



November 20, 1998

Honorable Mayor and City Council
City of Albuquerque, New Mexico

We are pleased to submit the Comprehensive Annual Financial Report of the City of Albuquerque, New Mexico, (City), for the fiscal year ended June 30, 1998. The report was prepared by the Finance and Administrative Services Department. The responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, rests with the City. As indicated by the opinion of our independent auditors, the report fairly presents the financial position and results of operations of the City as measured by the financial activity of its various funds and account groups. The report has been set forth in a manner that will give the reader a broad understanding of the City's financial affairs. It includes disclosures necessary for the reader to gain an understanding of the City's financial activities.

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

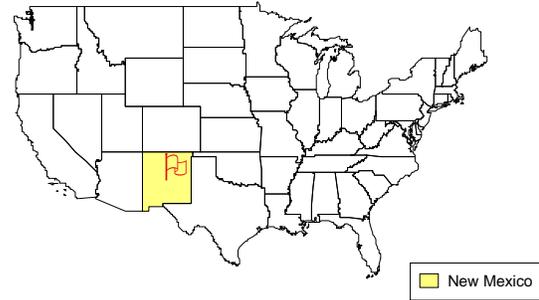
It is important to note that the report is designed in such a manner that the "general purpose financial statements" in Exhibits A-1 through A-6 and the Notes to the Financial Statements fully present and disclose the financial position and results of operations of all funds of the City. All other exhibits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

The Comprehensive Annual Financial Report (CAFR) of the City includes all government activities, organizations and functions for which the City is financially accountable. The criteria used to determine financial accountability are based upon and consistent with the pronouncements of the Governmental Accounting Standards Board, which sets criteria for defining the financial reporting entity. The City of Albuquerque is a major municipal government providing a full range of services to approximately 430,000 citizens. Included in these services are traditional city functions such as police and fire protection, culture and recreation, public works, road and traffic signal maintenance, water and sewer services, and refuse collection. In addition, the City operates parking facilities, a transit system, an international airport, corrections and detention facilities, and a housing authority. The City does not have any other relationships with organizations not included in this CAFR of such nature and significance that exclusion would render the City's financial statements incomplete or misleading.

ECONOMIC CONDITION AND OUTLOOK

Summary of Local Economy

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



The Albuquerque area has experienced strong broad-based growth in the 1990's. Annual growth in non-agricultural employment peaked at 6.1% in 1994 slowing to 2% in 1997. During the first half of 1998, the Bureau of Business and Economic Research (BBER) estimates annual growth at under 2%. The New Mexico Department of Labor (DOL) estimates that unemployment for the Albuquerque MSA for June 1998 was 4.9% up from 4.2% in June 1997. Personal income growth has followed the same trend as employment.

Although growth has slowed, Albuquerque continues to be an attractive place for business to locate and expand. Sun Healthcare is completing a \$65 million construction project that will house their corporate offices and employ over 1000 employees. Several customer service centers have expanded or recently opened including Gateway 2000, Victoria's Secret, America Online, VoiceStream Wireless, NationsBank/BOA Sprint and Citicorp. Emcore Corporation has recently completed construction of a new facility, to build solar cells for satellites, and is the first resident of the 400 acre Sandia Research Park with expected employment of 264.

Major Industries

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

Non Agricultural Employment in the Albuquerque MSA

| Category | 1997 Employment in Thousands | Share of Employment | Annual Growth 1997 | Average Annual Growth 1993-97 | Forecasted Avg. 1998-99 |
|------------------------|---------------------------------|------------------------|-----------------------|----------------------------------|----------------------------|
| Total Non-Agricultural | 289.50 | | 1.9% | 2.8% | 2.3% |
| Trade | 69.80 | 24.1% | 2.5% | 2.9% | 2.3% |
| Services | 88.52 | 30.6% | 2.2% | 3.4% | 2.7% |
| Government | 58.65 | 20.3% | 1.6% | 1.8% | 1.6% |
| Manufacturing | 26.43 | 9.1% | 1.5% | 2.2% | 2.6% |
| Construction | 17.53 | 6.1% | -1.2% | 4.3% | 0.3% |
| TCU | 12.90 | 4.5% | 4.4% | 3.7% | 5.0% |
| FIRE | 15.48 | 5.3% | 1.7% | 1.5% | 2.8% |

Source: BBER, August 1998 FORUNM Forecast

Manufacturing. Albuquerque's small manufacturing sector accounts for about 9% of total non-agricultural employment and is one of the area's most dynamic sectors. Manufacturing employment increased by 7.9% in 1993, 7.4% in 1994, and 3.3% in 1995 slowing to 1.5% in 1997. Additional manufacturing jobs at Intel, Philips Semiconductors, Motorola, Amtech Systems Corporation, Trend Plastics and other firms more than offset job losses at Honeywell Defense Avionics, Siemens Stromberg Carson, and Digital Equipment Corporation. The most dramatic gains have been at Intel, where a \$2 billion plant expansion launched in 1993 helped boost employment to 6,500 – roughly 5,000 more than were on board in 1990.

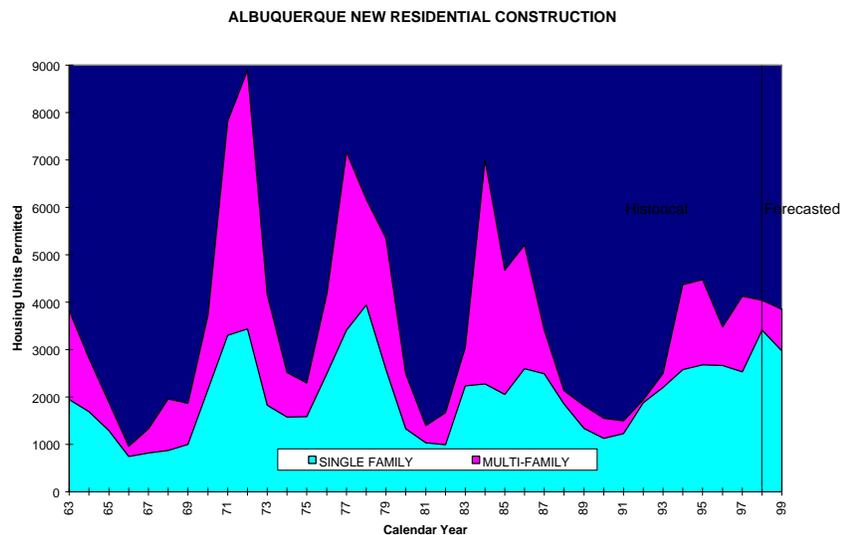
Investments by Intel and other high tech firms have helped to create a critical mass of activity in Albuquerque that has attracted interest by other firms — competitors, suppliers, and customers. Among those thus attracted is Sumitomo, a producer of the silicon wafers used in the manufacture of computer chips. Sumitomo recently received approval for \$265 million in industrial revenues bond authority to expand its local plant. Silmax Corporation began recycling silicon wafers at its Albuquerque plant in 1995. Tri-Gas, which produces gases used by semi-conductor and other industries, has expanded its local operations. Control Systems, in Rio Rancho, makes equipment for computer chip manufacturers. Also present in the Albuquerque MSA are firms specialized in various aspects of clean-room technology. At the other end of the production process, Albuquerque Economic Development reports interest, in locating to Albuquerque, by software manufacturers.

Unfortunately, the critical mass of electronics activity has created new vulnerabilities. Intel has faced intense competition in the flash memory market. In December 1997, Intel announced plans to invest \$1 billion to upgrade its flash memory capability at the Sandoval County plant. The investment and associated reorganization should considerably extend the life of existing facilities, but fewer employees will be required. Indeed, recent reports indicate employment at Intel may fall by more than 500. The work-force reductions are reportedly being achieved primarily by absorbing redundant workers into other operations here or relocating them elsewhere, but the overall loss of jobs is not without impact.

Metropolitan area firms are also being hit by developments in Asia. This is not surprising given that over 90% of the international sales by New Mexico electronics firms have been to Asian countries. Motorola recently announced a permanent layoff of 220, while Philips Electronics, which had already put on hold a planned expansion expected to add some 400 jobs, announced a two-week furlough of 560 employees, with two more furloughs possible this year. The competition from Asia is likely to intensify the competition felt by Intel from low cost computer-makers. BBER believes things could get worse, and adjusted the manufacturing forecast downward by 1,000 jobs to reflect further downside risk associated with the Asian financial crisis.

Manufacturing employment was basically flat in 1996 and 1997, and growth of less than 1% is expected in 1998. In addition to the problems in electronics, Levy Strauss has closed its plant and laid off over 500 workers. But Allied Signal has received an industrial revenue bond to refurbish the plant and build small gas turbine generators. The latest forecast anticipates things will improve substantially in 1999, and manufacturing job growth for that year is (optimistically) forecast at 3.9%. This is in light of planned investments by Karsten and Cavco (two manufactured housing firms), Bueno Foods, Universal Printing, CVI Laser, Trend Plastics, MCT Industries, and Insight Lighting.

Construction. Much of the growth over the past few years — in jobs and in gross receipts tax revenues — has been related to construction. Construction boomed in the mid-1980's, but the boom was followed by a six year contraction. A mini-boom in single family residential construction finally turned things around, and, in 1992, jobs in the construction sector expanded by 11.5%. Construction employment picked up another 22.9% in 1993, as the \$2 billion Intel project took off. It then expanded by 22.6% in 1994, as multi-family construction revived and non-residential construction picked up. Things began to wind down in 1995, and by the final quarter, construction employment was down 6% from a year earlier. Construction employment has fallen in almost every quarter since then. BBER is forecasting a decline of 1.2% in 1998 but an increase of 1.9% in 1999.



Lower mortgage rates continue to help hold up single family housing starts. City of Albuquerque permits for new single family housing were basically flat in 1996, with a substantial tailing off at the end of the year and further slowing into 1997. The second half of 1997, and 1998 to date, have been quite strong. New multi family construction did well in the second half of 1997, but there has been little building in 1998. BBER's forecast anticipates that new single family units should remain at current levels – 2,400 to 2,500 per year within the City limits. New multi-family construction has

declined dramatically. In 1996 the number of units permitted by the City was less than half the 1995 total. Things improved in 1997 but were only about 500 less than in 1994 and 1995. CB Commercial forecasted that approximately 1,200 multi-family units would be started in the metropolitan area in 1998. Unfortunately, through August the number of multi-family units permitted within the city was only 126 compared to 863 units at this time in 1997.

Permits for new non-residential construction held up quite well in 1997, but there were substantial declines in the value of construction permitted for additions, repairs and alterations. This has continued through 1998.

With respect to public projects, the BioPark is built and Albuquerque Sunport master plan expansion is largely complete, as is the federal courthouse project downtown. Major public projects still in the design phase include the County courthouse and new jail. The retail market has shown surprising strength with Albuquerque attracting investments by national chains. Despite concerns that Albuquerque is over built in retail, CB Commercial figures indicate that vacancy rates for retail properties in the metropolitan area averaged just over 8% at year end. In the office area, the situation is in marked contrast to that of the late 1980's. Including sublease space, the overall vacancy rate for office buildings at the end of 1997 stood at 12%. There has been basically no speculative office construction. Almost everything is build-to-suit. Some of the office vacancies are actually occasioned by new entrants (e.g., back-office operations) who decide to build a permanent facility to house their expanding Albuquerque operations. With respect to industrial properties, CB Commercial reports that the industrial market ended 1997 with a vacancy rate of under 4%. A bright spot occurs in non-building construction; the federal government has increased the road funding in New Mexico dramatically—48% to \$258 million annually. A major (nearly \$200 million) two-year effort to improve the Interstate system through Albuquerque is scheduled to begin in early 2000.

Services. The service sector has also been a major generator of new jobs. This sector was the only sector in the private economy to add jobs at a healthy rate throughout the national recession. Job growth has generally exceeded 4% and was over 6% in 1994 and 1995. The rate of growth slipped to 1.0% in 1996 and was 2.2% in 1997. The slow growth in 1996 reflected the Labor Department's decision to change the industrial classification of some employees in the service sector. Service sector employment was also negatively impacted in both 1996 and 1997 when lower funding for the nuclear weapons program resulted in a workforce reduction at Sandia National Laboratories.

Albuquerque is a major regional medical center. The health services industry has had one of the fastest rates of growth of employment; a compound annual rate of 5.4% since 1988. Even with the uncertainties regarding health care financing and announced cutbacks at local medical centers, BBER anticipates employment growth will average 3.7% over the next couple years. Contributing to the increase is Sun Healthcare Group, with \$65 million in industrial revenue bond authority they have constructed a corporate headquarters projected to employ 1,000 new permanent employees.

Even with the DOL reclassifications discussed above, employment in the business services sub-sector grew at a compound annual rate of over 3.4% between 1993 and 1997. This sub-sector includes (or included before the recent DOL reclassifications) many of Albuquerque's growing back office operations. To give some sense of the diversity of these operations, now variously classified, MCI Consumer Markets employs over 1,000 in their telemarketing operation; Citicorp employs some 700 at a credit processing center which is continuing to expand; America Online is providing software and hardware assistance at a facility which is expected ultimately to employ over 1,000; Baxter Healthcare employs 550 in a customer payment processing center; and Southwest Airlines, American Airlines (Trace Miller) and Radisson all have opened reservation centers. Intuit recently closed its Rio Rancho service center, which employed as many as 650 during tax season, but Victoria Secret has moved into Intuit's facility. Gateway 2000 has completed a 50,000 square foot facility employing 240 that could ultimately employ 500 workers answering customer questions, and Nations Bank is proceeding with plans for a credit card service center to employ over 1,000 people. In Albuquerque proper, VoiceStream Wireless has received industrial revenue bond authority for a customer service and technical support center that could employ 500.

There continue to be concerns about potential labor shortages. Thus far, however, telemarketing and other firms seem to have been able to meet their labor needs. However they are classified, Albuquerque is likely to see more investments in back-office operations in the future. It should be noted that while back-office jobs add to the metropolitan area's export base, call centers and the like pay little if any gross receipts taxes. The jobs are also typically relatively low paying, although the higher end technical support centers can pay wages comparable to good manufacturing jobs.

Only a portion of the growth in business services employment can be attributed to back-office jobs. The business services sub-sector also includes the increasingly important phenomenon of temporary workers. No longer primarily a supplier of clerical and other office workers, temporary employment services now provide production workers for manufacturing concerns and can meet employer needs for a range of technical and professional workers. Temporary employment can suit well personal and family needs for more flexibility than is allowed in a permanent full time position. Temporary employment can also be a last resort for those who cannot find permanent work. Pay is frequently low and benefits non-

existent. Whatever the drawbacks from the standpoint of workers, many employers appreciate the flexibility offered by temporary employment agencies. In Albuquerque and elsewhere, this type of employment is likely to grow.

Trade(wholesale and retail). An influx of new residents, strong income growth, low interest rates, the ability to refinance mortgages and improve cash flow, pent-up demand, and a booming market for new and existing homes, which required new furnishings, appliances, etc. — the conditions for a surge in retail sales probably could not have been better. And there was an additional plus in the tourism and convention business. Under these favorable conditions, taxable gross receipts from retail trade within the City limits increased by almost 10.4% in fiscal year 1993 but have gradually slowed and increased by 3.5% and 3.3% in fiscal years 1997 and 1998 respectively. Rising sales have brought new retailers into the market and encouraged many existing businesses to expand.

Government. The total number of government employees in the Albuquerque MSA increased by almost 9,000 between 1991 and 1997. The gain was all at the state and local level. Federal government has been something of a drag on the Albuquerque economy since the late 1980's. Military employment has declined in every year since 1989, and there have been reductions in federal government employment in each year since 1993. Reductions in federal military spending have been responsible for losses in employment at General Electric, Honeywell Defense Avionics, and BDM. Employment at Sandia National Laboratories, which is operated by Lockheed Martin, was relatively stable until recently, but total reductions in employment at Sandia – regular and contract employees – since 1994 total 1700. Sandia NL currently has a workforce of 6,600 people. Funding from the federal government for the nuclear weapons program and nuclear surety now seem relatively secure as Sandia assumes new roles in a post-Cold War period involving nuclear non-proliferation, arms control, and stockpile maintenance. Sandia is also more aggressive in its pursuit of technology transfer and is embarking upon a new technology park to house private sector businesses with which the lab is collaborating.

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

Future Economic Outlook

Although growth has recently slowed, the BBER expects employment in the MSA to increase at 2.7% in 1999 and 2000. This growth will be led by increases in the service, transportation and communications, and manufacturing sectors. The forecast of moderate growth for the Albuquerque MSA in 1998 and 1999 is subject to upside risk, but the downside risks come from many directions: the possibility of a national recession; further adverse impacts from the Asia financial problems; a prolonged slump in tourism; of inadequate wage growth; further and steeper declines in construction activity.

On the upside, Albuquerque has evidenced a dynamism over the past few years and has attracted considerable national attention as a city on the move and as a desirable place not only to visit but to live and do business. Once heavily dependent on defense, the metropolitan area economy has expanded and diversified. Significant investments by producers of semi-conductors and other high technology firms have helped to create the critical mass necessary to attracting further investments by suppliers, customers, and other producers.

DEPARTMENT EFFORTS AND ACCOMPLISHMENTS

Each year, the City selects a department or project to highlight for its efforts and accomplishments. In 1998, it is our pleasure to highlight the Downtown Revitalization project currently being undertaken by the City under the cooperation of both the public and private sectors. This narrative highlights the history of the Downtown area and future plans for its revitalization.

Center City/Downtown

Central Albuquerque is generally thought of as that area between the Rio Grande, Interstate 40, Interstate 25, and historic Barelás neighborhood.

Within this area are some of Albuquerque's most prominent features -- financial headquarters, government complexes, schools, a university, convention center, museums, hospitals, libraries, specialty retail, restaurants, biological park, zoo, aquarium, botanical garden, railroad, the Rio Grande, Old Town, historic neighborhoods, cultural centers and parks.

Downtown's Heritage

At the heart of the Center City is the Downtown. Downtown's past is the history of modern Albuquerque for in many ways Downtown was Albuquerque. The origin of Downtown is, in fact, the real origin of Albuquerque. Downtown represents an American tradition of city building. This contrasts and compliments the earlier European Spanish tradition of community-building which characterizes the earlier settlement of the Center City area surrounding Downtown.



1880-1920

Downtown's origins reflect the introduction of a higher technology (the railroad) and a national economy pursuing industrialization. The Atchison Topeka and Santa Fe Railroad reached Albuquerque in February 1880 and established an Albuquerque station at a point two miles east of the older town. A new town was established in that year, and it, not the older community to the west, is the basis of today's modern city. The new settlement was incorporated as a village in 1880, as a town in 1885, and as a city in 1891. The original new town site is today's Downtown. The railroad connected Albuquerque to the entire United States and to the larger world. It brought people, new ideas, new materials and new finished goods into the area and allowed travel and the export of local products to other places. The new town, especially its commercial district, functioned for local residents as a showcase of the world.

Downtown's first forty years, therefore, was a time in which it was pivotal in developing the enduring characteristics of Albuquerque's urban economy: a wholesale and retail trade center for a very large surrounding area.

1920-1940

The prosperity following the First World War and the subsequent worldwide economic depression resulted in Downtown's further development of many urban images and traditions that would disappear in the near future. Downtown became a center of governmental offices at this time.

1940-1965

The prosperity following the Second World War strained the ability of Downtown to continue its traditional function as the centralized place in the community for



virtually all important aspects of daily life. Downtown did not expand to keep pace with the city's expansion.

1965 - Present

Decentralization of many functions, activities and businesses from Downtown occurred as a form of social and economic disinvestment in the city's heart. A poorly conceived and executed Urban Renewal program severely damaged the Downtown's physical fabric. During this time Downtown struggled to remain to be competitive in attracting new investment and to simultaneously develop new functions for its traditional role in the city. Recognition of the fundamental importance of a healthy Downtown to a healthy community began to grow toward the end of this period.

Downtown Today

Albuquerque's Center City and Downtown is the real and symbolic center of the metropolitan area. Over 20,000 people live in the Center City and 35,000 people work within the area. It is the social and economic heart of Albuquerque.

Downtown is the physical embodiment of the City's history, character and business reputation. Within it stands the city's architecturally distinctive buildings, plazas and streetscapes that evoke the city's unique history, present character, and hope filled future. Mention the name Albuquerque and images of Downtown, Old Town, and the Rio Grande springs to mind. It is the collection of buildings, people, jobs and opportunities all together in one area that makes up Downtown's image.



Today Downtown offers an expanding range of cultural events, civic activities, educational opportunities, entertainment and recreational opportunities. Downtown provides the location of choice for activities that benefit from face-to-face communication -- an informal lunch on the plaza, strolling along the Fourth Street Mall, window shopping along Central Avenue, meeting in the lobby of the Hyatt Hotel. Downtown is still the civic gathering place for Albuquerque. The reputation of Downtown is built on the social and economic strength of the area. Downtown can be a source of civic self-respect, or embarrassment, to all area citizens, depending upon the choices the citizens make for its future. These choices will help serve as a foundation for the revitalization of the City's downtown area.

Downtown Revitalization

The fortune and future of Downtown and its surrounding Center City move in concert. If Downtown and its adjacent neighborhoods are strong and productive then the entire metropolitan area will prosper. Downtown and the surrounding Center City area represent substantial public and private investment in the built environment (infrastructure, buildings, parks, etc.) Allowing that physical investment to deteriorate, and with it the social fabric of the community, is wasteful and threatens not only the quality of life of city residents, but also the vitality of the entire metropolitan region.

Today Downtown and its environs are very stable. More importantly it has the potential to grow and change in ways beneficial to the entire metropolitan area. The citizens of Albuquerque want it to be much more vibrant and energetic. Creating a newly energized Downtown and surrounding neighborhoods requires the sincere dedication of both the public and private sectors in a multi-pronged strategy. It involves:

- public / private partnerships
- building new housing opportunities
- attracting more people and businesses to locate in the area
- revitalizing older urban neighborhoods
- finding productive ways to reuse existing buildings
- creating environments that invite people to gather
- growing entertainment and cultural activities in the area
- creating more jobs

Most of all, it will require confidence in and dedication to Downtown and the adjacent Center City area. The public and private sectors have both committed to substantial reinvestment in the area. Public sector projects include:

Hispano Cultural Center, State of New Mexico
Explora Science Museum, City of Albuquerque
Tingley Beach Renovation, City of Albuquerque
Alvarado Transportation Center, City of Albuquerque
Kimo Theater Renovation, City of Albuquerque
Central Avenue Streetscape, City of Albuquerque
Natural History Museum Expansion, State of New Mexico



Private investment is again assuming a primary role in directing Downtown's future. Adaptive reuse of the Old Albuquerque High School will be done as a joint public/private project. Private sector activities include:



Downtown housing development
Arts & Entertainment center
Retailing
Tourism and festivals
Visual and Print Arts
Events Center (Arena, stadium, etc.)
Introducing higher technologies

Downtown's Future

As Albuquerque has experienced profound transformations in the last half of this century, so change will continue. The nature of that change will depend on many forces -- demographics, economics, and social demands -- but also in the kinds of decisions and commitments the community leaders and citizens make for the Downtown and its surrounding Center City area.

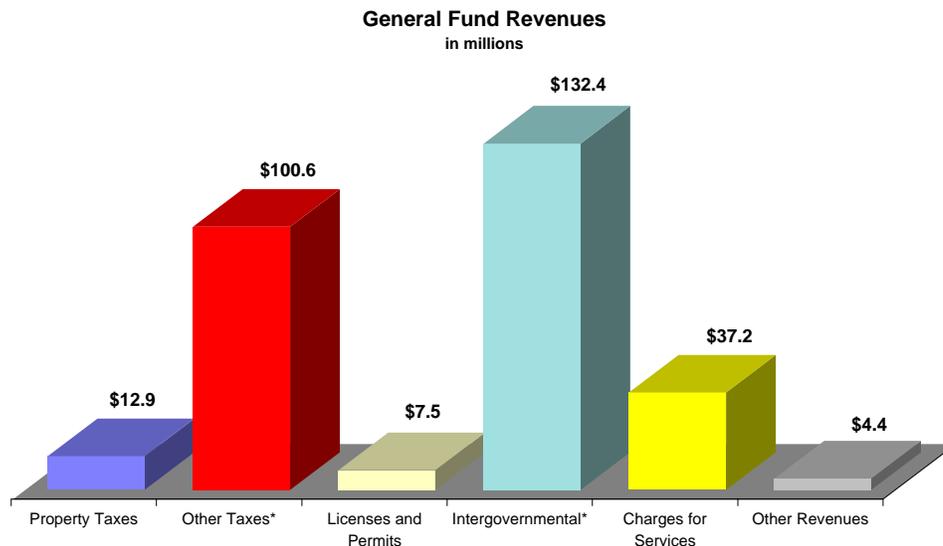
FINANCIAL INFORMATION

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

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

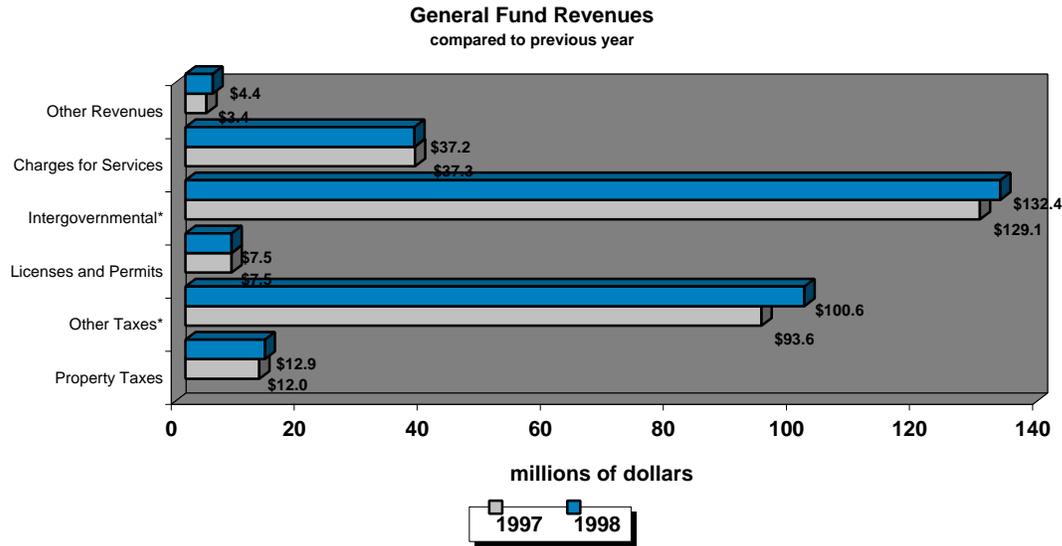
Budgetary controls - The development and approval of the annual budget is the beginning of the financial transaction process. After approval of the budget by City Council, budgetary control is maintained by a formal appropriation and encumbrance system. The appropriated amounts reflected in the accompanying financial statements represent departmental budgets by program; it is this level at which expenditures may not exceed appropriations. Encumbrances, which represent commitments for the purchase of goods or services, are shown as a reservation of fund balance in the governmental funds. Certain encumbrances will be reappropriated in fiscal year 1999 for programs that had adequate reversions for the year ended June 30, 1998.

General government functions - General government operations are accounted for in the General Fund. General Fund revenues for fiscal year 1998 were \$295 million, an increase of 4.3% or \$12.2 million from 1997. The large increase in taxes is due to a large settlement with US West Communications for \$2.8 million dollars. As a result of this settlement, the monthly franchise taxes paid by US West Communications increased by approximately \$300,000 per quarter. Another \$1.4 million is attributed to the unexpected strength of the city's economy during fiscal year 1998.



* Includes gross receipts taxes of \$200.8 million or 66.7% of total revenues.

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



* Includes gross receipts taxes of \$200.8 million or 66.7% of total revenues.

Taxable property valuations were \$5.5 billion in 1998, a \$392 million increase from the previous year. Current property tax collections were 92.60% of the levy, compared to 94.61% in the prior year. Except for 1987 and 1989, current tax collections for the past decade have consistently exceeded 90% of the levy. In 1987 the Bernalillo County Assessor re-evaluated properties; the higher valuations resulted in increased protests which in turn caused higher than normal delinquencies. The ratio of total collections (current and delinquent) to the current tax levy in 1998 was 97.05% compared to 99.05% in 1997. Allocation of the property tax for 1998 and the preceding two fiscal years is based on the following mill levy:

| <u>Purpose</u> | <u>1998</u> | <u>1997</u> | <u>1996</u> |
|-------------------------------|-------------|-------------|-------------|
| Operational mill levy: | | | |
| Residential | 2.228 | 2.179 | 1.630 |
| Non-residential | 2.544 | 2.544 | 2.050 |
| Debt service levy | 8.976 | 8.976 | 9.468 |

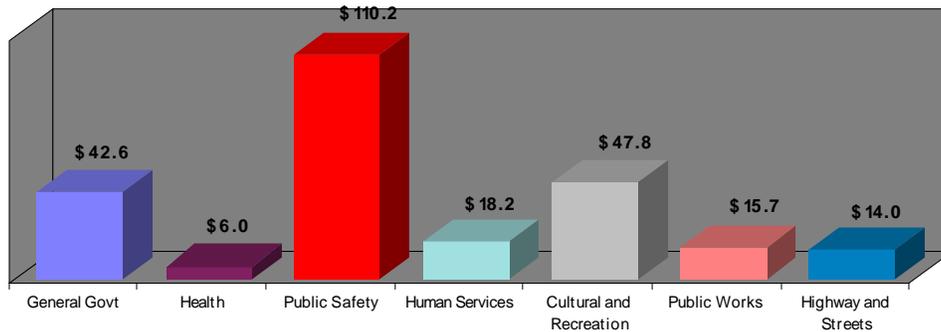
The gross receipts tax rate on receipts within the City was 5.8125% at June 30, 1998. The breakdown and sources of the gross receipts tax rate are as follows:

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

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

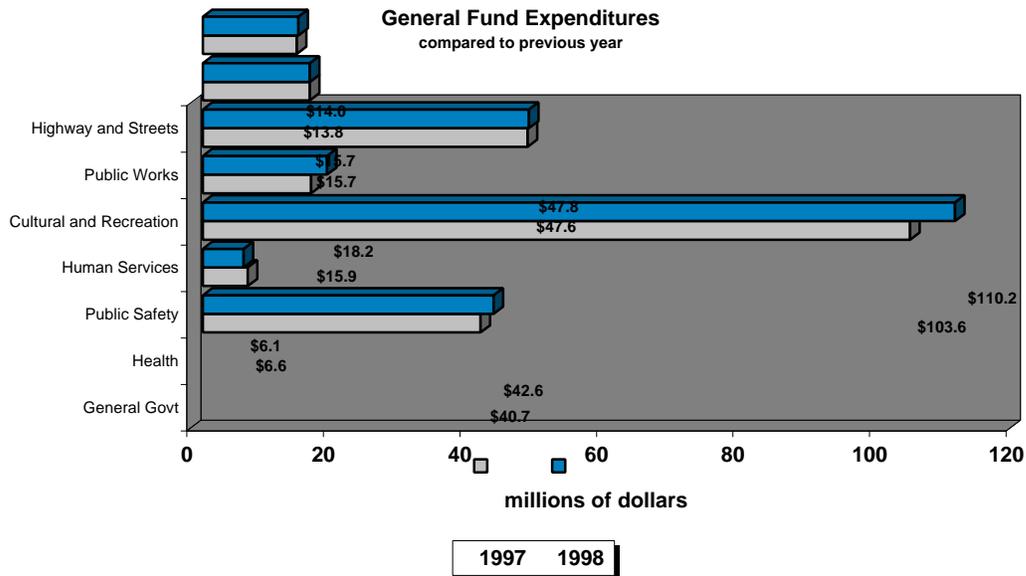
General Fund expenditures totaled \$255 million, an increase of \$10.7 or 4.4% more than 1997. General Fund expenditures for major functions of the City and the changes from the previous year are shown in the following two charts.

General Fund Expenditures
in millions



The increase in expenditures of Public Safety was due to a large increase in the personnel costs of fire and police. Fire personnel costs rose approximately \$2 million due to salary increases during the fiscal year. The impact of salary increases for police was approximately \$4.5 million, this as a result of a 10% increase in sworn police personnel wages in the latter part of fiscal year 1997 and another 5% increase in fiscal year 1998.

The increase in Human Services in fiscal year 1998 was due to two factors. There was a \$1.1 million dollar increase in contractual services due to twenty new contracts that accounted for approximately \$600,000 and a reappropriation of the high school initiative program that accounted for the other \$500,000. The second factor was the building of two new childcare centers that constituted \$106,000 in operating costs and a one-time capital outlay cost of \$356,000.



The changes in fund equity for the General Fund for the year ended June 30, 1998, were as follows (in thousands of dollars):

| | |
|-------------------------|------------------|
| Fund equity, July 1, | \$ 46,840 |
| Revenues | 295,099 |
| Operating transfers in | 5,914 |
| Expenditures | (254,556) |
| Operating transfers out | <u>(48,602)</u> |
| Fund equity, June 30 | <u>\$ 44,695</u> |

Fund equity (in thousands of dollars) of the General Fund at June 30, 1998, consisted of the following:

| | |
|-------------------------------|------------------|
| Reservations of fund balance: | |
| Reserved for operations | \$ 14,427 |
| Reserved for encumbrances | 5,231 |
| Other reservations | 471 |
| Unreserved fund balance | <u>24,566</u> |
| Total fund equity | <u>\$ 44,695</u> |

Enterprise operations - The City operates six enterprises to provide services to its citizens: an international airport, a joint water and sewer system, parking facilities, refuse collection and disposal, a transit system, and golf courses. The following is a summary of the operations of these enterprises during 1998.

AIRPORT FUND - Operating revenues of the Airport Fund totaled \$42.4 million for 1998, compared to \$41.5 million in the previous year, an increase of 2.2%. Operating expenses, including \$20.7 million of depreciation and amortization, were \$35.5 million. Operating expenses before depreciation and amortization increased by 9.0% from 1997. After consideration of non-operating revenues and expenses, the Airport had a net gain of \$3.5 million compared to a net gain of \$7.5 million in 1997. The decrease was primarily due to the increase in general operating expenses, depreciation and interest expense.

GOLF COURSE FUND - Revenues of the Golf Course Fund were \$3.6 million, a 0.1% decrease from the prior year. Operating expenses, including depreciation of \$360 thousand, were \$3.5 million, an increase of 6.5%. The operating income for 1998 was \$115 thousand; net income was \$205 thousand, a decrease from \$430 thousand in 1997.

JOINT WATER AND SEWER FUND - Operating revenues for the year ended June 30, 1998 totaled \$88.9 million, an increase of 4.2% over 1997. Operating expenses for 1998, including depreciation and amortization of \$40.7 million, were \$93.8 million, an increase of 3.4%. Operating expenses before depreciation and amortization increased by 0.7%. The operating loss for 1998 was \$4.9 million, compared to operating loss of \$5.5 million in 1997. The fund experienced a net loss of \$9.2 million compared to a net loss of \$7.7 million in 1997. This was due to higher non-operating expenses, primarily an increase in interest and bond expenses of \$1.9 million.

PARKING FACILITIES FUND - The operating loss of the Parking Facilities Fund was \$291 thousand in 1998 compared to an operating loss of \$356 thousand in 1997. The fund incurred a net gain of \$372.8 thousand in 1998 compared to a net loss of \$68.3 thousand in 1997. This gain was primarily due to a decrease in operating transfers going out of the fund from \$343 thousand in 1997 to \$31 thousand in 1998.

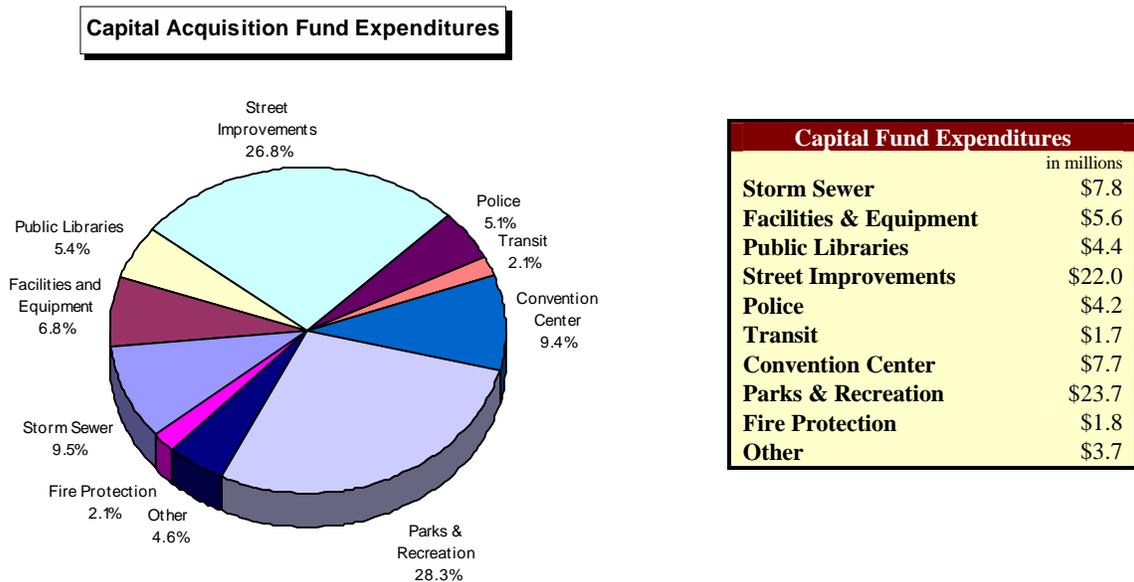
REFUSE DISPOSAL FUND - Operating revenues of the Refuse Disposal Fund increased by \$351 thousand in 1998 to \$31.4 million, an increase of 1.1%. Operating expenses increased by \$1.9 million to \$30.2 million. Operating expenses included depreciation and amortization of \$3.8 million for 1998 and \$3.5 million for 1997. Operating income for 1998 was \$1.2 million, a decrease of \$1.5 million from 1997. Net income decreased to \$36 thousand in 1998, after a net income of \$1.4 million in 1997. The decrease in net income is primarily due to increased operating expenses, most notably salaries and fringe benefits of \$1.3 million.

TRANSIT FUND - The operating revenues of the Transit Fund increased by \$114 thousand to \$3.0 million, while operating expenses increased by \$714 thousand to \$22.5 million. The resulting increase in the loss from operations was \$599 thousand, to \$19.5 million. Operating subsidy transfers from the General Fund for 1998 were \$16.1 million compared to \$15.2 million in 1997. The net loss for the year was \$2.3 million compared to \$2.7 million the prior year.

Debt administration - The ratio of general obligation net bonded debt (net of balances set aside for debt service) to the taxable valuation and the amount of bonded debt per capita are useful indicators of the debt position of the City. At June 30, 1998, the net general bonded debt of the City was \$161.2 million, 2.95% of the taxable valuation as compared to 3.17% at June 30, 1997. The net bonded taxable debt per capita was \$374.92 at June 30, 1998 compared to \$386.60 for the prior year.

The outstanding general obligation debt at June 30, 1998 was \$ 169.2 million. During fiscal year 1998, the City issued \$44.38 million of general obligation bonds. The general obligation bonds of the City continue to have excellent ratings of "Aa3" by Moody's Investors Service, "AA" by Standard & Poor's and "AA" by Fitch Investor Service.

Capital projects funds - During 1998, total expenditures for the Capital Acquisition Fund were \$82.6 million compared to \$95.8 million in the prior year. These expenditures were for the purposes shown below.



Cash management - Pursuant to the Fiscal Agent Ordinance of the City, a pooled cash investment program was in place, and cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. It is the City's policy to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio. Investments and deposits in the City's common investment pool totaled \$487.1 million at June 30, 1998. Of this amount, \$226.0 million was invested in repurchase agreements and \$261.1 million in securities of the Federal government and its related agencies and certificates of deposit.

The City's portfolio average life at June 30, 1998 was 312 days. The average yield on the investment portfolio was 6.06% at the end of June 1998 and 6.14% at the end of June 1997. Interest earned totaled \$27.0 million during the fiscal year. Cash, investments, and accrued interest balances (pooled and non-pooled) at the end of the year for the last five years are as follows:

| | |
|------|---------------|
| 1998 | \$397,759,130 |
| 1997 | \$390,531,617 |
| 1996 | \$470,354,797 |
| 1995 | \$457,302,573 |
| 1994 | \$394,856,304 |

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

The transfers to Risk Management from the operating (insured) departments were \$13.1 million compared to transfers in the prior year of \$10.2 million. The Fund experienced a net loss of \$10.2 million in 1998, a decrease from the net gain of \$3.6 million in 1997. Fund equity was a \$91 thousand deficit at June 30, 1998. This is a drop from a retained earnings balance of \$10.1 million on June 30, 1997. Claim reserves (current and long-term) as of June 30, 1998 were \$36.2 million, an increase from \$28.7 million from the previous year.

OTHER INFORMATION

Year 2000 Issues - The City of Albuquerque initiated in 1996, a concentrated effort in the planning and upgrading of the central financial systems applications. After the initial assessment of the Year 2000 (Y2K) requirements a budget request was prepared and approved by the City administration as part of the General Obligation bond proposal that was submitted to the voters in the fall of 1997. A total of \$800,000 was approved for the remediation of core computer systems and software. In January 1998, the Y2K Project Initiation Plan was implemented which covers the remediation of systems affected by the Y2K for the entire City. During the FY99 budget process an additional \$5 million was approved by the City Council for the Y2K effort. Contractors have been hired for code remediation, independent testing, and project management.

An inventory of all systems has been completed and the systems prioritized based on mission critical status. A total of eight priority categories have been identified as follows: 1) waste water, 2) police and fire radio system, 3) police and fire emergency system (e911), 4) water system, 5) traffic signals, 6) police and fire embedded systems, 7) financial systems and 8) human resources/payroll. These systems are receiving priority funding. Each prioritized system has a project manager and team responsible for preparing a project plan that identifies the specific tasks and time frame including the technical issues of converting the systems or switching to compliant systems. Each manager reports the project status to the City's Information Services Committee (ISC) on a monthly basis.

All conversions to Y2K systems include installation of the software in a separate test region, developing test data, and running test scripts. The test data results are reviewed by both the user department staff as well as the technical staff prior to acceptance and final transfer of the compliant system to the production region. As of this date significant progress has been made in upgrading the core financial accounting systems.

The status of the City's Y2K effort is posted on the City's web site and can be accessed on the Internet via <http://www.cabq.gov/y2k/>.

Independent audit - New Mexico state law requires that an annual audit of a governmental unit's accounting records and Comprehensive Annual Financial Report be performed by independent public accountants. The firm of KPMG Peat Marwick LLP has performed the audit for the year ending June 30, 1998.

Federal law also requires that a single audit be performed for federal grant funds as required by the Single Audit Act and OMB Circular A-133. The independent auditors' report on the financial statements and schedules is included in the financial section of this report. The independent auditors' reports related specifically to the single audit are included in the Single Audit Section.

Awards - The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Albuquerque for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 1997. The City has received this prestigious award every year since 1980.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, the contents of which conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. This report has also been prepared to meet GFOA standards and will be submitted for review.

In addition, the City also received the GFOA's Award for Distinguished Budget Presentation for its annual appropriated budget for the fiscal year ended June 30, 1998. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications medium.

Acknowledgments - The preparation of this report could not have been accomplished without the dedicated services of the staff of the Finance and Administrative Services Department. We wish to express our appreciation to all members of the Department who contributed to its preparation and recognize the major effort of the Accounting Division and its Financial

Reporting Section in administering the City's accounting system and in preparing this report. We also wish to thank each of you for your interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

**Vickie Fisher
Deputy Chief Administrative Officer**

**Anna Lamberson
Director, Finance and Administrative Services
Department**