

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

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, 2004. 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 \$1.2 billion (net assets). Of this amount, \$112.8 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 decreased by \$404.9 million during the year, principally as a result of the transfer of the water and wastewater utility assets and liabilities to the Albuquerque Bernalillo Water Utility Authority which was created by the Legislature in 2003. The assets and liabilities were transferred effective July 1, 2003.
- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of \$356.1 million. Approximately 75.5% of this amount, \$268.9 million, is unreserved fund balance available for spending at the government's discretion. Included in this amount is approximately \$127.3 million in the Capital Acquisition Fund.
- At the close of the current fiscal year, unreserved fund balance for the general fund was \$33.7 million or 11.3% of the total general fund expenditures of \$298.6 million.
- The City's total long-term debt decreased by \$187.6 million during the current year. The key factors in this change were: 1) the removal of \$260.5 million of noncurrent liabilities of the Joint Water and Sewer Fund, 2) debt reduction payments and liquidations of accrued liabilities totaling \$177.3 million, and 2) the issuance of \$250.2 million bonds and notes payable accompanied by additions to accrued vacation and sick leave pay and claims.

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.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

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, 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.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

OVERVIEW OF THE FINANCIAL STATEMENTS, continued

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, 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 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 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.

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This is the third 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 2003 - 2004
	Governmental Activities		Business-type Activities		Total		
	2004	2003*	2004	2003*	2004	2003*	
Assets:							
Current and other assets	\$ 571.1	\$ 445.6	\$ 169.0	\$ 275.8	\$ 740.1	\$ 721.4	2.6%
Capital Assets	<u>843.0</u>	<u>746.5</u>	<u>456.8</u>	<u>1,162.3</u>	<u>1,299.8</u>	<u>1,908.8</u>	-31.9%
Total assets	<u>1,414.1</u>	<u>1,192.1</u>	<u>625.8</u>	<u>1,438.1</u>	<u>2,039.9</u>	<u>2,630.2</u>	-22.4%
Liabilities:							
Long-term liabilities outstanding	368.0	315.5	283.4	523.6	651.4	839.1	-22.4%
Other liabilities	<u>200.5</u>	<u>130.8</u>	<u>30.7</u>	<u>80.5</u>	<u>231.2</u>	<u>211.3</u>	9.4%
Total liabilities	<u>568.5</u>	<u>446.3</u>	<u>314.1</u>	<u>604.1</u>	<u>882.6</u>	<u>1,050.4</u>	-16.0%
Net assets:							
Invested in capital assets, net of related debt	557.9	504.1	197.6	669.5	755.5	1,173.6	-35.6%
Restricted	211.5	192.0	77.5	76.9	289.0	268.9	7.5%
Unrestricted	<u>76.2</u>	<u>49.7</u>	<u>36.6</u>	<u>87.6</u>	<u>112.8</u>	<u>137.3</u>	-17.8%
Total net assets	<u>\$ 845.6</u>	<u>\$ 745.8</u>	<u>\$ 311.7</u>	<u>\$ 834.0</u>	<u>\$ 1,157.3</u>	<u>\$ 1,579.8</u>	-26.7%

* 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 \$1.2 billion at the close of the year. The largest portion of the City's net assets (65.3%) reflects its investment of \$755.5 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Changes in Net Assets

	CHANGE IN NET ASSETS (in millions of dollars)						Total Percentage Change 2003 - 2004
	Governmental		Business-type		Total		
	Activities		Activities		Total		
	2004	2003*	2004	2003*	2004	2003*	
REVENUES							
Program revenues:							
Charges for services	\$ 83.9	\$ 75.8	\$ 125.0	\$ 119.0	\$ 208.9	\$ 194.8	7.2%
Operating grants and contributions	32.8	28.7	25.2	24.8	58.0	53.5	8.4%
Capital grants and contributions	2.4	9.9	12.8	16.7	15.2	26.6	-42.9%
General revenues:							
Gross receipts taxes	132.3	122.0	-	-	132.3	122.0	8.4%
Property taxes	88.3	86.4	-	-	88.3	86.4	2.2%
Other taxes	32.3	26.4	-	-	32.3	26.4	22.3%
State shared taxes and fees	161.8	152.5	-	-	161.8	152.5	6.1%
Grants, investment income, and other	33.5	35.5	0.1	1.4	33.6	36.9	-8.9%
Total revenues	567.3	537.2	163.1	161.9	730.4	699.1	4.5%
EXPENSES							
General government	65.2	53.0	-	-	65.2	53.0	23.0%
Public safety:							
Corrections and detention	42.9	40.9	-	-	42.9	40.9	4.9%
Fire protection	50.9	47.3	-	-	50.9	47.3	7.6%
Police protection	102.7	97.9	-	-	102.7	97.9	4.9%
Cultural and recreation	66.8	71.8	-	-	66.8	71.8	-7.0%
Public works	9.3	9.0	-	-	9.3	9.0	3.3%
Health	11.1	10.3	-	-	11.1	10.3	7.8%
Human services	48.4	51.6	-	-	48.4	51.6	-6.2%
Housing	3.4	4.0	-	-	3.4	4.0	-15.0%
Highways and streets	18.3	22.2	-	-	18.3	22.2	-17.6%
Special assessments	6.6	0.8	-	-	6.6	0.8	725.0%
Interest expense	15.9	15.3	-	-	15.9	15.3	3.9%
Airport	-	-	60.8	60.6	60.8	60.6	0.3%
Refuse Disposal	-	-	39.4	37.2	39.4	37.2	5.9%
Housing Authority	-	-	26.4	25.8	26.4	25.8	2.3%
Transit	-	-	31.4	31.1	31.4	31.1	1.0%
Non major enterprise funds	-	-	14.3	13.0	14.3	13.0	10.0%
Total expenses	441.5	424.1	172.3	167.7	613.8	591.8	3.7%
Excess (deficiency) before transfers	125.8	113.1	(9.2)	(5.8)	116.6	107.3	8.7%
Joint Water & Sewer Fund**	-	-	(538.7)	50.0	(538.7)	50.0	-1177.4%
Transfers	(25.6)	(15.9)	25.6	15.9	-	-	----
Increase (decrease) in net assets	\$ 100.2	\$ 97.2	\$ (522.3)	\$ 60.1	\$ (422.1)	\$ 157.3	-368.3%

* Restated see note 22

** Program and general revenues for the Joint Water and Sewer Fund has been removed from the 2003 revenues. Those amounts have been netted against its expenses for presentation purposes.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

GOVERNMENT-WIDE FINANCIAL ANALYSIS, continued

Analysis of Changes in Net Assets, continued

The City's overall net assets decreased by \$422.1 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 \$100.2 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 7.1% as compared to the prior year.

Investment earnings were reduced from \$8.6 million in fiscal year ended June 30, 2003, to \$4.3 million in the current year. The primary cause for this reduction was the continuing weakened investment market experienced by virtually all governments and to reduced investment balances during the year.

Intergovernmental revenues plus operating and capital contributions from sources other than state shared taxes was decreased by \$3.4 million.

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

Business-type activities. Business-type activities decreased the City's net assets by \$522.3 million. Key factors of this decrease are as follows:

The Airport fund had an increase in net assets of \$2.2 million in fiscal year 2004 compared to a \$0.4 million increase in 2003. The passenger facilities charges (PFC) were decreased from the prior year by \$0.3 million. The September 11, 2001 events continued to have a slightly negative impact on the level of air travel in fiscal year 2004. In addition, the soft investment market resulted in reducing investment earnings to a net loss of \$0.3 million that was largely caused by unrealized losses of \$0.8 million.

For the Refuse Disposal fund, the reported change in net assets of \$3.8 million was increased from \$3.2 million in fiscal year 2003. The primary change was due to increased operating income, other revenues and reduced interest expenses.

This is the first year that the Transit Fund has been included as a major fund. The current year change in net assets was \$9.6 million compared to \$3.5 million for the prior year. The increase was primarily due to the increased subsidy transfer from the General Fund by \$3.6 million and an increase in the capital contribution of \$2.6 for capital assets purchased or constructed in the Capital Acquisition Fund.

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 2004 those revenues were \$4.9 million.

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

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 \$356.1 million, a increase of \$83.1 million in comparison with the prior year. Approximately 75.8% of this amount, \$270.0 million, is unreserved fund balance available for spending at the government's discretion. Included in unreserved fund balance is \$127.3 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 (\$29.5 million); 2) for acquisition and management of open space and urban enhancement (\$26.9 million); and 3) to show the fund balance representing advances to other funds and other assets not available for spending (\$29.7 million).

Revenues for governmental functions overall totaled approximately \$575.8 million in the fiscal year ended June 30, 2004, which represents an increase of \$35.7 million from the prior year. The major causes for the increase were: 1) tax revenues increased by \$20.3 million; and 2) intergovernmental revenues increased by \$13.6 million caused by an increase of state shared gross receipts tax; and 3) an increase of \$5.7 million in charges for services.

Expenditures for governmental functions of \$616.5 million increased by \$68.3 million from the previous year total of \$548.2 million. The primary cause of the increase was from increased debt service requirements of \$24.5 million, increased expenditures of \$19.9 million for capital outlay, and \$26.4 million for general government services and public safety. 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 \$64.8 million, of which \$33.7 million is available as an unreserved fund balance. The reserved fund balance of \$31.0 million is designated: 1) for unanticipated expenditures (\$29.5 million equaling 8.33% of recurring expenditures); and 2) to indicate that non-current financial resource assets of \$1.5 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 \$21.7 million.

The total revenues of \$368.9 million for the current fiscal year were \$43.1 million greater than for the previous fiscal year. The increase largely resulted from an increase of \$8.5 million in gross receipts tax revenues, \$13.6 million in intergovernmental revenues, \$8.2 million in property taxes and \$3.3 million in charges for services. This was partially offset by a decrease in interest revenues of \$0.3 million caused by continuing low interest rates.

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

FINANCIAL ANALYSIS OF THE CITY'S FUNDS, continued

Total expenditures of \$298.6 million represent an increase of \$23.8 million over the previous fiscal year. The expenditures for general government increased by \$15.6 million. The major cause of this increase was \$3.0 million for municipal development, \$4.3 million for FY '03 bonuses, \$1.1 million for a gross receipts tax audit, \$1.6 million for early retirement and \$2.2 million on city buildings. Police and fire protection increased by \$9.5 million due to an increased emphasis on public safety while the expenditures for highways and streets decreased by \$4.3 million. Additional increases in expenditures from the previous fiscal year are for culture and recreation (\$0.5 million), public works (\$1.8 million), and health and human services (\$0.6 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	\$ 15.0
Housing Authority Fund	10.9
Refuse Disposal Fund	5.7
Transit Fund	3.3
Nonmajor enterprise funds	<u>1.7</u>
	<u>\$ 36.6</u>

Internal service funds, which are used to account for certain governmental activities, had deficit unrestricted net assets of \$8.0 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 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 FY04 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. As opposed to FY03, when there were two mid-year modifications in the first six months of the fiscal year, such adjustments were not necessary in this fiscal year. However, revenues and expenses were monitored closely throughout the year and new disciplinary procedures put in place in the prior fiscal year regarding budgetary responsibility remained in place. These actions resulted in actual expenditures being \$2.3 million less than the original budget and \$10.6 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 \$3.4 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.

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

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 \$21.8 million greater than anticipated in the original budget and \$9.4 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 \$8.6 million more than the last revised budget estimate and \$17.8 million more than the original budget. \$0.6 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 licenses and permits of \$13.7 million were higher than projected as a result of continued, unusual strength in the construction area, primarily new residential construction.

The Department of Municipal Development, created early in the fiscal year for the purpose of coordinating CIP activities, was very successful in implementing and completing both bond and general fund projects. Backlogs were reduced substantially from \$240.0 million at the beginning of the fiscal year to \$170.9 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, 2004, amount to \$1.3 billion (net of accumulated depreciation). Capital assets include land, buildings, infrastructure, improvements other than buildings, and equipment. The total decrease in the City's capital assets for the current fiscal year was \$590.6 million or 31.3% from fiscal year 2003, primarily because of the transfer of the utility assets to the Albuquerque Bernalillo Water Utility Authority. Absent that extraordinary event, the increase in the City's capital assets for the current fiscal year would have been \$93.3 million, or 7.7% increase from fiscal year 2003.

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

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2004	2003	2004	2003	2004	2003	2003-2004
	Land *	\$ 215.9	\$ 209.5	\$ 58.5	\$ 81.8	\$ 274.4	\$ 291.4
Other *	0.9	-	0.7	0.6	1.6	0.6	150.1
Buildings and improvements	133.2	86.7	191.8	192.0	325.0	278.7	16.6
Runways and improvements	-	-	93.7	105.8	93.7	105.8	-11.4
Improvements other than buildings and runways	156.3	158.4	35.6	656.5	191.7	814.9	-76.5
Equipment	35.7	32.6	34.8	48.2	70.6	80.8	-12.6
Infrastructure	77.6	53.2	-	-	77.6	53.2	45.7
Construction in progress *	223.5	206.1	41.8	59.0	265.3	265.0	0.1
Total	\$ 843.0	\$ 746.5	\$ 456.8	\$ 1,143.9	\$ 1,299.8	\$ 1,890.4	-31.2

* assets not depreciated

CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004

CAPITAL ASSETS AND DEBT ADMINISTRATION, continued

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

In *governmental activities*, infrastructure assets of \$22.1 million were added for roadways, storm sewers and bike trails. In addition, land was acquired for open space costing \$4.5 million and replacement vehicles were acquired for the police (\$0.5 million). The construction work in progress increased by \$17.5 million primarily due the continuing facility development at the Balloon Fiesta Park Museum, a major expansion of the Albuquerque Museum, and other facilities.

In *business-type activities*, additions included new transit vehicles (\$1.7 million) and new solid waste vehicles and heavy equipment (\$6.2 million). The construction work in progress increased by \$7.1 million. The assets of the water utility were transferred to the Albuquerque Bernalillo Water Utility Authority for a decrease of \$683.9 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 \$790.7 million of which \$142.1 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 \$682.3 million. The remaining debt is for loans, accrued vacation and sick leave pay, and claims payable.

During the fiscal year ended June 30, 2004 the City issued bonds for \$186.4 million. \$135.8 million was deposited into the Capital Acquisition Fund for the betterment of parks and recreation, zoo, library, museum, senior citizens, community center, public transportation facilities and for improvements to the storm sewer system. In addition, 50.6 million was deposited into the Airport fund for improvements on runways and terminal facilities.

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 2.1% of the \$7.9 billion taxable value of property within the City's boundaries. The City currently may issue up to an additional \$100.5 million of general obligation bonds. It has \$215.0 million of general obligation debt outstanding subject to the legal debt limit at June 30, 2004. The net general bonded debt per capita is \$168.35. The highest per capita amount in the last ten fiscal years was \$494.71 in the fiscal year ended June 30, 1995 and the lowest per capita amount was \$168.35 in the fiscal year ended June 20, 2004.

The City's ratings on uninsured general obligation bonds remained unchanged from the prior year and as of June 30, 2004 were:

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

Since the close of the 2004 fiscal year, the City has issued \$60.9 million in gross receipts tax/lodgers' tax refunding bonds for governmental activities. No revenue bonds have been issued for business-type activities.

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

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 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 2004 fiscal year. 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 mostly unchanged in the fiscal year 2005 budget. However, the 2004 New Mexico Legislature imposed a 5% governmental gross receipts tax on parking receipts. That tax will be passed through to users of City parking services in fiscal year 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.

The State of New Mexico enacted a large personal income tax rate reduction in the 2003 legislative session. The City has been unable to determine with any degree of certainty what the impact has been on the City of that rate reduction, but it is possible that part of the growth in gross receipts tax revenue seen in fiscal year 2004 may be attributable to that change. However, that impact, if any, is not expected to carry into fiscal year 2005.

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 will be funded by the state by a repeal of the half-cent credit against local option impositions, also effective January 1, 2005. The City will closely monitor this new distribution to ensure there are no negative repercussions from this State action.

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 is expected to generate about \$27.8 million on an annual basis and was effective on July 1, 2004. The fiscal year 2005 budget reflects tax proceeds for eleven months of the year.

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. During that election, the voters again rejected the proposal for unification of the City and Bernalillo County governments. The question may not be put again to the voters for two years.

**CITY OF ALBUQUERQUE, NEW MEXICO
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2004**

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-2003			
Fiscal Year	2003	2004	2005
National Variables			
% Chg Real GDP	2.7%	3.8%	4.0%
% Chg Non-Farm Employment	-0.5%	0.1%	2.2%
Federal Funds Rate	1.4%	1.0%	1.4%
10 U.S. Bonds	4.0%	4.4%	5.0%
% Chg CPI U	2.2%	1.6%	1.5%
Per bbl Price of Oil (WTI)	29.92	26.70	24.26
Unemployment Rate(U.S.)	5.9%	6.2%	5.9%
% Chg in Personal Income	3.1%	4.2%	5.5%
New Mexico Economy			
% Chg Total Non-Agricultural Employment	1.6%	1.6%	2.2%
% Chg Personal Income	4.5%	5.4%	5.4%
Unemployment Rate	5.6%	6.2%	6.0%
Albuquerque MSA Economy			
% Chg Total Non-Agricultural Employment	0.5%	1.8%	2.9%
% Chg Construction Employment	-4.5%	2.2%	1.3%
% Chg Personal Income	5.4%	5.6%	5.8%
Unemployment Rate (Alb.)	4.9%	4.9%	4.8%
Construction Units Permitted in City of Albuquerque			
Single-Family Permits	4867	5026	4791
Muli-Family Permits	493	762	608
Total Residential Permits	5360	5788	5399

Source: October 2003 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
June 30, 2004**

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

The total General Fund appropriation for fiscal year 2005 is \$401.8 million before interfund eliminations and \$346.3 million after eliminations. The total appropriation increased by \$49.0 million, which is a 14.5% increase over the original fiscal year 2004 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 2005, 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.