

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2003

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, 2003. 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 \$1.6 billion (net assets). Of this amount, \$138.2 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 \$157.3 million during the year, but see Note No. 25 regarding a subsequent event that will have a negative impact on the government's total net assets in FY04.
- As of June 30, 2003, the City's governmental funds reported combined ending fund balances of \$273.0 million. Approximately 66.6% of this amount, \$181.9 million, is unreserved fund balance available for spending at the government's discretion. Of this amount, approximately \$68.3 million is unreserved fund balance in the Capital Acquisition Fund.
- At the close of the current fiscal year, unreserved fund balance for the general fund was \$15.0 million or 5.5% of the total general fund expenditures of \$274.8 million.
- The City's total long-term debt decreased by \$62.8 million (7.0%) during the current year. The key factors in this change were: 1) debt reduction payments and liquidations of accrued liabilities totaling \$134.9 million, and 2) the issuance of \$15.0 million notes payable for the construction of a new baseball stadium accompanied by additions to accrued vacation and sick leave pay and claims payable totaling \$43.6 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.

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, baseball stadium, joint water and sewer system, refuse disposal, golf courses, parking facilities, and transit system.

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

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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, Corrections and Detention, General Obligations Debt Service, and the Capital Acquisition funds, all of which are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for the General Fund and Corrections and Detention Fund. Budgetary comparison statements for each of these funds are 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, Joint Water and Sewer system, Refuse Disposal, and Housing Authority, which are considered major funds of the City. In addition the following nonmajor funds are reported: Apartments, Golf Course, Parking, Stadium, and Transit.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. These funds account for inventory warehousing and issues; worker's compensation, tort and other claims insurance coverage; vehicle maintenance and motor pool services; and communication services to City departments. In addition, these funds provide health insurance coverage to City employees. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the 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.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

Notes to the Financial Statements

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

Required Supplementary Information (RSI)

The required budgetary comparison statements for the General Fund and the Corrections and Detention Fund are 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the second 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. In the first year under the new reporting model, the City did not restate prior fiscal years for the purpose of providing comparative information for the MD&A. Below is a comparative analysis of government-wide data for the most recently completed fiscal year and the prior fiscal year.

	NET ASSETS						Total Percent Change
	Governmental		Business-type		Total		
	Activities	Activities	Activities	Activities	Total	Total	
	2003	2002	2003	2002 *	2003	2002 *	2002 - 2003
Assets:							
Current and other assets	\$ 444.1	\$ 476.3	\$ 276.2	\$ 251.4	\$ 720.3	\$ 727.7	-1.0%
Capital Assets	<u>746.5</u>	<u>691.6</u>	<u>1,143.9</u>	<u>1,136.1</u>	<u>1,890.4</u>	<u>1,827.7</u>	3.4%
Total assets	<u>1,190.6</u>	<u>1,167.9</u>	<u>1,420.1</u>	<u>1,387.5</u>	<u>2,610.7</u>	<u>2,555.4</u>	2.2%
Liabilities:							
Long-term liabilities outstanding	315.5	358.0	523.6	558.7	839.1	916.7	-8.5%
Other liabilities	<u>128.8</u>	<u>161.2</u>	<u>80.5</u>	<u>73.0</u>	<u>209.3</u>	<u>234.2</u>	-10.6%
Total liabilities	<u>444.3</u>	<u>519.2</u>	<u>604.1</u>	<u>631.7</u>	<u>1,048.4</u>	<u>1,150.9</u>	-8.9%
Net assets:							
Invested in capital assets, net of related debt	504.1	439.6	651.1	602.9	1,155.2	1,042.5	10.8%
Restricted	192.0	174.8	76.9	75.0	268.9	249.8	7.6%
Unrestricted	<u>50.2</u>	<u>34.3</u>	<u>88.0</u>	<u>77.9</u>	<u>138.2</u>	<u>112.2</u>	23.2%
Total net assets	<u>\$ 746.3</u>	<u>\$ 648.7</u>	<u>\$ 816.0</u>	<u>\$ 755.8</u>	<u>\$ 1,562.3</u>	<u>\$ 1,404.5</u>	11.2%

* Restated - see note 23

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 \$1.6 billion at the close of the year. The largest portion of the City's net assets (73.9%) reflects its investment of \$1.16 billion in capital assets (e.g. land, buildings, and equipment less any related outstanding debt used to acquire these assets). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that resources needed to pay this debt must come from other sources, since the capital assets cannot be liquidated for these liabilities.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Net Assets, continued

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

Analysis of Changes in Net Assets

	CHANGE IN NET ASSETS						Total Percentage Change
	Governmental		Business-type		Total		
	Activities	Activities	Activities	Activities	2003	2002 *	
	2003	2002	2003	2002 *	2003	2002 *	2002 - 2003
REVENUES							
Program revenues:							
Charges for services	\$ 75.8	\$ 70.8	\$ 255.2	\$ 239.7	\$ 331.0	\$ 310.5	6.6%
Operating grants and contributions	28.7	28.0	24.8	22.0	53.5	50.0	7.0%
Capital grants and contributions	9.9	8.2	38.9	24.5	48.8	32.7	49.2%
General revenues:							
Gross receipts taxes	122.0	116.3	-	-	122.0	116.3	4.9%
Property taxes	86.4	72.2	-	-	86.4	72.2	19.7%
Other taxes	26.4	23.7	-	-	26.4	23.7	11.4%
State shared taxes and fees	152.5	146.3	-	-	152.5	146.3	4.2%
Grants, investment income, and other	35.5	37.5	2.5	4.5	38.0	42.0	-9.5%
Total revenues	537.2	503.0	321.4	290.7	858.6	793.7	8.2%
EXPENSES							
General government	53.0	52.8	-	-	53.0	52.8	0.4%
Public safety:							
Corrections and detention	40.9	35.5	-	-	40.9	35.5	15.2%
Fire protection	47.3	46.0	-	-	47.3	46.0	2.8%
Police protection	97.9	99.0	-	-	97.9	99.0	-1.1%
Cultural and recreation	71.8	64.8	-	-	71.8	64.8	10.8%
Public works	9.0	12.0	-	-	9.0	12.0	-25.0%
Health	10.3	10.4	-	-	10.3	10.4	-1.0%
Human services	51.6	51.7	-	-	51.6	51.7	-0.2%
Housing	4.0	2.2	-	-	4.0	2.2	81.8%
Highways and streets	22.2	27.1	-	-	22.2	27.1	-18.1%
Special assessments	0.8	15.9	-	-	0.8	15.9	-95.0%
Interest expense	15.3	16.8	-	-	15.3	16.8	-8.9%
Airport	-	-	60.6	60.5	60.6	60.5	0.2%
Joint Water and Sewer	-	-	109.5	107.0	109.5	107.0	2.3%
Refuse Disposal	-	-	37.2	35.8	37.2	35.8	3.9%
Housing Authority	-	-	25.8	24.2	25.8	24.2	6.6%
Non major enterprise funds	-	-	44.1	41.6	44.1	41.6	6.0%
Total expenses	424.1	434.2	277.2	269.1	701.3	703.3	-0.3%
Excess (deficiency) before transfers	113.1	68.7	44.2	21.6	157.3	90.3	74.2%
Transfers	(15.9)	(21.2)	15.9	21.2	-	-	----
Increase (decrease) in net assets	\$ 97.2	\$ 47.5	\$ 60.1	\$ 42.8	\$ 157.3	\$ 90.3	74.2%

* Restated see note 23

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Changes in Net Assets, continued

The City's overall net assets were increased by \$157.3 million during the current fiscal year. However, this does not include depreciation expense on infrastructure assets of governmental activities that have not been capitalized from fiscal years ending after June 30, 1980 through the fiscal year ended June 30, 2001. The increase 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 \$97.2 million, thereby accounting for 61.8% of the total growth in the net assets of the City.

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:

Due to a continued slow economy, the gross receipts tax revenue and state shared taxes grew modestly from those of the prior year.

- The investment earnings were reduced from \$11.3 million in fiscal year ended June 30, 2002, to \$8.6 million in the current year. The primary cause for this reduction was due to the weakened investment market experienced by virtually all governments and to reduced investment balances during the year.
- The intergovernmental revenues plus operating and capital contributions from sources other than state shared taxes was increased by \$1.6 million.
- Other revenues for the current year were generally higher from the previous fiscal year.

Business-type activities. Business-type activities increased the City's net assets by \$47.5 million, accounting for 38.2% of the total growth in the net assets of the City. Key factors of this increase are as follows:

- The Airport fund had an increase in net assets of \$0.4 million in fiscal year 2003 compared to a \$1.6 million decrease in 2002. The passenger facilities charges (PFC) were increased from the prior year by \$1.1 million. The September 11, 2001 events continued to have a negative impact on the level of air travel in fiscal year 2003. In addition, the weakened investment market rates resulted in reducing investment earnings by \$0.3 million.
- Due to increased rates for water and sewer services, the Joint Water and Sewer fund increased its operating revenues by \$3.9 million over fiscal year 2002. The expenses increased by \$2.6 million. The reduction in investment earnings from fiscal year 2002 was approximately \$0.96 million. In addition, capital contributions from developers for the current year were \$22.2 million compared to \$15.0 million for fiscal year 2002. The net assets of the fund increased by \$45.3 million during the year compared to \$31.4 million for the previous fiscal year.
- For the Refuse Disposal fund, the reported change in net assets of \$3.2 million was increased from \$2.5 million in fiscal year 2002. The primary change was due to increased other revenues and reduced interest expenses.
- The inclusion of the Stadium Fund and the Apartment Fund accounted for most of the change in the nonmajor funds with an increase of \$4.0 million in operating revenues.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of Governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and Permanent Funds.

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$273.0 million, a decrease of \$10.6 million in comparison with the prior year. Approximately 66.6% of this amount, \$181.9 million, is unreserved fund balance available for spending at the government's discretion. Included in unreserved fund balance is \$68.3 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 (\$27.8 million); 2) for acquisition and management of open space and urban enhancement (\$33.3 million); and 3) to show the fund balance representing advances to other funds and other assets not available for spending (\$30.1 million).

Revenues for governmental functions overall totaled approximately \$540.1 million in the fiscal year ended June 30, 2003, which represents an increase of \$25.4 million from last year. The major causes for the increase were: 1) tax revenues increased by \$14.0 million; and 2) intergovernmental revenues increased by \$6.8 million caused by an increase of state shared gross receipts tax; and 3) an increase of \$4.0 million in licenses and permits caused largely by construction activities.

Expenditures for governmental functions of \$548.2 million decreased by \$11.9 million from the previous year total of \$560.1 million. The primary cause of the decrease was from reduced debt service requirements of \$16.8 million and reduced expenditures of \$4.9 million for public works. The decrease was offset by increased expenditures for Corrections and Detention of \$6.5 million and other public safety of \$2.6 million. These increased expenditures generally reflect an increased demand and need for public safety services.

General Fund.

This is the City's chief operating fund. At the end of the current fiscal year, the total fund balance was \$43.1 million, of which \$15.0 million is available as an unreserved fund balance. The reserved fund balance of \$28.2 million is designated: 1) for unanticipated expenditures (\$27.8 million equaling 8.33% of recurring expenditures); and 2) to indicate that non-current financial resource assets of \$0.4 million are unavailable to spend or already are committed for spending. Included in the unreserved fund balance is \$0.1 million for unrealized gain on investments since the unrealized gains are not available until the underlying securities are sold. The net change in fund balance for the current fiscal year was an increase of \$6.5 million. A change was made at fiscal year end to bring the City into compliance with the state recommended reserve policy. This change eliminated \$17.8 million of unreserved fund balance designated for future appropriations at the beginning of fiscal year 2003 and changed the determination of the reserved fund balance designated for unanticipated expenditures from 5% of recurring revenues to 8.33% of recurring expenditures.

The total revenues of \$325.8 million for the current fiscal year was \$17.1 million greater than for the previous fiscal year. The increase largely resulted from an increase of \$4.1 million in gross receipts tax revenues, \$5.8 million in intergovernmental revenues, and \$3.6 million in licenses and permits and \$1.1 million increase in charges for services. This was partially offset by a decrease in interest revenues of \$0.2 million caused by weakened investment market rates.

Total expenditures of \$274.8 million represent an increase of \$0.3 million over the previous fiscal year. The expenditures for fire and police protection increased by \$2.6 million due to an increased emphasis on public safety while the expenditures for highways and streets decreased by \$0.5 million. Additional reductions in expenditures from the previous fiscal year are for culture and recreation (\$0.5 million), public works (\$2.4 million) and human services (\$0.4 million). The reductions were necessary due to a weakened economy that resulted in lower revenues than originally anticipated. See the General Fund budgetary highlights for an analysis with respect to budgets.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

FINANCIAL ANALYSIS OF THE CITY'S FUNDS, continued

Proprietary funds

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

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

Airport Fund	\$13.3
Joint Water and Sewer Fund	51.3
Refuse Disposal Fund	6.5
Housing Authority Fund	9.9
Nonmajor enterprise funds	<u>6.9</u>
 Total	 <u>\$87.9</u>

Internal service funds which are used to account for certain governmental activities had deficit unrestricted net assets of \$6.8 million. The Risk Management fund, an internal service fund, had deficit unrestricted net assets of \$12.7 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 ended June 30, 2007. All other internal service funds had positive unrestricted net assets.

Fiduciary funds

The only fund in this category is the City's Trust and Agency fund. This fund is used by the City to account for funds held for third parties.

General Fund budgetary highlights

The City's final budget differs from the original budget. Early in the fiscal year, it became apparent that actual revenues were not meeting forecasted revenues as a result of continuing economic weakness. In response, there were two mid-year modifications in the first six months of the fiscal year. The original budget anticipated revenues of \$339.2 million. In early October 2002, revenue projections were reduced by \$11.1 million to reflect changing expectations. The General Fund budget was reduced by \$4.6 million. A second de-appropriations bill in late November 2002 reduced the budget yet again by \$3.3 million. Subsequent to that, the revenue outlook improved modestly and the total revised revenue shortfall was reduced from \$11.1 million to \$9 million.

In addition to reducing departmental budgets, a hiring freeze, with limited exceptions, was in place the last eight months of the fiscal year. Positions were not filled when they became vacant due to resignations or retirements. Expenses were monitored closely and new disciplinary procedures regarding budgetary responsibility were imposed. All of these actions resulted in actual expenditures being \$10.1 million less than the original budget and \$6.9 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 \$7.2 million, based on the last mid-year budget. All General Fund agencies answered the call for budgetary responsibility by carefully controlling their expenses and returning funds.

Revenues continued to be very difficult to predict during this fiscal year as the economy remained sluggish. Revenues were \$6.3 million less than anticipated in the original budget and \$4.4 million more than the budget as last projected at mid-year, although there was a substantial increase in collections in the last month of the fiscal year. Gross receipts tax (local option and state shared), a major component of the City's operating revenue came in at \$4.6 million more than the last revised budget estimate and \$1.4 million less than the original budget. \$1.4 million in revenue was lost in interest earnings as interest rates remained at historic lows and cash balances declined. 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 permits and fees of \$12.3 million was higher than projected as a result of continued, unusual strength in the construction area, primarily new residential construction.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2003, amounts to \$1.9 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 \$62.7 million or 3.4%.

	CAPITAL ASSETS						Total Percentage Change 2002-2003
	(net of depreciation, in millions of dollars)						
	Governmental Activities		Business-type Activities		Total		
	2003	2002	2003	2002 **	2003	2002 **	
Land *	\$ 209.5	\$ 202.8	\$ 81.8	\$ 81.1	\$ 291.4	\$ 283.8	2.6
Other *	-	-	0.6	0.6	0.6	0.6	0.0
Buildings and improvements	86.7	50.6	192.0	153.9	278.7	204.5	36.3
Runways and improvements	-	-	105.8	118.0	105.8	118.0	-10.4
Improvements other than buildings and runways	158.4	123.9	656.5	677.8	814.8	801.7	1.6
Equipment	32.6	30.5	48.2	52.8	80.9	83.3	-2.9
Infrastructure	53.2	35.0	-	-	53.2	35.0	52.1
Construction in progress *	<u>206.1</u>	<u>248.8</u>	<u>59.0</u>	<u>51.9</u>	<u>265.0</u>	<u>300.7</u>	-11.9
Total	<u>\$ 746.5</u>	<u>\$ 691.6</u>	<u>\$ 1,143.9</u>	<u>\$ 1,136.1</u>	<u>\$ 1,890.4</u>	<u>\$ 1,827.7</u>	3.4

* assets not depreciated

** restated - see note 23

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

- In *governmental activities*, infrastructure assets of \$18.2 million were added for roadways, storm sewers and bike trails. In addition, a totally renovated baseball stadium was completed for \$23.0 million, land was acquired for open space costing \$5.5 million, a new crime lab was completed for \$8.3 million, and replacement vehicles were acquired for the police (\$0.5 million). The construction work in progress decreased by \$42.7 primarily due to the completion of various construction projects while the other change in construction is a result of continuing facility development at the Balloon Fiesta Park, including the Balloon Park Museum, a major expansion of the Albuquerque Museum, and other facilities.
- In *business-type activities*, additions included water and sewer lines (\$24.4 million) and new transit vehicles (\$3.6 million). The construction work in progress increased by \$7.1 million.

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 \$952.8 million of which \$113.7 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 \$800.4 million. The remaining debt is for loans, accrued vacation and sick leave pay, and claims payable.

During the fiscal year ended June 30, 2003 the City issued no bonds.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

Debt Administration, continued

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators 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 1.5% of the \$7.6 billion taxable value of property within the City's boundaries. The City currently may issue up to an additional \$192 million of general obligation bonds. It has \$113 million of general obligation debt outstanding subject to the legal debt limit at June 30, 2003. The net general bonded debt per capita is \$171.61. The highest per capita amount in the last ten fiscal years was \$498.80 in the fiscal year ended June 30, 1994 and the lowest per capita amount was \$171.61 in the current fiscal year.

The City's ratings on uninsured general obligation bonds remained unchanged from the prior year and as of June 30, 2003 were:

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

Since the close of the 2003 fiscal year, the City has issued \$100.0 million in general obligation bonds for the governmental activities. No revenue bonds have been issued for the business-type activities.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2004 budget. Many of the revenues are influenced by the economy. The gross receipts tax revenue forecast particularly is highly influenced by economic conditions. The budget contemplates modest 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. The budget contemplates that these high levels will not be sustained throughout the year.

Charges for entry into some City venues and for certain City services are increased in the fiscal year 2004 budget.

Property tax revenues continue to grow as the economy expands, and one mill of taxing authority has been converted from capital to operations. 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.

The State of New Mexico enacted a large personal income tax rate reduction in the 2003 legislative session. A special legislative session called for in October, 2003, failed to address various tax reform proposals. The impact on cities and counties in the state is unknown, although the Governor has pledged that local governments will be held harmless with respect to their revenue streams should tax measures be enacted during the 2004 legislative session.

Also during the 2003 legislative session, legislation was enacted that transfers "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 shall become debt of the Authority, but the Authority shall not impair the rights of any bondholders of outstanding bonds. All contractual obligations of the existing proprietary activity shall be binding on the Authority. Although the legislation had an effective date of June 20, 2003, an audit by the Public Regulation Commission is a condition precedent to the transfer of money, assets and debts to the Authority. That audit is expected to be completed in the last quarter of calendar year 2003. Following the transfer, the Authority is charged with administering the water and wastewater utility, including the determination and imposition of rates for services. It is not possible at this time to forecast if the Authority will chose to administer the utility by itself, contract with the City to provide that service, or select some other alternative.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued
June 30, 2003

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

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

Fiscal Year	Economic Assumptions Underlying the Revenue Estimates November 2002		
	2002	2003	2004
National Economy			
% Chg Real GDP	0.8%	2.5%	3.5%
% Chg Non-Farm Employment	-0.8%	0.0%	1.9%
% Chg Personal Income	2.1%	3.8%	5.0%
% Chg CPI-U	1.8%	2.1%	2.4%
Federal Funds Rate	2.3%	1.4%	2.5%
Per bbl Price of Oil (WTI)	\$ 23.70	\$ 26.92	\$ 24.83
Unemployment Rate	5.5%	5.9%	5.6%
New Mexico Economy			
% Chg Non-Agricultural Employment	0.7%	0.8%	1.5%
% Chg Personal Income	5.1%	4.9%	4.8%
Unemployment Rate	5.5%	6.5%	6.5%
Albuquerque MSA Economy			
% Chg Personal Income	3.8%	4.4%	5.6%
% Chg Non-Agricultural Employment	0.4%	0.4%	1.6%
% Chg Construction Employment	-3.4%	-3.5%	-0.4%
Albuquerque Unemployment Rate	4.7%	5.6%	5.6%
City Housing Permits Issued (Units)			
Single-Family Residential	4,087	4,181	3,769
Multi-Family Residential	1,002	408	614

Source: November 2002 baseline forecasts. National source is Global Insight Inc.
Local variables from University of New Mexico Bureau of Business and Economic Research

The total General Fund appropriation for fiscal year 2004 is \$350.8 million before interfund eliminations and \$300.0 million after eliminations. The before elimination appropriation of \$14.3 million is a 4.3% increase over the original fiscal year 2003 budget.

The international, national, state and local economies seem to be stabilizing to a modest degree, and the City has not considered it necessary to revise the budget for fiscal year 2004, as opposed to prior years. However, based on recent history, the City continues, and will continue, 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.