

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The management of the City of Lincoln, Nebraska (the City) offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended August 31, 2003. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page viii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 18).

### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at August 31, 2003, by \$1,137,728,137 (net assets). Of this amount, \$106,001,074 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets increased by \$64,752,048. Of this amount \$38,173,456, or 59 percent, was an increase in governmental activities and \$26,578,592, or 41 percent, related to business-type activities.
- As of August 31, 2003, the City's governmental funds reported combined ending fund balances of \$161,941,273, a decrease of \$8,606,153 in comparison with the prior year. Over half of this total amount, \$92,075,164, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2003, unreserved fund balance for the general fund was \$35,987,302, or 44 percent of total general fund expenditures.
- The City's total bonded debt increased by \$67,244,000 (13 percent) during the current fiscal year. The key factor in this increase was the issuance of \$55,000,000 in revenue bonds by Lincoln Wastewater System.

### **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 comprise 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 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 year ended August 31, 2003. 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 vacation 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 administrative services, public safety, streets and highways, health, planning and zoning, parks and recreation, libraries, aging services, job programs, urban development, mass transportation, engineering, self-insurance, and fleet management. The business-type activities of the City include water, wastewater and electric utilities; ambulance transport; sanitary landfill; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 18-19 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 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. 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 the City’s near-term financing requirements.

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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and government-wide activities.

The City maintains forty 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, the Street Construction fund, the Federal Grants fund, and the Community Health Permanent Endowment fund, which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and most other governmental funds. A budgetary comparison statement has been provided for the General, Street Construction, and Federal Grants major funds to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 20-27 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 parking facilities and lots; golf courses; auditorium; sanitary landfill; ambulance services; and wastewater, water, and electric systems. Internal service funds are used to accumulate and allocate costs internally among the City’s various functions. The City uses internal service funds to account for its data processing, engineering, insurance, fleet management, telecommunications, and copy services. Because these services 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, Wastewater and Electric Systems, all of which are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 29-31 of this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City’s own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The fiduciary fund financial statements can be found on pages 32-33 of this report.

## NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-68 of this report.

## OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its police and fire employees. Required supplementary information can be found on page 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 \$1,137,728,137 at August 31, 2003.

By far the largest portion of the City's net assets (76 percent) reflects its investment in capital assets (e.g., land, buildings, improvements, utility plant, infrastructure, and machinery 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 Lincoln**  
**Condensed Statements of Net Assets**  
**August 31, 2003 and 2002**

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Current and Other Assets	\$ 239,136,689	223,316,292	297,306,590	308,555,656	536,443,279	531,871,948
Capital Assets	<u>403,421,755</u>	<u>372,780,466</u>	<u>953,099,888</u>	<u>855,103,760</u>	<u>1,356,521,643</u>	<u>1,227,884,226</u>
Total Assets	<u>642,558,444</u>	<u>596,096,758</u>	<u>1,250,406,478</u>	<u>1,163,659,416</u>	<u>1,892,964,922</u>	<u>1,759,756,174</u>
Long-Term Liabilities Outstanding	87,165,314	82,430,754	591,870,462	509,299,026	679,035,776	591,729,780
Other Liabilities	<u>23,450,856</u>	<u>19,897,186</u>	<u>52,750,153</u>	<u>75,153,119</u>	<u>76,201,009</u>	<u>95,050,305</u>
Total Liabilities	<u>110,616,170</u>	<u>102,327,940</u>	<u>644,620,615</u>	<u>584,452,145</u>	<u>755,236,785</u>	<u>686,780,085</u>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	353,228,671	321,761,052	513,682,743	476,054,560	866,911,414	797,815,612
Restricted	111,928,216	101,499,367	52,887,433	47,701,632	164,815,649	149,200,999
Unrestricted	<u>66,785,387</u>	<u>70,508,399</u>	<u>39,215,687</u>	<u>55,451,079</u>	<u>106,001,074</u>	<u>125,959,478</u>
Total Net Assets	<u>\$ 531,942,274</u>	<u>493,768,818</u>	<u>605,785,863</u>	<u>579,207,271</u>	<u>1,137,728,137</u>	<u>1,072,976,089</u>

An additional portion of the City's net assets (15 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (9 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At August 31, 2003, 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.

**City Of Lincoln**  
**Condensed Statement of Activities**  
**For the Years Ended August 31, 2003 and 2002**

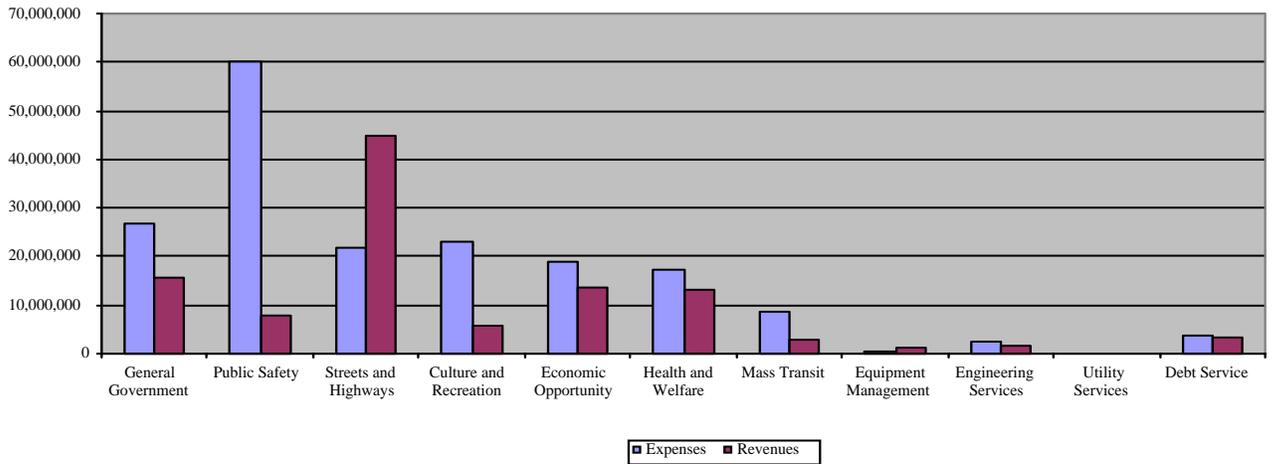
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program Revenues:						
Charges for Services	\$ 32,413,754	33,708,219	219,247,308	214,711,471	251,661,062	248,419,690
Operating Grants and Contributions	44,670,484	47,775,520	294,915	3,296	44,965,399	56,864,603
Capital Grants and Contributions	32,549,986	31,715,049	7,538,876	6,073,286	40,088,862	28,702,548
General Revenues:						
Property Taxes	36,389,326	34,991,750	-	-	36,389,326	34,991,750
Sales and Use Tax	49,010,546	47,049,405	-	-	49,010,546	47,049,405
Other Taxes	20,190,242	20,414,161	565,790	-	20,756,032	20,414,161
Unrestricted Grants and Contributions	2,970,754	3,425,878	-	-	2,970,754	3,425,878
Investment Income	1,351,346	3,495,539	5,045,047	5,239,848	6,396,393	8,735,387
Other	1,478,257	1,407,755	164,763	353,338	1,643,020	1,761,093
Total Revenues	<u>221,024,695</u>	<u>223,983,276</u>	<u>232,856,699</u>	<u>226,381,239</u>	<u>453,881,394</u>	<u>450,364,515</u>
Expenses:						
General Government	26,781,326	23,530,070	-	-	26,781,326	23,530,070
Public Safety	60,312,147	58,784,389	-	-	60,312,147	58,784,389
Streets and Highways	21,627,658	21,073,128	-	-	21,627,658	21,073,128
Culture and Recreation	23,183,517	21,219,904	-	-	23,183,517	21,219,904
Economic Opportunity	18,803,783	14,097,457	-	-	18,803,783	14,097,457
Health and Welfare	17,232,211	18,133,340	-	-	17,232,211	18,133,340
Mass Transit	8,526,212	8,176,390	-	-	8,526,212	8,176,390
Equipment Management	580,423	906,227	-	-	580,423	906,227
Engineering Services	2,517,342	1,810,386	-	-	2,517,342	1,810,386
Interest and Fiscal Charges on Debt	3,510,748	2,680,738	-	-	3,510,748	2,680,738
Parking	-	-	4,512,610	3,914,224	4,512,610	3,914,224
Golf Courses	-	-	3,064,867	2,785,793	3,064,867	2,785,793
Auditorium	-	-	2,341,886	2,303,780	2,341,886	2,303,780
Sanitary Landfill	-	-	4,390,601	5,428,560	4,390,601	5,428,560
Ambulance Transport	-	-	3,905,011	3,518,764	3,905,011	3,518,764
Wastewater	-	-	13,205,150	12,659,850	13,205,150	12,659,850
Water	-	-	19,144,465	18,206,099	19,144,465	18,206,099
Electric	-	-	155,489,000	161,026,000	155,489,000	161,026,000
Total Expenses	<u>183,075,367</u>	<u>170,412,029</u>	<u>206,053,590</u>	<u>209,843,070</u>	<u>389,128,957</u>	<u>380,255,099</u>
Increase in Net Assets Before Transfers	37,949,328	53,571,247	26,803,109	16,538,169	64,752,437	70,109,416
Transfers	224,128	1,104,289	(224,517)	(1,087,038)	(389)	17,251
Increase in Net Assets	38,173,456	54,675,536	26,578,592	15,451,131	64,752,048	70,126,667
Net Assets - Beginning	493,768,818	439,093,282	579,207,271	563,756,140	1,072,976,089	1,002,849,422
Net Assets - Ending	<u>\$ 531,942,274</u>	<u>493,768,818</u>	<u>605,785,863</u>	<u>579,207,271</u>	<u>1,137,728,137</u>	<u>1,072,976,089</u>

**GOVERNMENTAL ACTIVITIES**

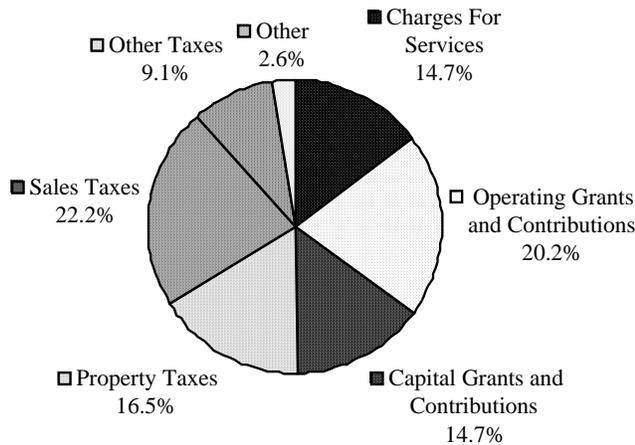
Governmental activities increased the City's net assets by \$38,173,456, accounting for 59 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- Property taxes increased by approximately \$1.4 million (4 percent) during 2003. The value created by new growth (improvements, new construction, additions of new property, and annexations) in the tax base was 3.2%, prior to the revaluation of property. Total growth in the tax base, which includes revaluations and other adjustments, was 3.8%. As a result of these percentages being so similar, the tax rate remained unchanged for the 2003 fiscal year.
- Net sales and use tax increased by approximately \$2 million (4 percent) during 2003. Legislation passed by the Nebraska Legislature expanded the sales tax base to include certain services. The City expected sales tax revenues to increase 1.5% due to this tax base expansion.
- Capital contributions increased as a direct result of donations of land for the Joint Antelope Valley Authority (JAVA) projects, contributed to the City's share of equity in JAVA.

### Expenses and Program Revenues - Governmental Activities



### Revenues By Source - Governmental Activities



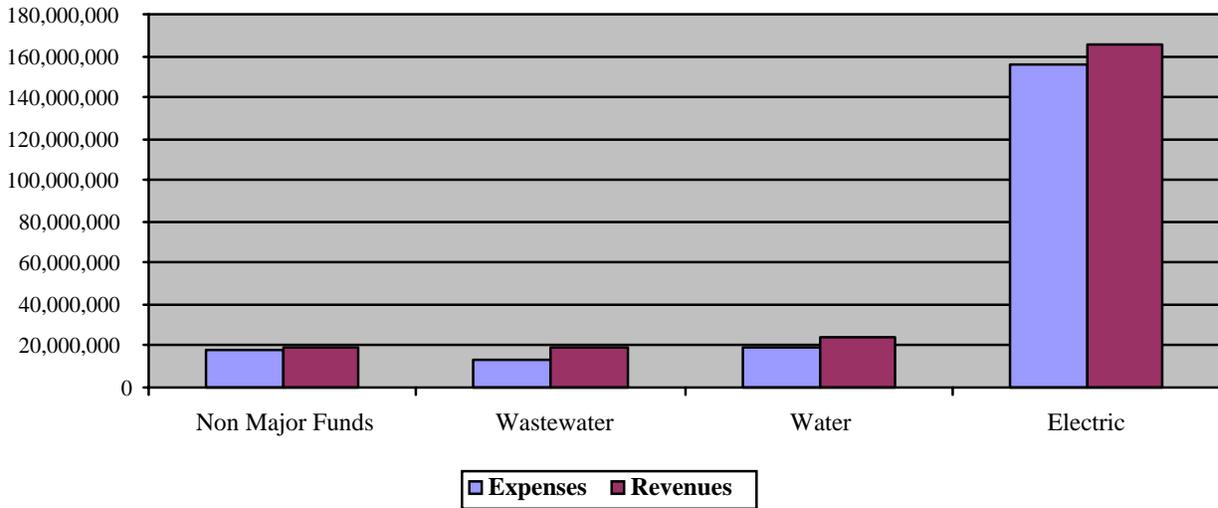
### BUSINESS-TYPE ACTIVITIES

Business-type activities increased the city's net assets by \$26,578,592, accounting for 41 percent of the total growth in the government's net assets. Key elements of this increase are as follows:

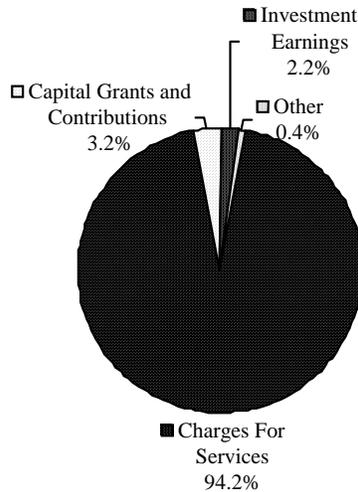
- Charges for services increased by approximately \$4.5 million, or 2.1 percent. The Water System revenues decreased 5.35 percent due to a reduction of 904,861 hundred cubic feet in water sales from the previous year. Water usage for 2003 more closely reflects an average year usage during normal weather conditions. Wastewater revenues are also based on water usage. Total water pumpage for fiscal year 2003 was 938,430,000 gallons less than the prior year which results in a 2.23 percent decrease in Wastewater revenues. Revenues increased 4 percent for the Electric System due to increases in both residential and commercial revenues. Cooling and heating degree days were above the prior year. Growth in the City remains constant with 2% more customers in 2002.

- Lincoln Electric System (LES) operating expenses for 2002 were 5% below 2001 with power costs and administrative and general expenses providing most of the change. A settlement agreement between Nebraska Public Power District and LES related to the Power Sales Agreement for Cooper Nuclear Station was completed and signed by officials of both parties in 2002. The decommissioning fund liability established by LES was used to reduce power costs by \$4.8 million after the settlement. Administrative and general expense in 2002 was well below 2001 because the litigation cost written off in 2001 related to Cooper Nuclear Station increased the 2001 expenses by \$4.8 million. Offsetting this expense was an increase in 2002 for health and risk insurance costs.

**Expenses And Program Revenues - Business-type Activities**



**Revenues By Source - Business-type Activities**



## **FINANCIAL ANALYSIS OF THE GOVERNMENT'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.

As of August 31, 2003, the City's governmental funds reported combined ending fund balances of \$161,941,273, a decrease of \$8,606,153 in comparison with the prior year. Of this total amount, 57 percent 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 (\$15,985,316),
- pay debt service (\$13,069,991),
- generate income for the purpose of funding health and health-related programs for the citizens of Lincoln (\$37,000,000), and
- a variety of other restricted purposes (\$3,810,802).

The General Fund is the chief operating fund of the City. At August 31, 2003, the unreserved fund balance of the General Fund was \$35,987,302, while total fund balance reached \$37,116,790. 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 44 percent of total general fund expenditures, while total fund balance represents 46 percent of that same amount.

The fund balance of the City's General Fund decreased by \$1,014,271 during 2003. This reduction is the result of several factors, including the following:

- A planned reduction in the General Fund balance of \$3.0 million.
- Favorable variance of \$1.0 million in sales tax revenues.
- Favorable variance of \$1.9 million in expenditures.
- Timing differences between the appropriation and expenditure of construction projects funded by the General Fund.

The planned reduction in the fund balance of the General Fund is in compliance with City policy to appropriate balances that are in excess of 20 percent of the ensuing fiscal year's General Fund budget. This is accomplished by appropriating any excess over a 5-year period.

The Street Construction Fund had a total fund balance of \$14,797,623, which is to be used in the construction and maintenance of street and highways. The net decrease in fund balance during 2003 in the Street Construction Fund was \$8,043,301. This decrease was anticipated as a result of the Public Works Department's strategy to increase its capital construction program and to implement the acceleration of the awarding of construction contracts. An additional factor is the City's involvement in the Joint Antelope Valley projects and the related capital contributions made.

The Federal Grants Fund had a fund deficit of \$(1,051,304). Expenditures in the fund increased by \$2,651,616 (14 percent) over 2002, due in part to new programs, including Holmes Lake Restoration, East Saline Wetlands, and the Northbridge Center.

### 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 of the Wastewater System, Water System, Electric System, and other enterprise funds amounted to \$8,551,252, \$5,792,954, \$20,459,000 and \$4,412,481, respectively, at August 31, 2003. 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 (increase of \$107,041 in appropriations) and can be briefly summarized as follows:

- \$(61,125) in miscellaneous decreases in general government activities.
- \$267 in increases allocated to police.
- \$46,700 in increases allocated to traffic engineering.
- \$(26,664) in decreases allocated to street maintenance.
- \$(34,360) in decreases allocated to parks and recreation.
- \$182,223 in increases allocated for General Fund transfers to other City funds.

Variances between actual General Fund revenues and expenditures and the final amended budget included the following:

- \$1,193,286 positive variance in property taxes. Actual property tax collections were 96% for the 2002 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$1,045,072 positive variance in sales taxes. Projected collections for 2002 reflect a 4.8% increase over prior year collections, while 2002 actual collections on a budget basis increased by 7.2% due to an improving local economy, an expansion of the sales tax base to include additional services, and reduced refunds under the business incentive provisions of LB775.
- \$1,946,065 positive variance in general government/miscellaneous function expenditures. This variance was the result of better than anticipated insurance costs and contingency funds left unspent.

### CAPITAL ASSET AND DEBT ADMINISTRATION

#### CAPITAL ASSETS

The City's investment in capital assets for its governmental and business-type activities as of August 31, 2003, amounts to \$1,356,521,643 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, streets, bridges, storm sewers, electric plant, and water and sewer plant. The total increase in the City's investment in capital assets for 2003 was 10 percent (an 8 percent increase for governmental activities and a 11 percent increase for business-type activities).

Major capital asset events during 2003 included the following:

- A variety of street construction widening and expansion projects for existing streets and bridges continued. Along with new construction of streets and drainage projects, the construction-in-progress as of August 31, 2003, reached \$63,780,408.
- Construction of the Salt Valley Generating Station (SVGS) provided \$71 million to the construction work-in-progress, in addition to local construction related to an expanding customer base. The SVGS project represents a total of 165 megawatts of peaking and base load generation utilizing natural gas as the base fuel in a simple cycle and combined cycle operation.

- Wastewater System capital assets increased by \$14,121,276 due to major project additions such as:
  - ✓ Theresa Street aeration improvements - \$4,542,288
  - ✓ Northeast treatment plant solids screen - digester modifications - \$1,829,762
  - ✓ Salt Creek relief sewer - \$1,131,121
  - ✓ Theresa Street treatment plant grit removal basin - \$1,250,485
  - ✓ Northeast treatment plant disinfection improvements - \$1,047,733
  
- Water System capital assets increased by \$5,696,537 due to major project additions such as:
  - ✓ 84<sup>th</sup> & Pine Lake floating storage reservoir - \$1,053,158
  - ✓ 16<sup>th</sup> & 'A'/Coddington & Van Dorn 30" water main - \$1,366,237
  - ✓ East 'O' Street water main replacement - \$158,197
  - ✓ 84<sup>th</sup>/Cheney Ridge Road to Highway 2 water main - \$1,555,076

**City Of Lincoln**  
**Capital Assets (net of depreciation)**  
**August 31, 2003 and 2002**

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
	Land	\$ 40,506,899	37,810,841	14,371,950	14,185,253	54,878,849
Buildings	41,084,650	42,017,061	126,330,190	123,066,708	167,414,840	165,083,769
Improvements Other Than Buildings	31,285,551	31,967,261	231,820,817	225,201,069	263,106,368	257,168,330
Machinery and Equipment	28,980,115	29,958,223	10,462,767	10,731,801	39,442,882	40,690,024
Utility Plant	-	-	405,775,000	396,247,000	405,775,000	396,247,000
Infrastructure	191,786,564	171,464,392	-	-	191,786,564	171,464,392
Construction-in-progress	69,777,976	59,562,688	164,339,164	85,671,929	234,117,140	145,234,617
Total	\$ 403,421,755	372,780,466	953,099,888	855,103,760	1,356,521,643	1,227,884,226

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 49-51 of this report.

**LONG-TERM DEBT**

At August 31, 2003, the City of Lincoln had total bonded debt outstanding of \$571,889,000. Of this amount, \$61,554,000 comprises debt backed by the full faith and credit of the City and \$205,000 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment. The remainder of the City's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**City Of Lincoln**  
**Outstanding Bonded Debt**  
(dollar amounts in thousands)  
**August 31, 2003 and 2002**

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	\$ 61,554	56,687	-	-	61,554	56,687
Special Assessment Debt With Governmental Commitment	205	310	-	-	205	310
Tax-supported Revenue Bonds	10,810	11,080	-	-	10,810	11,080
Revenue Bonds	-	-	499,320	436,568	499,320	436,568
Total	\$ 72,569	68,077	499,320	436,568	571,889	504,645

The City's total debt increased by \$67,244,000 (13 percent) during 2003. The key factor in this increase was the issuance of \$55,000,000 in revenue bonds by Lincoln Wastewater System to refund \$4,560,000 of outstanding 5% debt and to provide approximately \$48,000,000 of additional construction funds.

The City also issued \$19,305,000 in various purpose bonds to finance \$10,000,000 of drainage improvements and to refund \$8,305,000 of certain outstanding various purpose bonds of the City; \$18,510,000 of Water Revenue bonds to provide additional construction funds; and \$32,180,000 of Water Revenue Refunding bonds to pay off \$37,810,000 of 4.8% - 5.3% debt.

In an effort to reduce the borrowing costs for LES, a refunding issue of \$148,000,000 was completed to refund \$136,000,000 of 1993 Revenue Bonds and convert \$20,000,000 of commercial paper to long-term revenue bonds. With historically low interest rates, LES was able to obtain a true interest cost of 3.7% on the entire bond sale and total savings of \$23,000,000 in interest costs over the life of the bonds. Other commercial paper activity included converting \$34,000,000 taxable commercial paper to tax-exempt commercial paper. With \$35,000,000 of commercial paper capacity available, most smaller projects can be initially funded with this capacity.

The City maintains the following credit ratings:

	Moody's Investors <u>Service</u>	Standard And <u>Poor's</u>	Fitch Investors <u>Service</u>
General Obligation Bonds	Aaa	AAA	
Municipal Infrastructure			
Redevelopment Fund Bonds	Aa2	AAA	
Antelope Valley Project Bonds	Aa2	AA	
Water Revenue Bonds	Aa2	AA+	
Wastewater Revenue Bonds			
MBIA insured	Aaa	AAA	
Underlying	Aa2	AA+	
Parking Revenue Bonds	A2	A	
Electric Revenue :			
1993 Bonds	Aa2	AA+	AA
1998 Bonds	Aa2	AA	AA
2001 Bonds	Aa2	AA	AA
2002 Bonds	Aa2	AA	AA
Commercial Paper – tax exempt		A1+	F1+
Commercial Paper – taxable	MIG 1	A1+	F1+

Under the City's Home Rule Charter, there is no legal debt limit.

Additional information on the City's long-term debt can be found in Note 9 of the notes to the financial statements on pages 52-57 of this report.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- The County Assessor's office has completed a countywide revaluation of real property for the 2003-2004 fiscal year, which resulted in significant increases in valuations of real property. The increase in the City's property tax base provided by real growth is estimated at 4.51% for 2004. Total growth, including revaluations of current property, is estimated at 14.5%.
- Sales tax collections increased by 4% over the past year, with current collections through December 2003 showing a 3% increase over the same period in 2002. The sales tax base has been further expanded by the Nebraska Legislature to include additional services. Sales tax collections have been positively impacted by an improving local economy, a modest expansion of the sales tax base, and reduced refunds under the business incentive provisions of LB775.
- Occupation tax revenues are expected to increase 10.8% in 2004 due to amounts collected from the telecommunications occupation tax, with much of the growth related to cell phone revenue.
- In lieu of tax – State is expected to decrease 37.2% due to the State of Nebraska reducing payments by 10% proposed in the Governor's budget plus another lump sum reduction adopted by the Legislature. In addition, the Legislature eliminated payment from the Municipal Equalization Rollover Fund in order to keep the revenue for the State.

- Increase of 911 Surcharge on phone lines from \$.50 to \$.75 per month effective January 1, 2004. Revenue is used for operations as well as capital improvements.
- A 3% water rate increase and a 7% wastewater rate increase were adopted by the City Council.

All of these factors were considered in preparing the City's budget for the 2004 fiscal year.

During 2003, unreserved fund balance in the general fund increased to \$35,987,302. The City of Lincoln has appropriated \$6,272,137 of this amount for spending in the 2004 fiscal year budget. The use of available fund balance aids the City in avoiding the need to raise property taxes during 2004.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City of Lincoln'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 City of Lincoln, Finance Department, 555 South 10<sup>th</sup> Street, Lincoln, NE 68508.

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