Management's Discussion and Analysis

As management of the City of Santa Fe ("City"), we offer readers of the City's financial statements this 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, which can be found on pages i through vi of this report.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $192,735,736 (net assets). Of this amount, $107,684,433 (*unrestricted net assets*) may be used to meet the City's obligations to citizens and creditors.
- The City's total net assets increased by $50,929,558. Approximately two thirds of this increase was the addition of capital assets not previously capitalized (streets, traffic signals, and wastewater plant improvements).
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $88,002,838, a decrease of $2,429,131 in comparison with the prior year. The reserved fund balance increased primarily for debt service and funds *available for spending* at the City's discretion (*unreserved fund balance*) reduced by $4,284,277 primarily as project funds were spent.
- At the end of the current fiscal year, unreserved fund balance for the general fund was $16,621,949 or 31 percent of total general fund expenditures.
- The City's total long-term debt decreased by $17,730,250 during the current fiscal year. The key factors were the payment of principal on current bonds and the fact the no new bonds were issued in FY 02/03.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of 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 themselves.

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 difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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 (e.g., uncollected taxes and earned but unused vacations leave).

Both of 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 general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City include the operations of water, wastewater, solid waste, airport, convention center, transit and two recreation facilities.

The government-wide financial statements include not only the City itself (known as the *primary government),* but also a legally separate Santa Fe Civic Housing Authority for which the City is financially accountable. Financial information for this *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 15 and 16 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is 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 two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable* resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because of the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *government funds* with similar information presented for *government 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 statement of revenues, expenditures, and

changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City maintains 49 individual governmental 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 fund, ½% GRT CIP fund, and the debt service fund, all of which are considered to be major funds. Data from the other 46 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for all its funds. A budgetary comparison statement has been provided for all its funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 17 through 22 of this report.

Proprietary funds. The City maintains two different 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 its Sweeney Convention Center, Parking Operations, Solid Waste Management, Water Management, Transit Operations, Wastewater Management, Municipal Recreation Complex, Genoveva Chavez Community Center, and Airport. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Employee and Retiree Health Care, Risk Management Administration, and Workers' Compensation. The service of these funds listed, predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Management, Wastewater Management, Municipal Recreation Complex and the Genoveva Chavez Community Center which are considered to be major funds of the City. Internal service funds are combined into a single, aggregated presentation in the propriety fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 24 through 29 of the report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the date provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 30 through 60 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by $192,735,736 at the close of the most recent fiscal year.

A portion of the City's net assets (41%) reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. 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 the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF SANTA FE's Net Assets

Fiscal Year 02/03

	Governmental Activities		Business-type Activities		Total	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
Current and other assets	$ 116,023,507	$ 121,245,636	$ 63,506,907	$ 37,011,659	$ 179,530,414	$ 158,257,295
Capital assets	107,760,424	77,167,954	154,515,284	146,486,319	262,275,708	223,654,273
Total assets	223,783,931	198,413,590	218,022,191	183,497,978	441,806,122	381,911,568
Long-term liab. outstanding	101,663,418	111,369,258	81,275,602	89,510,190	182,939,020	200,879,448
Other liabilities	27,734,545	28,244,757	38,396,821	10,981,185	66,131,366	39,225,942
Total liabilities	129,397,963	139,614,015	119,672,423	100,491,375	249,070,386	240,105,390
Net assets:						
Invested in capital assets, net of related debt	1,349,357	(30,832,057) **	66,834,205	54,323,125	68,183,562	23,491,068
Restricted	6,103,794	7,068,262	10,763,947	8,018,524	16,867,741	15,086,786
Unrestricted	86,932,817	82,563,370	20,751,616	20,664,954	107,684,433	103,228,324
Total net assets	$ 94,385,968	$ 58,799,575	$ 98,349,768	$ 83,006,603	$ 192,735,736	$ 141,806,178

** Infrastructure has not been fully recorded

An additional portion of the City's net assets (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* ($107,684,433) may be used to meet the City's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities, as in the previous schedule. The same situation held true for the prior fiscal year.

There was an increase of $2,745,423 in restricted assets reported in connection with the City's business-type activities. This increase resulted from an increase in the amount restricted for debt service related to the water acquisition bonds.

The City's net assets increased by $50,929,558 during the current fiscal year. About two thirds of this increase represents the continuing addition of capital assets which for this fiscal year included streets, traffic signals, wastewater plant improvements and other assets not previously capitalized. The remainder of this growth largely reflects increases in grants and other contributions and tax revenues.

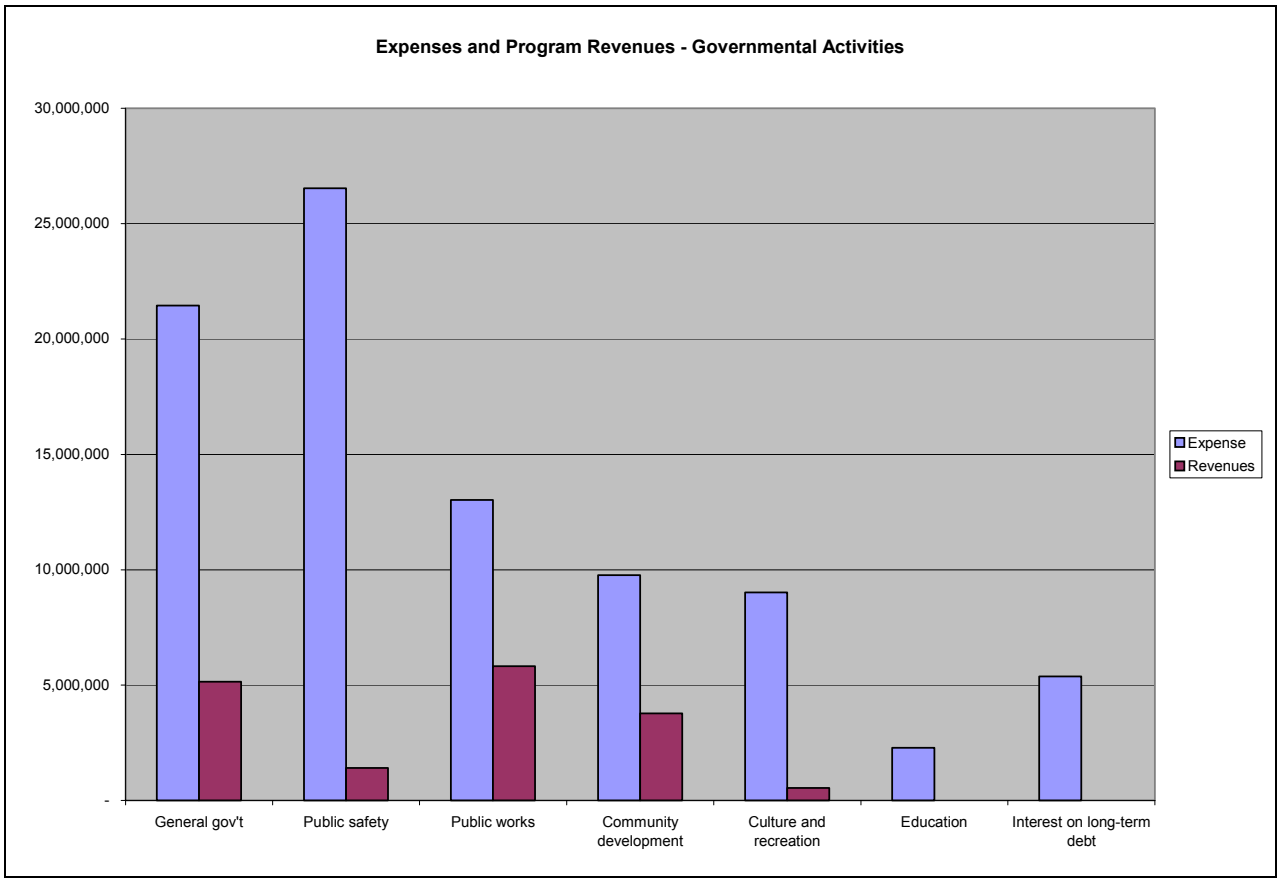
Governmental activities. Governmental activities increased the City's net assets by $35,586,393, thereby accounting for 70% of the total growth in the net assets of the City. Key elements of this increase are as follows:

- Tax revenues increased by $3,457,719 (4.3%).
- Capital grants and contributions increased $7,504,070 which was primarily for street improvements.
- Reclassification of capital expenditures to capital assets net of depreciation for traffic signals and streets totaled $34,060,312.

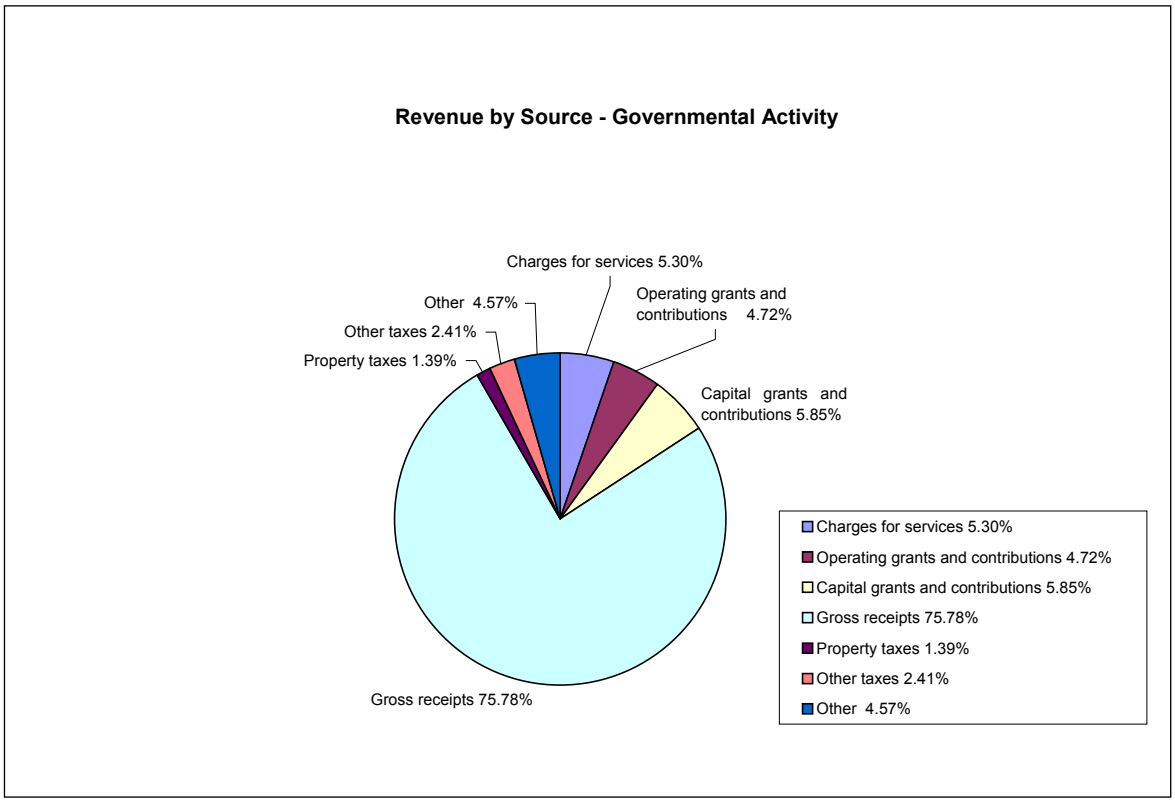
CITY OF SANTA FE's Changes in Net Assets
Fiscal Year 02/03

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	$ 5,573,742	$ 6,551,686	$ 48,179,936	$ 49,844,847	$ 53,753,678	$ 56,396,533
Operating grants and contributions	4,964,698	4,645,727	438,424	528,331	5,403,122	5,174,058
Capital grants and contributions	6,153,252	1,598,611	3,861,502	912,073	10,014,754	2,510,684
General revenues:						
Property taxes	1,462,020	1,388,393	-	-	1,462,020	1,388,393
Other taxes	82,300,005	78,915,913	-	-	82,300,005	78,915,913
Grants and contributions not restricted to specific programs	-	9,060	-	-	-	9,060
Other	4,805,628	6,607,765	1,457,943	5,488,366	6,263,571	12,096,131
Total revenues	105,259,345	99,717,155	53,937,805	56,773,617	159,197,150	156,490,772
Expenses:						
General government	21,451,013	21,195,929	-	-	21,451,013	21,195,929
Public safety	26,538,341	24,083,675	-	-	26,538,341	24,083,675
Public works	13,024,063	8,479,296	-	-	13,024,063	8,479,296
Community development	9,761,578	9,520,528	-	-	9,761,578	9,520,528
Culture and recreation	9,017,844	8,857,134	-	-	9,017,844	8,857,134
Education	2,280,164	2,231,343	-	-	2,280,164	2,231,343
Interest on long-term debt	5,375,063	5,166,341	-	-	5,375,063	5,166,341
Wastewater management	-	-	10,141,412	6,749,379	10,141,412	6,749,379
Water management	-	-	19,240,504	19,371,310	19,240,504	19,371,310
Municipal Recreation Complex	-	-	3,205,273	3,050,869	3,205,273	3,050,869
Genoveva Chavez Community Center	-	-	3,541,519	3,486,675	3,541,519	3,486,675
All other proprietary funds	-	-	17,936,694	19,117,587	17,936,694	19,117,587
Total expenses	87,448,066	79,534,246	54,065,402	51,775,820	141,513,468	131,310,066
Increase in net assets before transfers	17,811,279	20,182,909	(127,597)	4,997,797	17,683,682	25,180,706
Transfers	(8,496,185)	(5,822,656)	8,496,185	5,822,656	-	-
Increase in net assets	9,315,094	14,360,253	8,368,588	10,820,453	17,683,682	25,180,706
Net assets - June 30, 2002 (as restated)	85,070,874	44,439,322	89,981,180	72,186,150	175,052,054	116,625,472
Net assets - June 30, 2003	$ 94,385,968	$ 58,799,575	$ 98,349,768	$ 83,006,603	$ 192,735,736	$ 141,806,178

CITY OF SANTA FE
Fiscal Year 02/03



CITY OF SANTA FE
Fiscal Year 02/03



For the most part, increases in expenses closely paralleled inflation and growth in the demand for services. One noteworthy exception, however, was increased funding in public safety of $2.4 million which included five additional police officers, more aggressive recruitment program for vacant positions, an increase in the City contribution for regional dispatch, and increases in incarceration costs.

Business-type activities. Business-type activities increased the City's net assets by $15,343,165, accounting for 30% of the total growth in the government's net assets. Key elements of this increase are as follows:

- Assets were added for the capitalization of wastewater plant improvements that previously were not capitalized.

- Increased level of grant revenue was received for water and airport operations and projects.

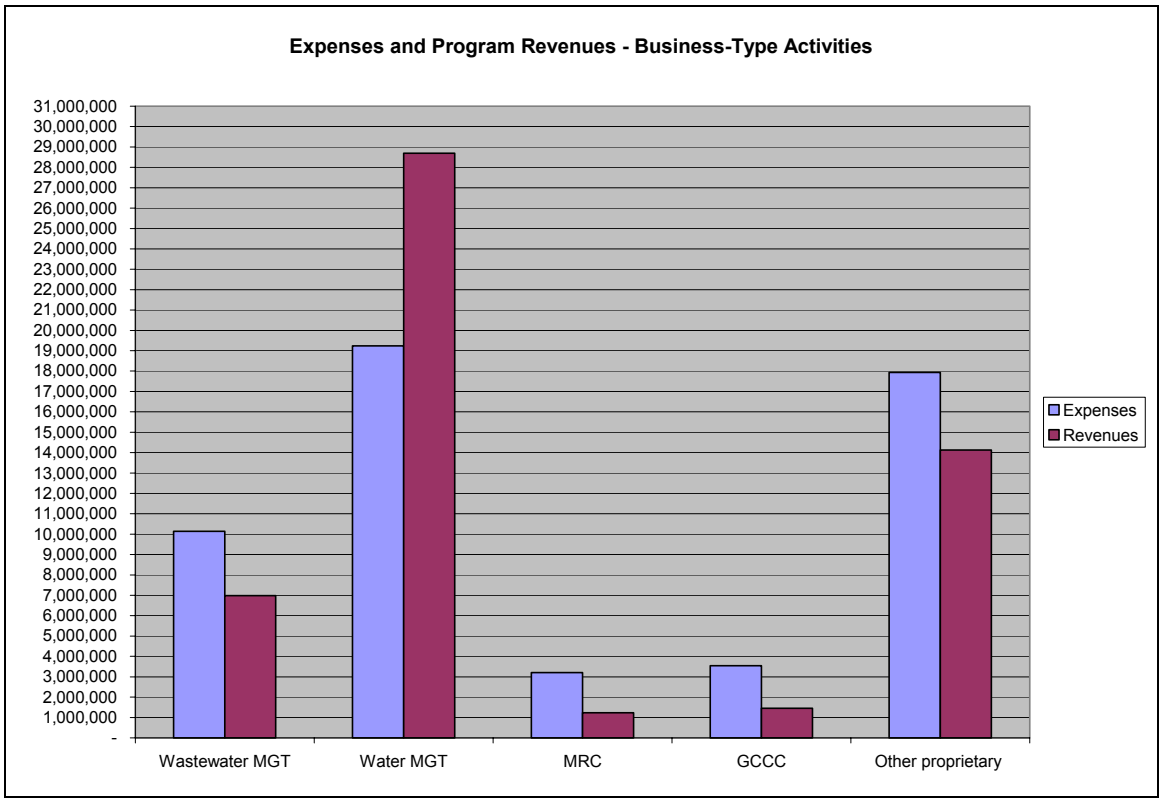
- Increased revenues in solid waste management due to work done verifying and billing customers.

Financial Analysis of the City's Funds

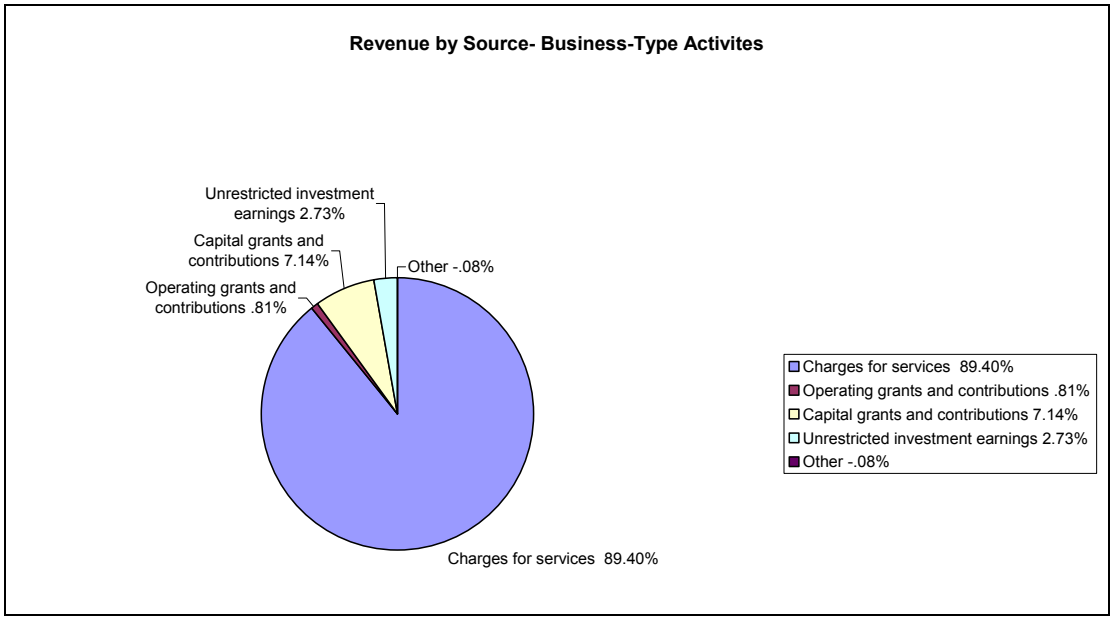
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. 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.

CITY OF SANTA FE
Fiscal Year 02/03



CITY OF SANTA FE
Fiscal Year 02/03



As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $88,002,838, and decrease of $2,429,131 in comparison with the prior year. Most of this total amount $80,054,883 constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period $1,470,501, to pay debt service $6,103,794, and for inventory $373,660.

The general fund is the chief operating fund for the City. At the end of the current fiscal year, unreserved fund balance of the general fund was $16,621,949 while total fund balance was $17,457,157. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 32% of total general fund expenditures, which total fund balance represents 33% of that same amount.

The fund balance of the City's general fund increased by $2,364,317 during the current fiscal year. Key factors in this increase are as follows:

- An increase in gross receipts-state shared revenue by $1,401,425
- Total local tax revenues increased by $619,191
- Total general fund other revenues increased by $485,709
- Transfers from other funds increased by $1,204,022
- An increase in current expenditures by $2,562,346
- A decrease in capital outlay expenditures by $310,837

The debt service fund has a total fund balance of $6,103,794, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was $1,132,902, due to higher than anticipated interest revenue and lower interest on a variable rate bond.

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

Unrestricted net assets at the end of the year amounted to $20,751,616 of which 56% is for wastewater management. In total, unrestricted net assets for proprietary funds decreased by $86,662. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were relatively minor ($2,269,156 increase in appropriations) and can be briefly summarized as follows:

- $1,093,632 increase in general government
- $1,125,563 increase in public safety
- $1,013 increase in public works
- $15,098 decrease in community welfare
- $142,289 increase in culture & recreation
- $80,865 increase in education
- $159,108 decrease in transfers to other programs

Of this increase, $1,471,212 was funded from revenue increases primarily from taxes. The remaining $797,944 was budgeted from available fund balance, most of which were related to carryovers from the prior fiscal year. During the year, however, expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of June 30, 2003 amounts to $262,275,708 (net of accumulated depreciation). This investment in capital assets includes land, buildings and systems, improvements, machinery and equipment, vehicles, and park facilities. The total increase in the City's investment in capital assets for the current fiscal year was 17% (a 40% increase for governmental activities and a 5% increase for business-type activities).

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

- Construction in progress in various City facilities decreased by $17,647,272 in both governmental-type and business-type funds due to capitalization of completed projects including three major street projects (Cerrillos, Rufina, and

Monterey/Baca), building improvements (youth center, pool and library) and other various projects.

- Additional art was capitalized in the amount of $445,332.
- Traffic signals and streets were capitalized in the net amounts of $5,941,084 and $28,119,228 respectively.
- Right of way was capitalized with land in the amount of $203,003.

CITY OF SANTA FE's Capital Assets
(Net of Depreciation)
Fiscal Year 02/03

	Governmental Activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Land	$ 25,005,798	$ 24,387,283	$ 5,671,073	$ 5,648,409	$ 30,676,871	$ 30,035,692
Construction in Progress	1,000,107	12,492,205	10,885,106	17,040,280	11,885,213	29,532,485
Art	859,920	414,588	185,971	185,971	1,045,891	600,559
Buildings and Systems	28,072,934	23,732,369	40,146,641	52,463,111	68,219,575	76,195,480
Improvements	9,794,961	6,130,708	77,516,988	60,518,683	87,311,949	66,649,391
Sewerlines	-	-	10,539,072	-	10,539,072	-
Equipment and Machinery	3,534,438	3,853,958	2,582,555	2,795,817	6,116,993	6,649,775
Furniture and Fixtures	198,014	227,388	249,977	323,357	447,991	550,745
Vehicles	3,591,670	4,192,356	6,095,384	6,946,039	9,687,054	11,138,395
Intangible Plant	-	-	21,230	15,165	21,230	15,165
Data Processing and Software	1,642,270	1,737,099	621,287	549,487	2,263,557	2,286,586
Traffic Signals	5,941,084	-	-	-	5,941,084	-
Streets	28,119,228	-	-	-	28,119,228	-
Total	$ 107,760,424	$ 77,167,954	$ 154,515,284	$ 146,486,319	$ 262,275,708	$ 223,654,273

Additional information on the City's capital assets can be found in note IV-C on pages 44 and 45 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of $190,085,000. Of this amount, $105,955,000 comprises debt backed by gross receipts tax revenues and $84,130,000 is for various business-type bonds backed by specified operational revenue sources.

CITY OF SANTA FE'S OUTSTANDING DEBT
Revenue Bonds
Fiscal Year 02/03

	Governmental activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Revenue bonds	$ 105,955,000	$ 113,775,000	$ 84,130,000	$ 88,405,000	$ 190,085,000	$ 202,180,000
Total	$ 105,955,000	$ 113,775,000	$ 84,130,000	$ 88,405,000	$ 190,085,000	$ 202,180,000

The City has no outstanding general obligation bonds.

The City's total bonded debt decreased by $12,095,000 (6%) during the current fiscal year. The key factor in this decrease was that this amount was paid off and no new bonds were issued.

Most of the City's bonds are insured and are rated AAA from Standard & Poor's and Aaa from Moody's. The waste water variable rate bonds are currently A+/A-1 and Aa2 respectively. The 1999 Gross Receipts Tax Revenue Bonds were rated AA and A1 respectively.

State statutes limit the amount of general obligation debt a governmental entity may issue to 4% of its total assessed valuation. The current debt limitation for the City is approximately $84 million, which would be fully available since the City has no outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note IV-F on pages 50 through 53 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the Santa Fe MSA is currently 3.1%, which has increased slightly from the rate of 2.9% a year ago. This compares favorably to the state's current unemployment rate of 6.2% and the national average rate of 6.0%.
- The occupancy rate of the City's central business district has remained at near 100% for most years.
- Economic trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City's budget for fiscal year (FY) 03/04.

During the current fiscal year, unreserved fund balance in the general fund increased to $16,621,949. The City has appropriated approximately $9.4 million of this amount for spending in FY 03/04 budget. Most of the receivables are included as the City prepares the budget, which is primarily on a cash basis, for the following fiscal year. This does not significantly impact the level of the fund balance, as the following year-end will include comparable receivables. It is anticipated that there will be a need to raise general fund taxes or charges or transfer additional resources to the general fund for FY 03/04 to fully fund general fund positions that were not funded for FY 02/03.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, P.O. Box 909, City of Santa Fe, NM 87504.