

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, 2009. Please consider this discussion in conjunction with the additional information provided in the Letter of Transmittal (beginning on page vii) and the transactions, events and conditions reflected in the City's financial statements (beginning on page 16).

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at August 31, 2009, by \$1,508,997,184 (net assets). Of this amount, \$305,177,423 (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 \$59,789,506. Of this amount, \$33,210,202, or 56 percent, was an increase in governmental activities and \$26,579,304, or 44 percent, related to business-type activities.
- As of August 31, 2009, the City's governmental funds reported combined ending fund balances of \$190,767,075, a decrease of \$(4,055,706) in comparison with the prior year. Of this total fund balance, 58 percent, or \$111,143,275, is available for spending at the City's discretion (unreserved fund balance).
- As of August 31, 2009, unreserved fund balance for the general fund was \$27,586,521, or 28 percent of total general fund expenditures.
- The City's total bonded debt decreased by \$11,920,000 (1.3 percent) during the current fiscal year. The City issued \$15,420,000 in Water Revenue bonds in the current year for capital improvements to the water 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, 2009. 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; solid waste management; golf courses; auditorium; and parking.

The government-wide financial statements can be found on pages 16-17 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 governmental activities.

The City maintains thirty-seven 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, and the Federal Grants 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 18-25 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; solid waste management; 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 26-28 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 29-30 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 31-69 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, and to provide other postemployment benefits. Required supplementary information can be found on page 70 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 \$1,508,997,184 at August 31, 2009.

By far the largest portion of the City’s net assets (70 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, 2009 and 2008**

| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|--------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Current and Other Assets | \$ 388,695,310 | 379,081,647 | 242,568,924 | 258,810,179 | 631,264,234 | 637,891,826 |
| Capital Assets | 614,765,299 | 598,864,306 | 1,410,398,966 | 1,379,907,263 | 2,025,164,265 | 1,978,771,569 |
| Total Assets | <u>1,003,460,609</u> | <u>977,945,953</u> | <u>1,652,967,890</u> | <u>1,638,717,442</u> | <u>2,656,428,499</u> | <u>2,616,663,395</u> |
| Long-Term Liabilities Outstanding | 194,364,099 | 196,689,161 | 795,328,460 | 805,068,287 | 989,692,559 | 1,001,757,448 |
| Other Liabilities | 14,957,978 | 20,328,462 | 142,780,778 | 145,369,807 | 157,738,756 | 165,698,269 |
| Total Liabilities | <u>209,322,077</u> | <u>217,017,623</u> | <u>938,109,238</u> | <u>950,438,094</u> | <u>1,147,431,315</u> | <u>1,167,455,717</u> |
| Net Assets: | | | | | | |
| Invested in Capital Assets, Net of Related Debt | 471,161,398 | 460,113,747 | 583,202,962 | 570,458,163 | 1,054,364,360 | 1,030,571,910 |
| Restricted | 111,672,739 | 111,555,338 | 37,782,662 | 35,665,851 | 149,455,401 | 147,221,189 |
| Unrestricted | 211,304,395 | 189,259,245 | 93,873,028 | 82,155,334 | 305,177,423 | 271,414,579 |
| Total Net Assets | <u>\$ 794,138,532</u> | <u>760,928,330</u> | <u>714,858,652</u> | <u>688,279,348</u> | <u>1,508,997,184</u> | <u>1,449,207,678</u> |

An additional portion of the City’s net assets (10 percent) represents resources that are subject to external restrictions on their use. The remaining balance of unrestricted net assets (20 percent) may be used to meet the government’s ongoing obligations to citizens and creditors.

At August 31, 2009, 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 Statements of Activities
For the Years Ended August 31, 2009 and 2008

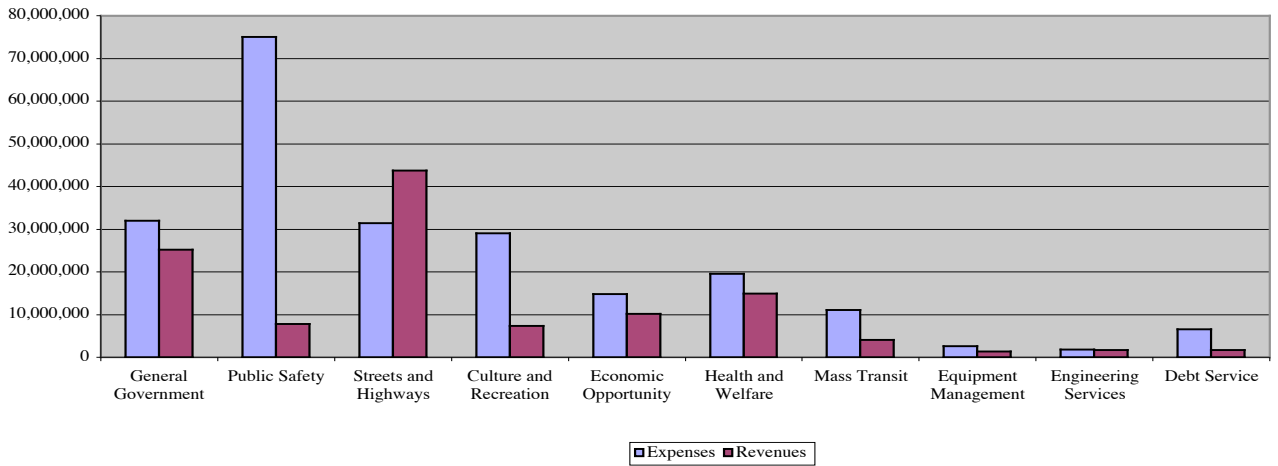
| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|--------------------|-----------------------------|--------------------|----------------------|----------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | | | |
| Program Revenues: | | | | | | |
| Charges for Services | \$ 41,844,680 | 44,757,932 | 315,614,846 | 291,083,622 | 357,459,526 | 335,841,554 |
| Operating Grants and Contributions | 50,412,504 | 52,058,209 | - | 26,000 | 50,412,504 | 52,084,209 |
| Capital Grants and Contributions | 25,746,780 | 39,507,199 | 11,025,070 | 10,809,320 | 36,771,850 | 50,316,519 |
| General Revenues: | | | | | | |
| Property Tax | 49,370,031 | 48,016,158 | - | - | 49,370,031 | 48,016,158 |
| Sales and Use Tax | 54,337,312 | 55,351,848 | - | - | 54,337,312 | 55,351,848 |
| Other Taxes | 25,609,164 | 24,845,802 | 1,978,659 | 2,134,549 | 27,587,823 | 26,980,351 |
| Unrestricted Grants and Contributions | 1,542,816 | 1,569,021 | - | - | 1,542,816 | 1,569,021 |
| Unrestricted Investment Earnings | 5,181,996 | 6,738,206 | 4,680,958 | 8,761,713 | 9,862,954 | 15,499,919 |
| Other | 844,591 | 820,587 | 152,522 | 135,278 | 997,113 | 955,865 |
| Total Revenues | <u>254,889,874</u> | <u>273,664,962</u> | <u>333,452,055</u> | <u>312,950,482</u> | <u>588,341,929</u> | <u>586,615,444</u> |
| Expenses: | | | | | | |
| General Government | 31,985,923 | 32,808,482 | - | - | 31,985,923 | 32,808,482 |
| Public Safety | 75,077,334 | 72,715,593 | - | - | 75,077,334 | 72,715,593 |
| Streets and Highways | 31,465,735 | 29,132,813 | - | - | 31,465,735 | 29,132,813 |
| Culture and Recreation | 28,998,338 | 27,971,636 | - | - | 28,998,338 | 27,971,636 |
| Economic Opportunity | 14,851,021 | 16,355,833 | - | - | 14,851,021 | 16,355,833 |
| Health and Welfare | 19,592,758 | 20,674,538 | - | - | 19,592,758 | 20,674,538 |
| Mass Transit | 11,059,139 | 11,296,888 | - | - | 11,059,139 | 11,296,888 |
| Equipment Management | 2,562,842 | 2,563,466 | - | - | 2,562,842 | 2,563,466 |
| Engineering Services | 1,859,008 | 2,029,134 | - | - | 1,859,008 | 2,029,134 |
| Interest on Long-Term Debt | 6,503,466 | 6,473,960 | - | - | 6,503,466 | 6,473,960 |
| Parking | - | - | 5,007,885 | 4,908,537 | 5,007,885 | 4,908,537 |
| Golf Courses | - | - | 3,170,423 | 3,152,455 | 3,170,423 | 3,152,455 |
| Auditorium | - | - | 1,937,132 | 2,041,953 | 1,937,132 | 2,041,953 |
| Solid Waste Management | - | - | 6,543,805 | 7,506,257 | 6,543,805 | 7,506,257 |
| Ambulance Transport | - | - | 3,687,450 | 3,711,546 | 3,687,450 | 3,711,546 |
| Wastewater | - | - | 22,979,974 | 18,965,453 | 22,979,974 | 18,965,453 |
| Water | - | - | 23,794,190 | 23,378,936 | 23,794,190 | 23,378,936 |
| Electric | - | - | 237,476,000 | 224,594,000 | 237,476,000 | 224,594,000 |
| Total Expenses | <u>223,955,564</u> | <u>222,022,343</u> | <u>304,596,859</u> | <u>288,259,137</u> | <u>528,552,423</u> | <u>510,281,480</u> |
| Increase in Net Assets Before Transfers | 30,934,310 | 51,642,619 | 28,855,196 | 24,691,345 | 59,789,506 | 76,333,964 |
| Transfers | 2,275,892 | 2,675,305 | (2,275,892) | (2,675,305) | - | - |
| Increase in Net Assets | <u>33,210,202</u> | <u>54,317,924</u> | <u>26,579,304</u> | <u>22,016,040</u> | <u>59,789,506</u> | <u>76,333,964</u> |
| Net Assets - Beginning | 760,928,330 | 706,610,406 | 688,279,348 | 666,263,308 | 1,449,207,678 | 1,372,873,714 |
| Net Assets - Ending | <u>\$ 794,138,532</u> | <u>760,928,330</u> | <u>714,858,652</u> | <u>688,279,348</u> | <u>1,508,997,184</u> | <u>1,449,207,678</u> |

GOVERNMENTAL ACTIVITIES

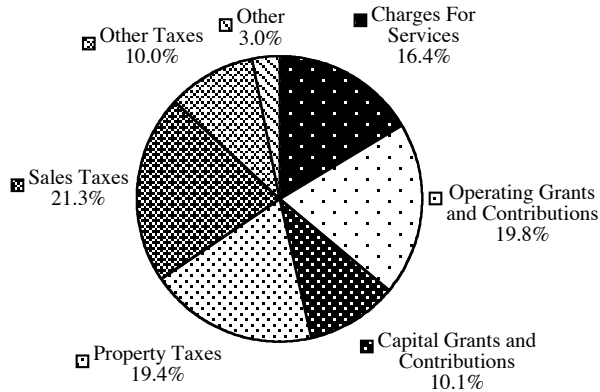
Governmental activities increased the City's net assets by \$33,210,202, accounting for 56 percent of the total growth in the net assets of the City of Lincoln. Key elements of this increase are as follows:

- The City's current year contribution to the Joint Antelope Valley Authority amounted to \$22,069,965, of which a significant portion is federally funded.
- Property taxes increased by approximately \$1.3 million (2.8 percent) during 2009. Total growth in the tax base, which includes revaluations, annexations and other adjustments, was 1.80 percent.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



BUSINESS-TYPE ACTIVITIES

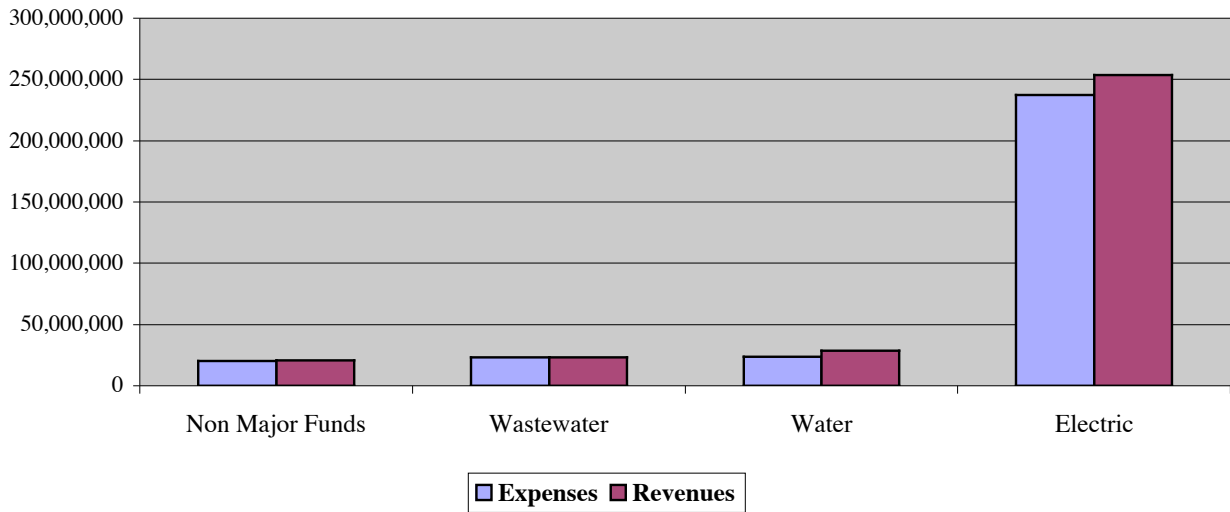
Business-type activities increased the City’s net assets by \$26,579,304, accounting for 44 percent of the total growth in the government’s net assets. Key elements of this increase are as follows:

- Charges for services increased by approximately \$24.5 million, or 8 percent. Water and Wastewater revenues increased \$1.6 million (6.8%) and \$.5 million (2.5%), respectively, primarily due to an increase of 3 percent in user fees implemented in February 2009.

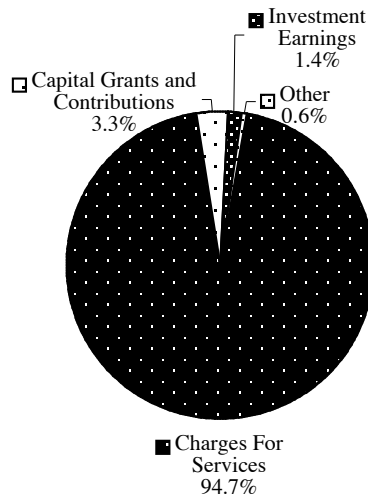
Lincoln Electric System operating revenue in 2008 was 10% higher than 2007 due to retail rate increases of 5.0% in March, 2008 and 9.1% on September 1, 2008, while retail energy sales remained flat. Wholesale revenue was higher from the firm sale of power from Walter Scott #4 generating station.

- LES recorded capital contributions of \$5.7 million.
- Lincoln Water and Wastewater Systems reported developer capital contributions of approximately \$3.3 million and \$2.1 million respectively.
- Lincoln Water and Wastewater Systems reported losses in nonoperating activities due to declining interest income and rates on investments, as well as declining capital investment resulting in reduced capitalized interest in 2009.

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, 2009, the City's governmental funds reported combined ending fund balances of \$190,767,075, a decrease of \$(4,055,706) in comparison with the prior year. Of this total amount, 58 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:

- long-term loans receivable (\$19,637,000),
- pay debt service (\$16,055,872),
- 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 (\$6,930,928).

The General Fund is the chief operating fund of the City. At August 31, 2009, the unreserved fund balance of the General Fund was \$27,586,521, while total fund balance reached \$32,255,223. 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 28 percent of total general fund expenditures, while total fund balance represents 33 percent of that same amount.

The fund balance of the City's General Fund decreased by \$(223,557) during 2009. For the current fiscal year, appropriated General fund balance, used as a funding source for the budget increased \$284,618. General Fund balances as a future funding source are projected to decrease as the City reduces balances, measured at year end, to a goal of 15% of the projected General Fund budget five years in the future.

The Street Construction Fund had a total fund balance of \$28,388,503, which is to be used in the construction and maintenance of street and highways. The net decrease in fund balance during 2009 in the Street Construction Fund was \$(1,749,329), as is expected as the City spends down bond proceeds on current projects.

The Federal Grants Fund had a fund balance of \$21,163,792, a net increase of \$1,811,440. Expenditures and revenues in the fund decreased by \$2,801,148 (12 percent) and \$3,143,976 (13 percent), respectively. Net transfers into the fund were \$1,789,304, an increase over the prior year of \$1,360,458. A significant portion of this increase related to the transfer of tax increment financing funds that were used along with federal funds and other donations in the construction of the North 27th Street Pedestrian Bridge.

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 \$5,424,150, \$10,247,629, \$77,576,000 and \$6,415,740, respectively, at August 31, 2009 (December 31, 2008 for LES). 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 \$60,846 in appropriations) and can be briefly summarized as follows:

- \$(630,722) in miscellaneous changes in general government activities.
- \$360,386 in increases allocated to public safety.
- \$42,500 in increases allocated to street maintenance.
- \$91,759 in increases allocated to parks and recreation.
- \$196,923 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:

- \$3,451,077 positive variance in real estate and personal property tax. Actual property collections were 96.83% of the 2008 levy, while estimated tax revenue is based on 90% collections as provided by the City Charter.
- \$(2,709,458) negative variance in taxes collected by others. Current year sales tax collections have been impacted by the national economy and also an increase in refunds over the prior year.
- \$2,270,001 positive variance in miscellaneous general government expenditures. Significant savings were realized in several service line items that are reappropriated to cover ongoing future expenditures.
- \$(1,347,513) negative variance in street lighting function expenditures. This variance was the result of additions related to both normal construction as well as Antelope Valley Project construction.

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, 2009, amounts to \$2,025,164,265 (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 2009 was 2.3 percent (a 2.7 percent increase for governmental activities and a 2.2 percent increase for business-type activities).

Major capital asset events during 2009 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, construction-in-progress of infrastructure as of August 31, 2009 reached \$82,682,000
- Continued major electric plant construction including the transmission, substation and distribution system which totaled over \$45.6 million in 2008.
- Wastewater System capital assets increased by approximately \$518,000 (.21 percent). Major project additions included:
 - ✓ Trunk sewer improvement mains – \$4,273,000
- Water System capital assets increased by approximately \$12,516,000 (4 percent) due to major project additions such as:
 - ✓ Water transmission pump station & mains - \$7,915,000
 - ✓ Water distribution mains - \$1,820,000
 - ✓ Water treatment plan - \$2,716,000

City Of Lincoln
Capital Assets (net of depreciation)
August 31, 2009 and 2008

| | Governmental Activities | | Business-type Activities | | Total | |
|-----------------------------------|----------------------------|--------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Land | \$ 65,038,172 | 62,978,764 | 21,691,556 | 21,004,520 | 86,729,728 | 83,983,284 |
| Buildings | 45,508,199 | 47,552,703 | 154,374,821 | 157,688,117 | 199,883,020 | 205,240,820 |
| Improvements Other Than Buildings | 36,850,167 | 38,298,396 | 388,022,172 | 375,660,608 | 424,872,339 | 413,959,004 |
| Machinery and Equipment | 31,042,569 | 33,551,718 | 11,321,850 | 10,810,069 | 42,364,419 | 44,361,787 |
| Utility Plant | - | - | 729,402,000 | 736,632,000 | 729,402,000 | 736,632,000 |
| Infrastructure | 347,255,342 | 316,365,857 | - | - | 347,255,342 | 316,365,857 |
| Construction-in-progress | 89,070,850 | 100,116,868 | 105,586,567 | 78,111,949 | 194,657,417 | 178,228,817 |
| Total | \$ <u>614,765,299</u> | <u>598,864,306</u> | <u>1,410,398,966</u> | <u>1,379,907,263</u> | <u>2,025,164,265</u> | <u>1,978,771,569</u> |

Additional information on the City's capital assets can be found in Note 7 of the notes to the financial statements on pages 47-49 of this report.

LONG-TERM DEBT

At August 31, 2009, the City of Lincoln had total bonded debt outstanding of \$905,836,000. Of this amount, \$132,446,000 comprises debt backed by the full faith and credit of the City. 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
August 31, 2009 and 2008
(dollar amounts in thousands)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|----------------|-----------------------------|----------------|----------------|----------------|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| General Obligation Bonds | \$ 125,181 | 128,581 | - | - | 125,181 | 128,581 |
| Tax Supported Bonds | 7,265 | 7,900 | - | - | 7,265 | 7,900 |
| Revenue Bonds | - | - | 773,390 | 781,275 | 773,390 | 781,275 |
| Total | \$ <u>132,446</u> | <u>136,481</u> | <u>773,390</u> | <u>781,275</u> | <u>905,836</u> | <u>917,756</u> |

The City's total bonded debt decreased by \$11,920,000 (1.3 percent) during the current fiscal year. The City issued \$15,420,000 in Water Revenue bonds in the current year for capital improvements to the water system.

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 | - |
| 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 | - |
| Lincoln Electric System | | | |
| Revenue Bonds | Aa2 | AA | AA |
| 2005 Revenue Bonds | | | |
| FSA insured | - | AAA | AAA |
| 2007 Revenue Bonds | | | |
| FGIC insured | Aaa | AAA | AAA |
| Commercial Paper – tax exempt | - | 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 51-55 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Property tax revenue required to fund the 2010 budget decreased \$489,992 or (1.19) percent from the prior year. Total change in the tax base is also estimated at (1.19) percent, therefore the tax rate for 2010 remains the same as 2009.
- The adequacy of fees charged for City service cost recovery is examined each year and some fee increases are included in each annual budget. Without periodic increases in fees, amounts collected, or other revenue adjustments, inflationary cost increases would need to be covered by additional property tax revenue or the levels of service provided would need to be reduced. Fee adjustments in 2010 include an increase in the telecommunications occupation tax rate from 5.5% to 6.0%, and the natural gas franchise fee is increased by 10% as allowed in the franchise agreement.
- Sales tax collections for 2009 finished 4.76 percent behind projections. 2010 projections reflect a 2.5 percent increase over 2009 actual collections.
- Re-bidding the City's self-insured health care plan and amortizing fund balances accumulated through positive claims experience allows for a 10% rate decrease resulting in nearly a \$1.6 million savings in all funds for 2010.
- Fuel budgets throughout City departments are reduced \$2.3 million due to the drop in fuel prices from their record high during the summer of 2008.
- A 5 percent water rate increase and a 4 percent wastewater rate increase were adopted by the City Council and are effective January 2010.
- A hiring freeze and a retirement incentive package have been utilized to create vacant positions, eliminate positions, encourage reorganizations and make budget reductions while at the same time minimizing the number of layoffs. As a result, the net change for all funds is a decrease of 22.94 full-time equivalents for the 2010 budget.

All of these factors were considered in preparing the City's budget for the 2010 fiscal year.

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 10th Street, Lincoln, NE 68508.