly negative impact on the level of air travel in fiscal year 2005. In addition, the growth in the investment market resulted in an increase in investment earnings to a net gain of \$0.8 million offset by unrealized losses of \$0.1 million.

For the Refuse Disposal fund, the reported change in net assets of \$2.0 million was decreased from \$3.8 million in fiscal year 2004. The primary change was due to increased interest expenses and transfers out.

For the Transit Fund, the current year change in net assets was \$16.3 million compared to \$9.6 million for the prior year. The increase was primarily due to an increase in the capital contribution of \$13.9 for capital assets purchased or constructed in the Capital Acquisition Fund. The increase in the capital contribution was offset by an increase in fuels, repairs, maintenance and other operating expenses; and the subsidy transfer from the General Fund decreased by \$0.2 million.

The Stadium Fund and the Apartment Fund were included for the first time in fiscal year 2003 with net operating revenues of \$4.0 million. For fiscal year 2005 those revenues were \$4.6 million as compared to revenues of \$4.9 million in 2004.

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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 balances 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 \$372.3 million, an increase of \$16.2 million in comparison with the prior year. Approximately 73.9% of this amount, \$275.0 million, is unreserved fund balance available for spending at the government's discretion. Included in unreserved fund balance is \$156.2 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 (\$38.2 million); 2) for acquisition and management of open space and urban enhancement (\$22.9 million); and 3) to show the fund balance representing advances to other funds and other assets not available for spending (\$28.4 million).

Revenues for governmental functions overall totaled approximately \$640.0 million in the fiscal year ended June 30, 2005, which represents an increase of \$64.2 million from the prior year. The major causes for the increase were: 1) tax revenues increased by \$36.9 million; 2) intergovernmental revenues increased by \$21.5 million caused by an increase of state shared gross receipts tax; and 3) interest income increased by \$8.4 million in interest income.

Expenditures for governmental functions of \$731.6 million increased by \$115.1 million from the previous year total of \$616.5 million. The primary cause of the increase was from increased debt service requirements of \$27.6 million, increased expenditures of \$42.0 million for capital outlay, and \$44.4 million for public safety, culture and recreation, highways and streets, health and human services and housing. These increased expenditures generally reflect an increased demand and need for public services.

General Fund.

This is the City's chief operating fund. At the end of the current fiscal year, the total fund balance was \$85.4 million, of which \$42.7 million is available as an unreserved fund balance. The reserved fund balance of \$42.7 million is designated: 1) for unanticipated expenditures (\$38.2 million equaling 10.36% of recurring expenditures); and 2) to indicate that non-current financial resource assets of \$4.5 million are unavailable to spend or already are committed for spending. The net change in fund balance for the current fiscal year was an increase of \$20.6 million.

The total revenues of \$411.3 million for the current fiscal year were \$42.4 million greater than for the previous fiscal year. The increase largely resulted from an increase of \$33.3 million in gross receipts tax revenues, \$6.9 million in intergovernmental revenues, \$1.3 million in property taxes, \$1.3 million in licenses and permits, \$1.2 million in interest revenues and \$1.0 million in charges for services.

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FINANCIAL ANALYSIS OF THE CITY'S FUNDS, continued

Total expenditures of \$337.8 million represent an increase of \$39.2 million over the previous fiscal year. The major cause of this increase was \$23.5 million for police and fire protection due to an increased emphasis on public safety while the expenditures for general government decreased by \$1.0 million. Additional increases in expenditures from the previous fiscal year are for culture and recreation (\$8.1 million), health and human services (\$6.3 million) and highways and streets (\$1.7 million). See the General Fund budgetary highlights for an analysis with respect to budgets.

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	\$ 13.4
Refuse Disposal Fund	6.2
Transit Fund	2.4
Nonmajor enterprise funds	<u>13.1</u>
	<u>\$ 35.1</u>

Internal service funds, which are used to account for certain governmental activities, had deficit unrestricted net assets of \$3.3 million. The Risk Management fund, an internal service fund, had deficit unrestricted net assets of \$8.7 million resulting from unanticipated judgment awards and claims against the City in prior years. The City is currently in a five-year recovery plan to reduce the deficit unrestricted net assets to zero by the fiscal year ending 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.

General Fund budgetary highlights

The City's final FY05 budget did not differ significantly from the original budget, primarily because the growth in gross receipts tax revenues and other revenue sources was equal to or greater than forecasted growth. Revenues and expenses were monitored closely throughout the year and new disciplinary procedures put in place in FY03 regarding budgetary responsibility remain in place. These actions resulted in actual expenditures being \$8.7 million less than the original budget and \$16.3 million less than the budget as last approved mid-year. General government activities actually returned unused monies to the General Fund in the amount of \$4.4 million, based on the last mid-year budget. All General Fund agencies continue to answer the call for budgetary responsibility by carefully controlling their expenses and returning funds.

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FINANCIAL ANALYSIS OF THE CITY'S FUNDS, continued

Revenues continued to be very difficult to predict during this fiscal year with mixed economic indicators and activities. Gross receipts tax revenues showed overall strength in virtually every sector, and construction permit revenues continued with unprecedented growth. Revenues were \$20.7 million greater than anticipated in the original budget and \$7.4 million more than the budget as last projected at mid-year. Gross receipts tax (local option and state shared), a major component of the City's operating revenue came in at \$3.2 million more than the last revised budget estimate and \$15.5 million more than the original budget. Revenues were weaker than budgeted in indirect overhead and CIP funded positions as personnel positions were reduced and government construction activity was less than originally anticipated. In contrast, revenues from licenses and permits of \$15.0 million were higher than projected as a result of continued, unusual strength in the construction area, primarily new residential construction as well as substantial state and federal government road construction within the City.

The Department of Municipal Development, created early in FY04 for the purpose of coordinating CIP activities, continued to be very successful in implementing and completing both bond and general fund projects. Backlogs were reduced substantially from \$170.9 million at the beginning of the fiscal year to \$121.0 million at the end of the fiscal year. This successful effort contributed to the growth in gross receipts tax revenues.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2005, amount to \$1.4 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 \$129.1 million or 9.8% from fiscal year 2004.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2004-2005
	2005	2004**	2005	2004**	2005	2004**	
	Land *	\$ 231.8	\$ 215.9	\$ 59.5	\$ 58.5	\$ 291.3	
Other *	1.8	0.9	0.7	0.7	2.6	1.6	61.4
Buildings and improvements	133.8	133.2	214.6	191.2	348.4	324.3	7.4
Runways and improvements	-	-	97.1	103.8	97.1	103.8	-6.4
Improvements other than buildings and runways	146.3	156.3	41.8	35.1	188.0	191.3	-1.7
Equipment	2.4	35.7	43.7	36.5	46.2	72.2	-35.9
Infrastructure	70.2	77.6	-	-	70.2	77.6	-9.4
Construction in progress *	367.4	223.5	28.5	41.8	395.9	265.3	49.2
Total	\$ 953.7	\$ 843.0	\$ 486.1	\$ 467.5	\$ 1,439.8	\$ 1,310.5	9.9

* Assets not depreciated

** Restated see note 22

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CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

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

In *governmental activities*, land was acquired for open space costing \$10.2 million, and replacement vehicles were acquired for the police (\$5.2 million) and for fire (\$3.7 million). The construction work in progress increased by \$130.6 million primarily due to the continuing facility development at the Balloon Fiesta Park Museum, a major expansion of the Albuquerque Museum, the redevelopment of Tingley Beach linking the north and south ends of the BioPark and other facilities development.

In *business-type activities*, additions to equipment included new transit vehicles (\$8.2 million) and new solid waste vehicles and heavy equipment (\$5.8 million). The increase in buildings and improvements includes the Westside Transit Facility (\$20.9 million), the Uptown Transit Facility (\$1.0 million) and for the Housing Fund (\$3.1 million). The Aviation Fund had additions to runways and improvements (\$4.1 million) and to improvements other than buildings and runways (\$10.7 million). The construction work in progress decreased by \$13.2 million. The major expenditures in construction work in progress consisted of improvements to the Sunport and construction on the new Westside Transit Facility.

More detailed information may be found in Note 8 of the accompanying financial statements.

Debt Administration

At the end of the current fiscal year, the City had total long-term obligations of \$829.1 million of which \$115.7 million is due within the next fiscal year. The total bonded debt (net of unamortized discounts, deferred amounts on refunding and including unamortized premiums) is \$733.0 million. The remaining debt is for loans, accrued vacation and sick leave pay, and claims payable.

During the fiscal year ended June 30, 2005 the City issued bonds for \$183.1 million. Bond proceeds were deposited into the Capital Acquisition Fund for the betterment of parks and recreation, the BioPark, libraries, museums, senior citizen centers, community centers, public transportation facilities and for improvements to the storm sewer system.

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators to management, citizens and investors of the City's debt position. The State's Constitution provides for a legal debt limit of 4% of taxable valuation. The percentage for the City of Albuquerque is 2.7% of the \$8.3 billion taxable value of property within the City's boundaries. The City currently may issue up to an additional \$63.2 million of general obligation bonds. It has \$268.4 million of general obligation debt outstanding subject to the legal debt limit at June 30, 2005. The net general bonded debt per capita is \$619.52. The highest per capita amount in the last ten fiscal years was \$619.52 in the fiscal year ended June 30, 2005 and the lowest per capita amount was \$213.73 in the fiscal year ended June 20, 2002.

The City's ratings on uninsured general obligation bonds remained unchanged from the prior year and as of June 30, 2005 were:

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

More detailed information may be found in Note 10 and Note 25 of the accompanying financial statements.

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ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2006 budget. Many of the City's revenues are influenced by the economy. The gross receipts tax revenue forecast, particularly, is highly influenced by economic conditions. The budget contemplates growth in gross receipts tax revenues over the prior year, reflecting slightly stronger economic conditions both nationally and locally.

Construction employment in the area has remained unusually high, particularly with respect to residential construction, with a modest increase in commercial construction during the last part of the 2005 fiscal year. The budget contemplates that these high levels will not be sustained throughout the year, although reduced levels of residential and commercial construction are expected to be somewhat offset by continuing state and federal highway construction with the City.

Charges for entry into some City venues and for certain City services are unchanged in the fiscal year 2006 budget. However, the budget does include revenues from new City venues, particularly the Balloon Museum, scheduled to open in October, 2005.

Property tax revenues continue to grow as the economy expands. One mill of taxing authority was converted from capital to operations during fiscal year 2004. A state imposed limitation on assessed value for residential properties is not expected to have a major fiscal impact in the near term.

Revenues for internal services continue to decline as the City reduces its direct provision of office services, building alternations, surveying and engineering inspections, all of which are available through the private sector.

During the 2004 legislative session, legislation to repeal the gross receipts tax on food and certain medical services effective January 1, 2005 was enacted. In an attempt to hold local governments harmless, the distribution to cities of the state-shared gross receipts tax was increased. This increased distribution was to be funded by the state by a repeal of the half-cent credit against local option impositions, also effective January 1, 2005. Distributions for the first three months after January 1, 2005, were materially reduced from the same periods in the prior year, primarily due to incorrect reporting by merchants and implementation issues at the state Taxation and Revenue Department. The City worked actively with the Taxation and Revenue Department to identify the reasons for the lowered distributions, and by June 30, 2005, the major problems seem to have been resolved.

In the October, 2003 general municipal election, the voters approved a gross receipts tax increase of one-quarter percent (0.25%) to be dedicated to public safety. Fire is to receive 33% of the revenues, police 33%, corrections 8% and social services for prevention and intervention 25% each year. The tax was expected to generate about \$27.8 million on an annual basis when it was effective on July 1, 2004. The fiscal year 2006 budget reflects estimated tax proceeds of \$32.65 million for a full twelve months.

Also in the October 2003 general municipal election, the voters rejected the streets and roads bond question. Because of the potentially negative impact on the City's infrastructure program, the question was again put to the voters during the general state election in November 2004. The streets and roads bond question passed by a majority in November 2004.

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2005**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES, continued

During the 2003 legislative session, legislation was enacted that transferred “all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Albuquerque water and wastewater utility” to a newly created entity, the Albuquerque-Bernalillo Water Utility Authority. Existing debt of the utility became the debt of the Authority, but the Authority was not to impair the rights of any bondholders of outstanding bonds. All contractual obligations of the existing proprietary activity were to be binding on the Authority. Although the legislation had an effective date of June 20, 2003, an audit by the Public Regulation Commission was a condition precedent to the transfer of money, assets and debts to the Authority. That audit was completed in late December 2003 and the transfer to the Authority was made effective July 1, 2003. Concurrently with the transfer, the Authority entered into a six-month Memorandum of Understanding with the City to administer the water and wastewater utility. That Memorandum of Understanding was subsequently extended to June 30, 2006. The Authority retains the authority and obligation to determine and impose rates for services.

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

Economic Assumptions Underlying the Revenue Estimates			
October-2004			
Fiscal Year	2004	2005	2006
National Variables			
% Chg Real GDP	4.4%	3.8%	3.1%
% Chg Non-Farm Employment	0.2%	1.6%	1.5%
Federal Funds Rate	1.0%	2.0%	3.1%
10 U.S. Bonds	4.3%	4.5%	5.1%
% Chg CPI U	2.2%	2.5%	1.4%
Per bbl Price of Oil (WTI)	\$ 33.8	\$ 44.0	\$ 37.6
Unemployment Rate(U.S.)	5.8%	5.4%	5.4%
% Chg in Personal Income	3.7%	5.3%	4.9%
New Mexico Economy			
% Chg Total Non-Agricultural Employment	1.5%	2.3%	2.1%
% Chg Personal Income	6.1%	5.9%	5.0%
Unemployment Rate	6.0%	5.7%	5.7%
Albuquerque MSA Economy			
% Chg Total Non-Agricultural Employment	1.0%	2.4%	2.7%
% Chg Construction Employment	5.2%	5.2%	3.9%
% Chg Personal Income	4.3%	5.7%	5.6%
Unemployment Rate (Alb.)	5.2%	4.7%	4.6%
Construction Units Permitted in City of Albuquerque			
Single-Family Permits	5,050	4,884	4,404
Muli-Family Permits	1,000	603	679
Total Residential Permits	6,050	5,487	5,083

Source: October 2004 baseline forecasts. National source is Global Insight Inc. Local variables from University of New Mexico, Bureau of Business and Economic Research

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

The total General Fund appropriation for fiscal year 2006 is \$446.5 million before interfund eliminations and \$381.1 million after eliminations. Total appropriation increased by \$44.7 million, which is an 11.1% increase over the original fiscal year 2005 budget. Recurring appropriations increased by 7.4%, while non-recurring appropriations increased by 101.7%, primarily due to the use of fund balances.

The international, national, state and local economies have shown modest growth following the 2001-2002 recession, but recent increases in the prices of oil and natural gas, bring concern about the effects it will have on the City's 2006 budget. Costs for items such as fleet and building operations are escalating rapidly. These price increases also have negative impacts on revenues as consumers spend more on gasoline and fewer dollars are available to spend on items subject to the gross receipts tax. However, the City continues to diligently monitor expenditures along with revenues so that it can respond quickly should changes be required.

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 11015, One Civic Plaza N.W., Albuquerque, New Mexico 87102.