

COUNTY OF BERNALILLO NEW MEXICO
Management's Discussion and Analysis
June 30, 2007

As management of the County of Bernalillo (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2007. 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-v of this report.

Financial Highlights

- The government-wide assets of the County exceed its liabilities as of June 30, 2007 by \$480,254,992, an increase of \$88,423,768 or a 22.6% increase. Of this amount, \$302,723,060 is invested in capital assets, net of related debt. Of the remaining balance, \$106,094,221 is restricted for specific purposes and \$71,437,711 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- As of June 30, 2007, the County's governmental activities and business type activities have net assets of \$475,718,369 and \$4,536,623 respectively.
- The fund balance in the County's general fund increased from \$97,463,295 in FY06 to \$146,704,783 in FY07, an increase of \$49,241,488 or a 50.5% increase. Of this amount, \$62,116,232 or 42.3% of the general fund is for the DFA required reserve and \$39,709,114 or 27.1% is for subsequent year's expenditures.
- The County was able to maintain adequate reserves in the amount of \$62,116,232 as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY08.
- During the year, the County sold \$10,000,000 of General Obligation Bonds (Series 2006). This included \$2,686,000 for roads, \$4,085,000 for storm drains, \$2,349,000 for parks and recreation, \$680,000 for Sheriff's facilities improvements and \$200,000 for ADA facilities improvements.
- The County has \$386,166,953 in available bonding capacity or 81.34% of allowable bonding capacity per the New Mexico State Constitution (see page 151).
- The County property valuations increased 5.4% from \$11.26 billion in FY06 to \$11.86 billion in FY07 (see page 144).
- After FY07, the County was upgraded by Standard & Poor's Rating Service to AAA from AA+ for its General Obligation Bonds and maintained its Aa1 rating with Moody's Investors Service, Inc. and AA+ rating with Fitch Ratings. The County was upgraded by Standard & Poor's Rating Service to AAA from AA+ for its Gross Receipt Tax Revenue Bonds and maintained its AA rating with Fitch Ratings.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County'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 themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. For example, property taxes are recognized as revenues in the year for which they are levied. The statement of net assets presents information on all of the County'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 County is improving or deteriorating. The statement of activities presents information showing how the County's net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of the government-wide financial statements differentiate functions of the County 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 County include general government, public works, public safety, health and welfare, and culture and recreation. The Business-type activities of the County include Solid Waste, Bernalillo Housing Authority, Seybold Village Handicapped Project, the Juvenile Detention Center, and El Centro Familiar. The government-wide financial statements can be found on pages 25-26 of this report.

Fund financial statement. 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 County, 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 County 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. For this purpose, the County considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government'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 County'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.

In addition to the General fund, the County maintains forty-six other individual governmental funds of which nineteen are classified as Special Revenue funds, eleven are classified as Debt Service funds, and sixteen are classified as Capital Projects funds. Information for the General fund and the TRAN Debt Service fund, both of which are considered to be major funds, is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General fund. A budgetary comparison statement for the General fund is presented on page 31. In addition, the County adopts an annual budget for other non-major funds. A budgetary comparison statement is presented in the aggregate and individually for all those funds.

The basic governmental fund financial statements can be found on pages 27-30 of this report.

Proprietary funds. The County 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 County uses enterprise funds to account for Solid Waste, Bernalillo Housing Authority, Seybold Village Handicapped Project, the Regional Juvenile Detention Center, and the El Centro Familiar. An *Internal service fund* is used to account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities. Because the services provided by the Risk Management fund predominantly benefit governmental rather than business-type functions, this fund is included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 32-34 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 County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 35 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 the fund financial statements. The notes to the financial statements can be found on pages 37-68 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 69-121 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. The County's governmental-wide net assets exceed liabilities by \$480,254,992 for the fiscal year ending June 30, 2007. By far the largest portion of the County's net assets (63 percent) reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment) less any debt, used to acquire those assets, that is still outstanding. In the prior year, the County's investment in capital assets was 67% of net assets. The County uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the County'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.

County of Bernalillo Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	\$343,370,899	\$281,394,443	\$3,585,866	\$ 3,798,216	\$346,956,765	\$285,192,659
Capital assets	514,707,039	481,156,828	4,919,507	4,949,500	519,626,546	486,106,328
Total assets	858,077,938	762,551,271	8,505,373	8,747,716	866,583,311	771,298,987
Liabilities:						
Long-term liabilities	267,122,552	269,118,143	967,627	2,799,457	270,123,675	271,917,600
Other liabilities	115,237,017	106,395,961	3,001,123	1,154,202	116,204,644	107,550,163
Total liabilities	382,359,569	375,514,104	3,968,750	3,953,659	386,328,319	379,467,763
Net Assets:						
Invested in capital assets, net of related Debt	299,526,749	259,799,155	3,196,311	4,204,373	302,723,060	264,003,528
Restricted	106,094,221	43,396,414	-	-	106,094,221	43,396,414
Unrestricted	70,097,399	83,841,598	1,340,312	589,684	71,437,711	84,431,282
Total net assets	\$475,718,369	\$387,037,167	\$4,536,623	\$4,794,057	\$480,254,992	\$391,831,224

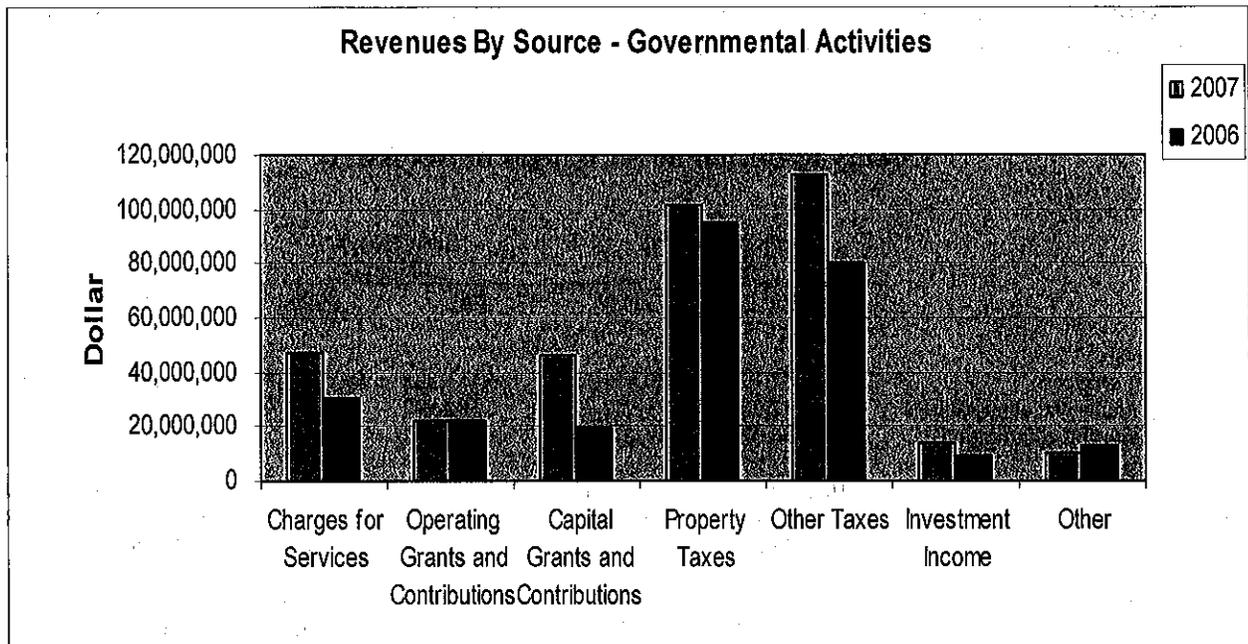
Restricted net assets in the amount of \$106,094,221 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$71,437,711 may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the County is able to report positive balances in all three categories of net assets, and for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities during the year increased the County's net assets by \$88,681,202 in FY07 as compared to \$21,772,518 in FY06.

County of Bernalillo's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$47,052,175	\$30,857,136	\$5,151,503	\$5,495,303	\$52,203,678	\$36,352,439
Operating grants and contributions	21,737,089	21,947,700	582,992	196,975	22,320,081	22,144,675
Capital grants and contributions	45,766,629	19,257,667	482,594	-	46,249,223	19,257,667
General revenues:						
Property taxes	101,617,379	95,070,478	-	-	101,617,379	95,070,478
Other taxes	112,599,176	80,668,274	-	-	112,599,176	80,668,274
Investment income	13,833,232	9,043,065	103,533	50,653	13,936,765	9,093,718
Grants and contributions not restricted to specific programs	-	-	-	534,517	-	534,517
Other	12,949,329	13,182,736	117,150	107,233	13,066,479	13,289,969
Total revenues	355,555,009	270,027,056	6,437,772	6,384,681	361,992,781	276,411,737
Expenses:						
General government	47,569,157	46,477,713	-	-	47,569,157	46,477,713
Public works	32,604,280	45,618,719	-	-	32,604,280	45,618,719
Public safety	129,957,959	108,438,819	-	-	129,957,959	108,438,819
Health and welfare	25,862,321	19,199,026	-	-	25,862,321	19,199,026
Culture and recreation	15,337,172	14,202,035	-	-	15,337,172	14,202,035
Interest on long-term debt	15,221,474	14,318,226	-	-	15,221,474	14,318,226
Solid Waste	-	-	4,483,095	4,257,715	4,483,095	4,257,715
Housing Authority	-	-	847,572	469,038	847,572	469,038
Seybold Village	-	-	172,947	168,763	172,947	168,763
Juvenile Detention Center	-	-	1,158,479	1,273,084	1,158,479	1,273,084
El Centro Familiar	-	-	354,557	404,069	354,557	404,069
Total expenses	266,552,363	248,254,538	7,016,650	6,572,669	273,569,013	254,827,207
Increase (decrease) in net assets before transfers	89,002,646	21,772,518	(578,878)	(187,988)	88,423,768	21,584,530
Transfers in (out)	(321,444)	-	321,444	-	-	-
Capital contributions	-	-	-	16,688	-	16,688
Increase in net assets	88,681,202	21,772,518	(257,434)	(171,300)	88,423,768	21,601,218
Net assets –beginning	387,037,167	365,264,649	4,794,057	5,175,390	391,831,224	370,440,039
Prior period adjustment	-	-	-	(210,033)	-	(210,033)
Net assets – beginning as restated	387,037,167	365,264,649	4,794,057	4,965,357	391,831,224	370,230,006
Net assets – ending	\$475,718,369	\$387,037,167	\$4,536,623	\$4,794,057	\$480,254,992	\$391,831,224

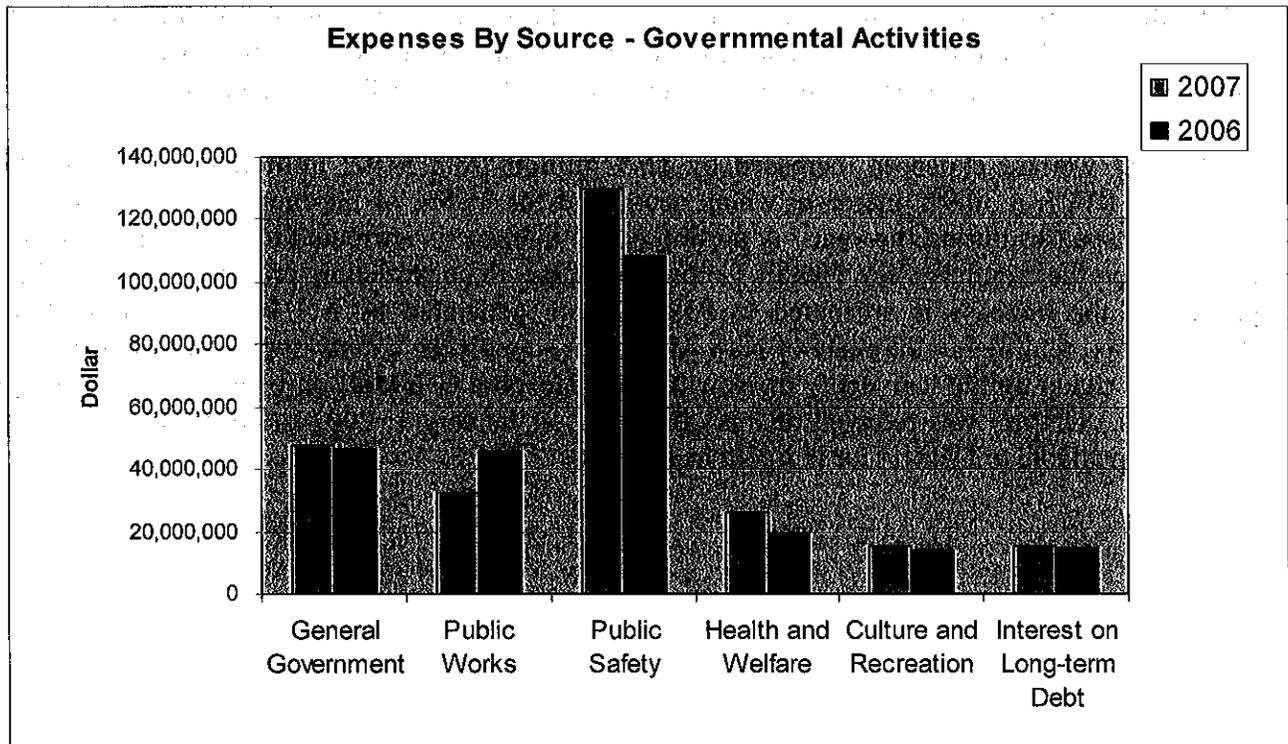


Governmental Activities revenues increased by \$85.5 million from \$270.0 million in FY06 to \$355.5 million in FY07, an increase of 31.7%. Key elements in the growth of governmental activities revenues are as follows:

- Program revenues Charges for Services increased by \$16.2 million from \$30.8 million in FY06 to \$47.0 million in FY07, a 52.6% increase, which accounts for 18.9% of the increase in governmental activities revenues during the year. The increase is attributed to an increase in the fees collected for services for the Metropolitan Detention Center (MDC). The MDC's operation was taken over by the County in FY07 and the County collected \$14.2 million in fees from the City of Albuquerque to offset the cost of MDC operations. The remainder of the increase is due to an increase in the fees collected for services for the Regional Correction Center (RCC) from \$13.0 million in FY06 to \$16.9 million in FY07.
- Program revenues Capital Grants and Contributions increased by \$26.5 million from \$19.3 million in FY06 to \$45.8 million in FY07, a 137.3% increase, which accounts for 31.0% of the increase in governmental activities revenues during the year. A significant part of the increase was attributed to an increase in the Valley Utility Water/Wastewater construction project revenues of \$13.5 million from \$4.7 million in FY06 to \$18.2 million in FY07. In addition, there was a \$5.4 million increase in revenues in the Storm Sewer construction projects from \$.3 million in FY06 to \$5.7 million in FY07 with a significant portion related to the Isleta Phase II storm sewer project. There was also an increase in revenues in the South Valley Health Commons Phase II construction project of \$3.4 million and \$2.8 million for the Hiland Theatre Renovation and the Fisher & Smith Gymnasium construction project.
- General revenues property taxes increased \$6.5 million from \$95.1 million in FY06 to \$101.6 million in FY07, a 6.8% increase, which accounts for 7.6% of the increase in governmental activities revenues during the year. The increase is attributed to an increase in the taxable property

valuation within the County of \$608.2 million from \$11.260 billion in FY06 to \$11.868 billion in FY07 and an increase in the County's operational non-residential mill levy rate from 9.783 to 10.650 per \$1,000 of assessed taxable value. The increase is also due to a slight increase in the current property tax collection rate from 96.12% in FY06 to 96.36% in FY07.

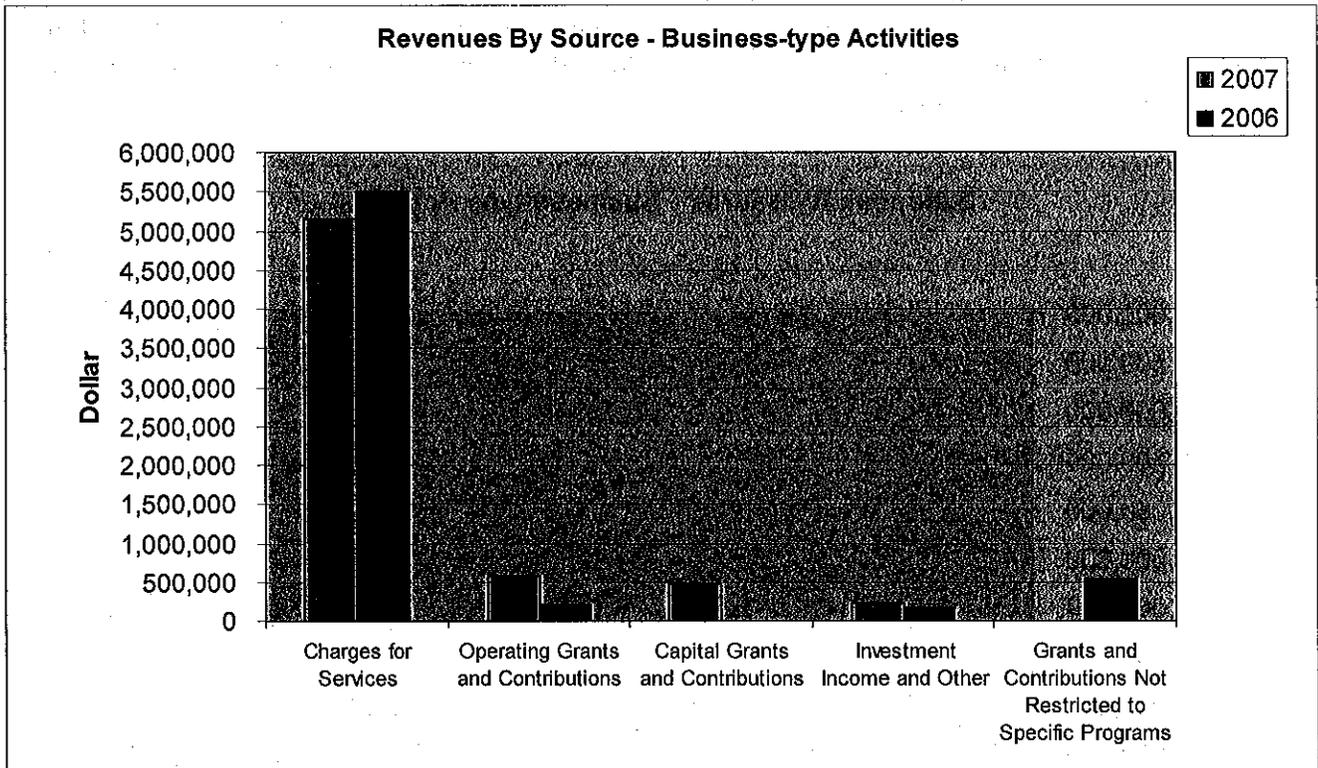
- General revenues other taxes increased \$31.9 million from \$80.7 million in FY06 to \$112.6 million in FY07, a 39.5% increase, which accounts for 37.3% of the increase in governmental activities revenues during the year. The increase is attributed to a 1/8% tax rate increase in the County's gross receipt tax rate for Metropolitan Detention Center (MDC) operations, from 5.5625% to 5.6875% (5.0 state portion), which was effective on July 1, 2006 and an additional tax rate increase of 1/8 % from 5.6875% to 5.8125% for the County's health care program which was effective on January 1, 2007. Also, the overall taxable gross receipts reported by the State for Bernalillo County increased by 7.5% during the year from \$15.307 billion in FY06 to \$16.454 billion in FY07.
- General revenues investment income increased \$4.8 million from \$9.0 million in FY06 to \$13.8 million in FY07, a 53.3% increase. The increase is attributed to better investment management by the County Treasurer, an investment committee which oversees investment strategy monthly, and an increase in the rate of return on investments.



Governmental activities expenses increased by \$18.3 million from \$248.3 million in FY06 to \$266.6 million in FY07, a 7.4% increase. Key elements in the changes of governmental activities expenses, other than a 4% one time non-recurring payment for non-represented and bargaining groups, offers of employment to over 500 MDC City employees, honoring of the longevity of employment of MDC employees, and an adjustment to fund a 10% increase in healthcare insurance premium cost, are as follows:

- General government expenses increased by \$1.1 million from \$46.5 million in FY06 to \$47.6 million in FY07, a 2.4% increase. The increase in general government expenses is primarily attributed to the one time 4% non-recurring payment for non-represented and bargaining groups and enhancement of employee healthcare benefits.
- Public works expenses decreased by \$13.0 million from \$45.6 million in FY06 to \$32.6 million in FY07, a 28.5% decrease. The decrease is attributed to more expenses incurred for projects in FY06 than in FY07. A portion of the decrease is attributed to \$5.8 million in costs incurred in FY06 associated with the development of the west-side industrial park (Tempur-Pedic). A significant portion of the remaining decrease is attributed to the costs incurred for Phase II of the Isleta Boulevard Reconstruction, costs associated with the Valley Utilities Project (VUP), completion of the Golf Course Road project and other projects in FY06.
- Public safety expenses increased by \$21.5 million from \$108.4 million in FY06 to \$129.9 million in FY07, a 19.8% increase. The majority of the increase is attributed to Bernalillo County taking over sole operation of the Metropolitan Detention Center (MDC) at the start of FY07. The City of Albuquerque contributed \$14 million to offset operational costs, but the majority of the budgeted costs were incurred by the County. Services included the administration and operation of the MDC, the administration of the Community Custody Program (CCP), and the addition of the new Health Services Unit (HSU). The remaining increase in public safety expenditures was the result of higher salary and benefit costs for the Fire Department and the Sheriff's Department.
- Health and welfare expenses increased by \$6.7 million from \$19.2 million in FY06 to \$25.9 million in FY07, a 34.9% increase, which accounted for 36.8% of the increase in governmental activities expenses during the year. A portion of the increase is attributed to \$3.3 million in costs incurred for the South Valley Health Commons Phase II construction project. The remaining portion of the increase is attributed to \$3.4 million, generated by a 1/16% Healthcare Gross Receipts Tax, remitted to the State of New Mexico to support the county-supported Medicaid fund which was made by the University of New Mexico Hospital (UNMH) on behalf of the County in prior years. UNMH was relieved of this obligation on January 1, 2007 to ensure that additional funds are available to UNMH for indigent health care.

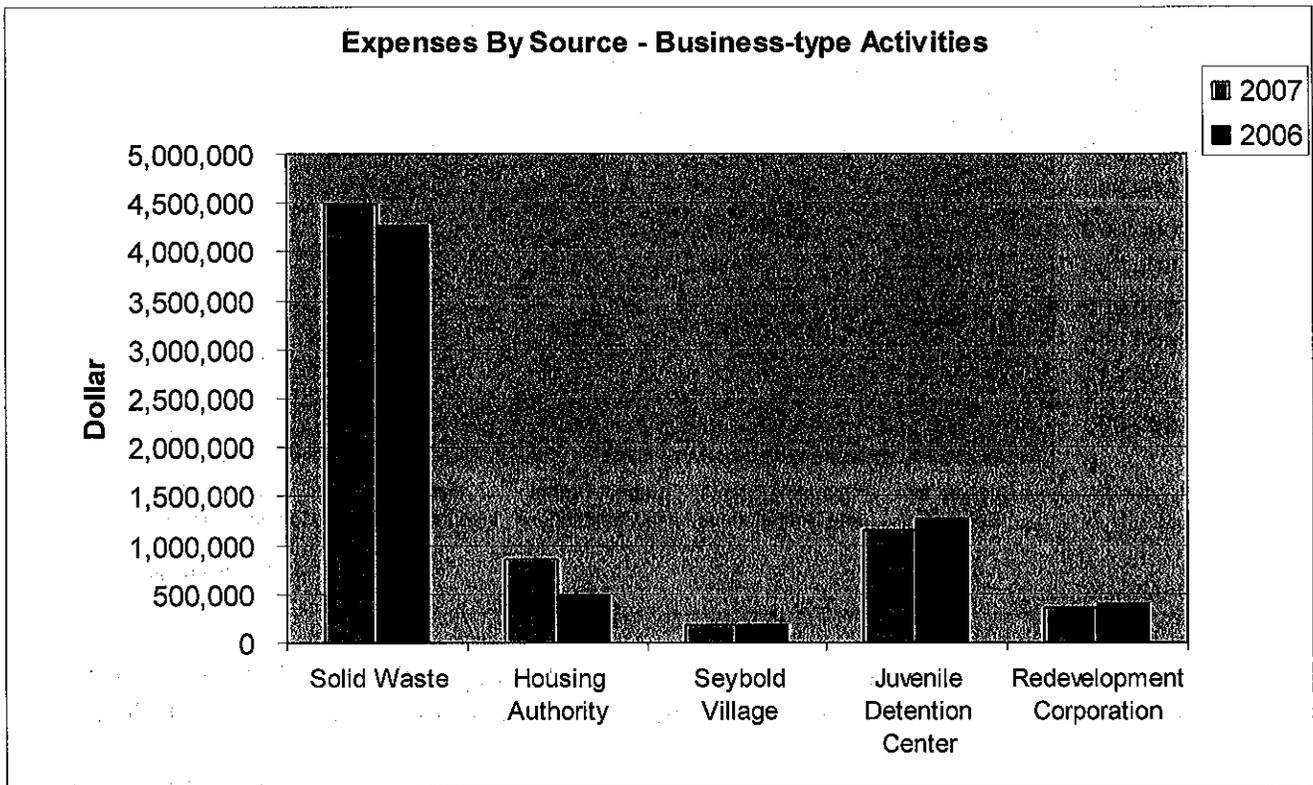
Business-type activities. Business-type activities net assets decreased by \$257,434 during the current fiscal year. The Solid Waste fund, the Bernalillo Housing Authority, the Seybold Village Handicapped Project, and the El Centro Familiar incurred losses of \$522,202, \$12,541, \$52,119, and \$5,471 respectively before capital contributions and operating transfers out. These losses represent the degree to which ongoing program expenses have outstripped ongoing program revenues. Overall, the Business-type activities experienced a \$1,371,305 operating loss (program revenues less expenses) before non-operating revenues of \$792,427.



Business-type activities revenue increased from \$6.385 million in FY06 to \$6.438 million in FY07, a .083% increase. Key elements in the increase of business-type activities revenues are as follows:

- Revenue Program charges for services decreased from \$5.5 million in FY06 to \$5.1 million in FY07, a 7.3% decrease. The decrease was attributed to the last quarter late billing, collection and distribution of solid waste fees to the County from Waste Management, our billing and collection agency. The fees were collected and distributed to the County in FY08.
- Revenue Program operating grants and contributions increased from \$196,975 in FY06 to \$582,992 in FY07, an increase of 196.0%. The increase was attributed to an increase in the subsidy provided for the operation of the East Mountain Transfer Station and for the Low Income Assistance Program. In addition, there was an increase in revenues collected from our recycling program. The increase is also attributed to a change in reporting category from “grants and contributions not restricted to specific programs” in FY06 to “program revenues operating grants and contribution” and “program revenues capital grants and contributions” in FY07, with a minor increase in revenues.

- Revenue Program capital grants and contributions increased from zero in FY06 to \$482,594 in FY07. The increase was attributed to a change in reporting category from “grants and contributions not restricted to specific programs” in FY06 to “program revenues operating grants and contribution” and “program revenues capital grants and contributions” in FY07, with a minor increase in revenues.
- General revenues investment income increased from \$50,653 in FY06 to \$103,533 in FY07, an increase of 104.4%. The increase was attributed to increased investments in the Bernalillo Housing Authority, the El Centro Familiar, and the Seybold Village Handicapped Project and also a higher rate of return on investments.



Business-type activities expenses increased from \$6.6 million in FY06 to \$7.0 in FY07, a 6.1% increase. Key elements in the increase of business-type activities expenses are as follows:

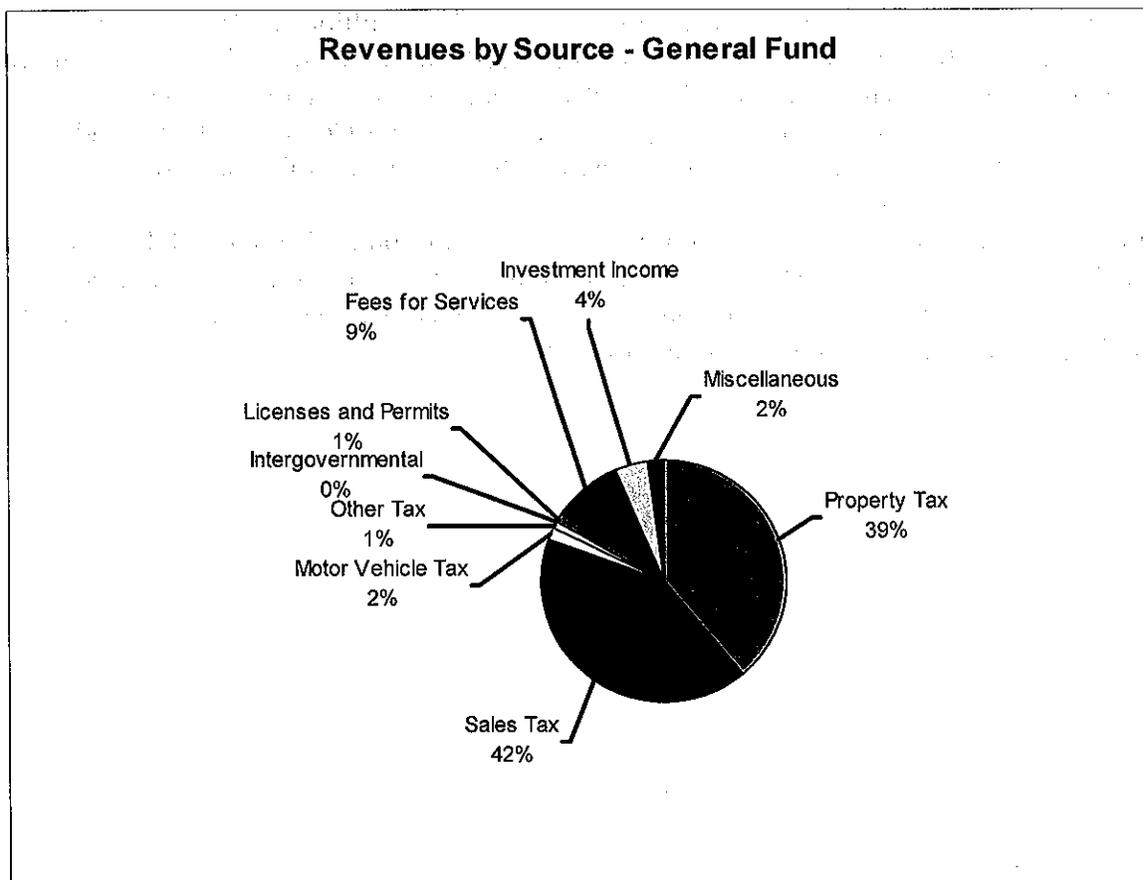
- Contractual expenses in the Solid Waste Fund increased from \$2.9 million in FY06 to \$3.1 million in FY07. A significant portion of the increase was attributed to the increase in fees paid to Waste Management to bill and collect for solid waste services provided by the County.
- Grant expenses in the Housing Authority increased from \$221,863 to \$431,161 which was reflective of an increase in home rehabilitation grant funds.

Financial Analysis of the County's Funds

Governmental Funds. The focus of the County's governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County'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 the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$238,154,800. Approximately 46.4% of this total, \$110,433,688 constitutes unreserved fund balance, which is available for spending at the County'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: 1) to DFA 3/12 reserve requirement \$62,116,232, 2) \$39,947,137 in encumbrances to liquidate contracts and purchase orders of the prior period, 3) \$22,504,690 to pay debt service, and 4) \$3,153,053 for a variety of other restricted purposes.

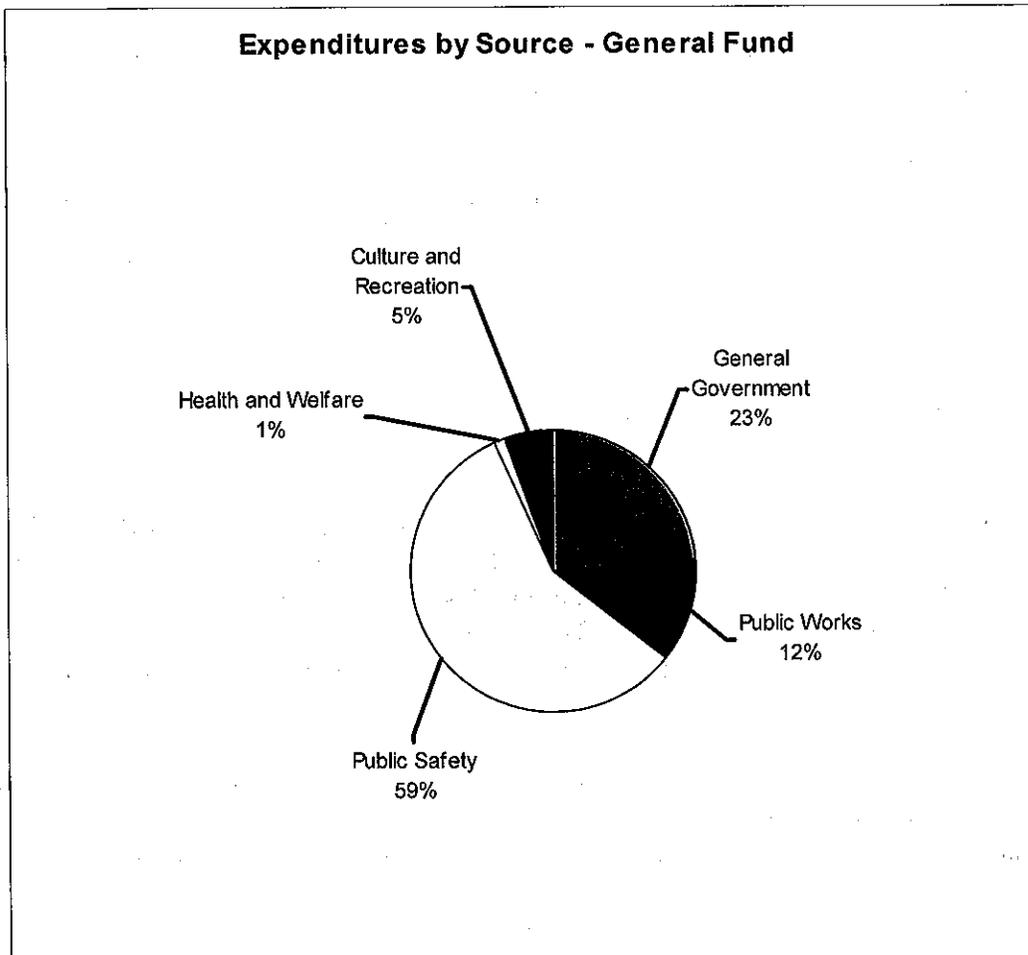
General Fund. The County's general fund balance increased \$49,241,488 during the current fiscal year. Key factors in this growth are based on the increase in local taxes from the previous year combined with less than expected incurred expenditures during the year.



General Fund revenues increased \$49.1 million from \$185.5 million in FY06 to \$234.6 million in FY07, an increase of 26.5%. Key elements in the growth of General Fund revenues are as follows:

- Property taxes revenue increased by \$5.8 million or by 7.0% from \$83.0 million in FY06 to \$88.8 million in FY07. The increase is attributed to an increase in the taxable valuation within the County of \$608.2 million from \$11.260 billion to \$11.868 and an increase in the County's operational non-residential mill levy rate from 9.783 to 10.650 per \$1,000 of assessed taxable value. The increase is also due to a slight increase in the current property tax collection rate from 96.12% in FY06 to 96.36% in FY07.
- Gross receipt tax revenue increased by \$29.4 million from \$70.7 million in FY06 to \$100.1 in FY07, a 41.6% increase, which accounts for 59.5% of the increase in general fund revenues during the year. The increase is attributed to a 1/8% tax rate increase in the County's gross receipt tax rate, for MDC operations, from 5.5625% to 5.6875% (5.0 state portion) which was effective on July 1, 2006 and an additional tax rate increase of 1/8 % from 5.6875% to 5.8125 for the County's health care program which was effective on January 1, 2007. Also, the overall taxable gross receipt reported by the State for Bernalillo County increased by 7.5% during the year from \$15.307 billion in FY06 to \$16.454 billion in FY07.
- Fees for services increased by \$13.3 million from \$7.8 million in FY06 to \$21.1 million in FY07, a 170.5% increase, which accounts for 27.1% of the increase in general fund revenues during the year. The increase is attributed to an increase in the fees collected for MDC operations. The MDC's operation was taken over by the County in FY07 and the County collected \$14.2 million in fees from the City of Albuquerque to offset operational costs.
- Investment income increased \$5.4 million from \$4.6 million in FY06 to \$10.0 million in FY07, an increase of 117.4%. The increase is attributed to better investment management by the County Treasurer, an investment committee which oversees investment strategy monthly, and an increase in the rate of return on investments.

General Fund expenditures increased \$23.2 million from \$146.3 million in FY06 to \$169.5 million in FY07, a 15.8% increase. Key elements in the increase in General Fund expenditures, other than a 4% one time non-recurring payment for non-represented and bargaining groups, are as follows:



- General government expenditures increased by \$3.1 million from \$37.3 million in FY06 to \$40.4 million in FY07, an 8.3% increase, which accounted for 13.4% of the increase in General Fund expenditures. A significant portion of the increase is attributed to \$2.3 million in preliminary costs associated with the implementation of the County’s new Enterprise Resource Planning (ERP) system. The remaining portion of the increase is attributed to costs incurred for elections during FY07.
- Public Safety expenditures increased by \$24.4 million from \$73.9 million in FY06 to \$98.3 million in FY07, a 33.5% increase, which accounted for the majority of the increase in General Fund expenditures. A significant portion of the increase is attributed to Bernalillo County being the sole operator of the Metropolitan Detention Center (MDC) at the start of FY07. The City of Albuquerque contributed \$14 million to offset operational costs, but the majority of the \$54.8 million budgeted costs were incurred by the County. Services included the administration and

operation of the MDC, the administration of the Community Custody Program (CCP), and the addition of the new Health Services Unit (HSU). The remaining increase in public safety expenditures was the result of higher salary and benefit costs for the Fire department and the Sheriff's department.

Additional comparison of General, Special Revenue, and Debt Service Fund revenue and expenditures of prior years can be found in the statistical section of this report.

Special Revenue funds. As of the end of fiscal year 2007, the County's Special Revenue funds reported combined ending fund balances of \$16,096,242, an increase of \$5,158,642. Of the fund balance, \$133,361 is reserved for advances to other funds, \$10,169,790 is reserved for encumbrances, \$900,000 is reserved for detox services and the remaining fund balance of \$4,893,091 is unreserved undesignated.

Debt Service funds. As of the end of fiscal year 2007, the County's Debt Service funds reported combined ending fund balances of \$21,202,244, an increase of \$356,982. All of the fund balance is reserved to pay debt service.

Capital Projects funds. As of the end of fiscal year 2007, the County's Capital Project funds reported combined ending fund balances of \$52,849,085, a decrease of \$690,411. During the year, as capital projects are completed the cost of the projects are reclassified as capital assets and removed from the capital project fund. Of the fund balance, \$21,444,657 is reserved for encumbrances, \$66,010 is reserved for a note receivable and the remaining fund balance of \$31,338,418 is unreserved undesignated.

Proprietary funds. The County proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning the finances of these funds have been discussed in the business-type activities section of the MD&A.

Budgetary Highlights Original Budget – Final Budget Comparison.

General Fund. General fund total original budgeted revenues did not change during the fiscal year. General fund total original budgeted expenditures increased \$8 due to rounding differences. Significant changes between the original budget and the final amended budget are summarized as follows:

- The Finance and Administration original expenditure budget decreased \$6.9 million from \$16.4 million to \$9.5 million. The decrease was attributed to reclassification of \$7.5 million of budgeted funds for the new county-wide Enterprise Resources Planning (ERP) financial reporting system to the "other" budget category.
- The General County original expenditure budget increased \$2.6 million from \$21.0 million to \$23.6 million. The increase was primarily attributed to the new Senate Bill 88 gross receipt tax monies which were earmarked for the phase-in of fire department staff, public safety capital needs, fleet replacement, public works infrastructure, and increase funding for the MDC.

- The Other original expenditure budget increased by \$3.0 million from \$10.7 million to \$13.7 million due to the reclassification of budgeted funds for the new county-wide Enterprise Resource Planning (ERP) financial reporting system. The other final expenditure budget is inclusive of \$7.5 million from the “Finance and Administration” category and \$3.0 million from the “MDC” category.
- The Public Works original expenditure budget increased \$1.9 million from \$20.3 to \$22.2 million. A significant portion of the increase in budgeted expenditures was attributed to an increase for equipment and machinery for anticipated cost for use in the road maintenance program. The remainder of the increase is for anticipated cost for DP equipment and software and for operation of a carwash facility.
- The Sheriff original expenditure budget increased \$2.6 million from \$29.5 million to \$32.1 million. A significant portion of the expenditure budget increase was \$1.3 million for the Metropolitan Assessment and Treatment Services (MATS) 50-bed 4 to 6 month new transitional housing facility. The remainder of the budget increase was for public safety vehicles.
- The Metropolitan Detention Center (MDC) original expenditure budget decreased \$3.0 million from \$63.6 to \$60.6 million. A significant portion of the decrease was attributed to the reclassification of budgeted funds to the “other” category and represents MDC’s support of the new County ERP system for FY07.

General Fund Budgetary Highlights – Budget to Actual

General Fund revenues exceeded budgetary estimates by \$18,224,788 or by 8.7%. General Fund expenditures were less than budgetary estimates by \$54,333,246 or by 24.7% thus eliminating the need to draw upon existing fund balance. During the year the County incurred an excess of revenues over expenditures and other financing sources in the amount of \$46,131,011. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$6,568,787. The budget projections had projected a 95% collection rate of current property taxes within the County as of June 30, 2007. The actual collection rate was 96.36%. The significant reason for the positive variance was that current property tax collections were \$6,330,725 greater than budget (8.2% of budget) which was reflective of the 5.4% increase in the assessed taxable property valuation from the 2006 assessed taxable valuation which was higher than expected. In addition, interest on current tax collections, delinquent tax collections and interest on delinquent tax collections exceeded projections by \$591,529.
- Gross receipt tax (GRT) revenue had a positive variance of \$4,274,746. On July 1, 2006 a 1/8% gross receipt tax increase took effect for MDC operations. On January 1, 2007 a 1/16% gross receipt tax increase took effect for the County’s Healthcare Gross Receipts Tax Program. Although the GRT could potentially be a volatile revenue source, the historical trend has been positive for the County. In FY07 the County had another strong year for GRT revenues and that is reflected in the positive variance.

- Investment income revenue had a positive variance of \$6,275,405. The increase was attributed to a significant increase in cash on hand to invest and an improved local and national economy which resulted in the ability to invest at higher interest rates than what had been anticipated. The increase is also attributed to better investment management by the County Treasurer and an investment committee which oversees investment strategy monthly.
- Miscellaneous revenue had a positive variance of \$2,379,768. Of the increase, \$1.4 million is attributed to funds which were receipted to an unallocated revenue clearing account for future allocation to appropriate accounts once they are determined. This account is not a budgeted item. The remainder of the increase has to do with a 1 million dollar reimbursement for the Hiland Theatre renovation.
- Finance expenditures had a positive variance of \$2,389,396. A significant portion of the variance was attributed to lower property insurance premiums of \$901,618, less than expected insurance deductibles of \$324,819, less than expected expenditures for Law Enforcement Officer liability claims in the amount of \$264,291 and lower than expected fleet replacement costs of \$179,248. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- General County expenditures had a positive variance of \$15,465,856. This variance was primarily attributed to lower expenses of \$5,234,725 for items earmarked to be paid for with the new Senate Bill 88 gross receipt tax monies and \$3,700,000 budgeted for the South Valley Health Center which will be expended in FY08. There was also \$1,878,615 budgeted for specific salaries that were not incurred, \$1,027,300 budgeted for capital improvements and outlays that did not materialize, \$593,155 less in space contingency expenditures that did not occur, and budgeted expenditures of \$300,000 for autos that did not materialize. In addition, there were \$292,308 less in telephone expenditures and \$785,641 less in prior year carryover expenditures that did not materialize, and \$556,020 in anticipated election expenses that were not paid out of current year funds. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- Other expenditures had a positive variance of \$10,605,431. A significant portion of this variance pertained to the implementation of the County's new Enterprise Resource Planning financial system which will begin on July 1, 2007. Initial expenditures of \$728,954 were incurred in FY07 and the majority of the budgeted expenditures of \$10,056,180 will be incurred in FY08. The new financial system is scheduled to be operational on July 1, 2008.
- Sheriff expenditures had a positive variance of \$4,268,177. A portion of the variance was attributed to \$1,163,663 for the purchase of new public safety vehicles which did not materialize. There was a positive balance of \$1,300,000 for the Metropolitan Assessment and Treatment Services (MATS) 50-bed 4 to 6 month new transitional housing facility which was not spent prior to year-end. There was also \$1,823,000 in prior year capital carryover funds that were not expended prior to year-end. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.

- Metropolitan Detention Center expenditures had a positive variance of \$15,041,548. A significant portion of this variance was due to less than expected costs for salaries and fringe benefits of \$6,274,873. There was also \$3,671,429 of carryover budgeted funds which were not expended, less than expected operating costs expended of \$2,960,220, budgeted funds of \$1,000,000 for canteen commissary supplies which were not expended, and \$441,000 budgeted for public safety vehicles which did not materialize. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- Culture and recreation expenditures had a positive variance of \$2,025,464. The variance was in part attributed to \$808,181 in carryover costs which were not expended and less cost associated with funding City of Albuquerque mandates in the amount of \$443,238. The remainder was attributed to less than expected cost in various operating items.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of June 30, 2007 amounts to \$519,626,546 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure. Each year the Board of County Commissioners updates the Capital Improvements Program (CIP) in order to plan, both long and short range financing for the County's capital projects. The CIP process provides for the development and submittal of requests for the annual and six-year requests for the Capital Improvements Program. A wide range of public facilities and equipment is considered in the CIP. There are statutory requirements that provide for design, construction, major repair, reconstruction or replacement of facilities such as buildings, jails, courthouses, roadways, bridges, parks, and some heavy equipment. The County can use several types of funding for the CIP that includes General Obligation Bonds, Revenue Bonds, Special Assessment District Bonds, Federal grants and State grants and appropriations.

Citizen involvement is solicited to determine and prioritize the needs of the County by holding public meetings. The Board of County Commissioners holds periodic advertised meetings at various locations within each Commission District to solicit public input and discuss the public's requests. Capital improvement projects selected by the Board and adopted in the CIP that are to be funded by General Obligation Bonds are placed on the ballot in the next General Election. The General Obligation Bond schedule is based on a two-year cycle and issuance is currently limited to \$18 million dollars by the Board of County Commissioners in order to maintain the same property tax rate. Other Capital improvement projects are included in the State of New Mexico Infrastructure Program for funding consideration. Major capital asset events during the current fiscal year included the following:

- The work on the Valley Utilities Project (VUP), started in FY02, is progressing and is expected to take close to ten years to complete at a cost of nearly \$110 million. Construction started on the South Valley Water Expansion Project Phase 1 transmission line. It will make available a distributed drinking water system to 50 residences along Pajarito Road and will provide the water supply side to support the design and construction of the remaining infrastructure in future years to service 3,200 properties. The contractor has completed all the line work and is currently working on punch list items, disinfecting, and pressure testing the line. It is on schedule and work will be completed by early August 2007.

- The design for the Isleta Boulevard Reconstruction Project, Phase 2, was substantially completed and construction started in FY06. The project was deemed to be substantially completed on June 1, 2007. The project punch list items are scheduled to be completed in July 2007.
- Construction began on the South Valley Health Commons which will consist of a new 41,000 square foot clinic, renovation and addition to the existing PSR building and demolition of the existing First Choice Clinic. It will provide facilities for First Choice Community Healthcare, NM Department of Health and its Women, Infants and Children Program, and UNMH's Family Practice and Psycho-Social Rehabilitation Programs. The project is 31% complete and is on schedule to be completed 20 months from notice to proceed.
- Construction was completed on the Metropolitan Detention Center (MDC) Health Services Unit. A Certificate of Occupancy was issued on August 9, 2006.
- Phase I renovations to bring Hiland Theater into building code compliance and complete major structural improvements commenced. Re-roofing was completed in June 2007 and exterior façade improvements will follow.
- Edith Boulevard improvements will include reconstruction of Edith from Candelaria to Montano. The project will widen the existing two-lane roadway to a five-lane facility with curb, gutter, sidewalks, bike lanes and new storm drainage. Pre-final design was submitted for review on November 8, 2006 and the final design phase is in progress with expected design completion in July 2007. The contract is expected to be awarded to a contractor in November or December 2007.

County of Bernalillo's Capital Assets

(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Land	\$123,977,888	\$122,476,209	\$ 435,352	\$ 435,352	\$124,413,240	\$122,911,561
Buildings	169,573,454	173,807,704	3,342,077	3,501,579	172,915,531	177,309,283
Machinery and equipment	8,687,064	9,306,552	1,127,281	977,731	9,814,345	10,284,283
Infrastructure	147,171,654	149,159,238	-	-	147,171,654	149,159,238
Leasehold improvements	2,529,724	2,233,853	-	-	2,529,724	2,233,853
Construction in progress	60,863,593	22,748,760	14,797	34,838	60,878,390	22,783,598
Art	1,903,662	1,424,512	-	-	1,903,662	1,424,512
Total	\$514,707,039	\$481,156,828	\$4,919,507	\$4,949,500	\$519,626,546	\$486,106,328

Additional information on the County's capital assets can be found in note IV-C. on pages 47-48 of this report.

Debt administration. The Bernalillo County Budget and Finance Division has analyzed the existing debt position of the County and has assessed the impact of future financing requirements on the County's ability to service additional debt. Review and analysis of the County's debt position is performed to provide a capital financing plan for infrastructure and other improvements. Long-term

financing projections are linked with economic, demographic and financial resources expected to be available to repay the debt. Decisions regarding the use of debt are based upon a number of factors including, but not limited to, the long-term needs of the County and the amount of resources available to repay the debt. The debt policy is not expected to anticipate every future contingency in the County's capital program or future operational needs. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate.

The County will maintain direct tax supported debt at a manageable level that takes into account economic factors including population, assessed valuation, and other current and future tax-supported essential needs. The decision to issue bonds, by either competitive or negotiated sale, is based upon which alternative will provide the County with lower costs. The Board of County Commissioners decides on an issue-by-issue basis which method of sale would be most appropriate. The County encourages the use of competitive sales for all issues unless circumstances dictate otherwise. Negotiated sales are considered if the sale is a complex financing structure. If a negotiated sale is anticipated, the Budget and Finance Division and County Bond Counsel establish a list of pre-qualified underwriters.

General Obligation Bonds. During the year, the County sold \$10,000,000 of general obligation bonds (series 2006). This included \$2,686,000 for roads, \$4,085,000 for storm drains, \$2,349,000 for parks and recreation, \$680,000 for Sheriff's facilities improvements and \$200,000 for ADA facilities improvements. At the end of the current fiscal year, the County had total general obligation debt outstanding of \$88,580,000. The County has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, public safety improvements and park facility improvements. General obligation bonds are backed by the full faith and credit of the County government and are supported by ad valorem taxes. The tax rate depends upon debt service schedules and property valuation and is set by the New Mexico Department of Finance and Administration. In fiscal year 2007, this tax is approximately \$.83 per \$1,000 of assessed taxable value in ad valorem taxes to support general obligation bonds, which constitute direct and general obligations of the County. These bonds have retirement dates ranging from February 1, 2010 through February 1, 2027. The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the County's debt position. The State's Constitution provides for a legal debt limit of four percent (4.0%) of taxable valuation. The ratio for the County is less than one percent (0.75%) of the \$11.8 billion taxable value of property within Bernalillo County, as of June 30, 2007. The County may currently issue up to an additional \$386.2 million of general obligation bonds. The net general bonded debt per capita is \$139.15. The lowest per capita amount in the last ten fiscal years was \$111.91 in fiscal year ended June 30, 1998. The County's ratings on uninsured general obligation bonds as of June 30, 2007 were:

- Moody's Investors Service, Inc. Aa1
- Standard & Poor's Rating Service AA+
- Fitch Agency AA+

At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$175,500,000. The County has seven outstanding revenue bonds: the 1996B series, the 1997 series, the 1998 refunding series, the 1999 series, the 2002 series, the 2004 series, and the 2005 partial refunding series. These bonds are payable from net pledged gross receipt tax revenues. Although the bonds are

general obligations of the County, the County intends to pay the bonds solely from the net pledged revenues. The net revenue bonded debt per capita is \$290.34. The lowest per capita amount in the last nine fiscal years was \$151.96 in fiscal year ended June 30, 1998. The pledged revenue coverage of gross receipts tax revenues to debt service requirements is 4.64. The lowest pledged revenue coverage in the last nine fiscal years was 2.19 in fiscal year 2002. These bonds have retirement dates ranging from November 15, 2011 through April 1, 2027. Standard and Poor's has rated the County's revenue bonds AA+.

General Obligation and Revenue Bonds Outstanding

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
General obligation bonds	\$ 88,580,000	\$ 83,475,000	\$ -	\$ -
Revenue bonds	175,500,000	181,510,000	1,740,000	1,780,000
Total	\$264,080,000	\$264,985,000	\$1,740,000	\$1,780,000

The County's total outstanding bond debt decreased by \$945,000 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 56-61 of this report and in the statistical section of this report.

Economic Factors and Next Year's Budgets and Rates

The County's Board of Commissioner and Manager considered many factors when setting the fiscal year 2008 budget. According to forecasts by the University of New Mexico's Bureau of Business and Economic Research, the outlook for the New Mexico economy is one of restrained growth. Non-farm employment growth reached 3.0 percent in 2006, but is expected to attain only 1.7 percent in 2007 and 2008, 1.8 percent in 2009, and 1.5 percent annually thereafter. New Mexico personal income growth will reach 5.9 percent in 2007, but growth will gradually decline each year thereafter, reaching 4.5 percent by 2012. The unemployment rate will remain near 4.0 throughout. The outlook for the Albuquerque MSA economy is moderate economic growth for the next several years. Following a robust 3.7 percent gain in 2006, the Albuquerque MSA employment growth will slip to 1.7 percent in 2007. There will be a slight rebound in 2008 and 2009 (1.9 percent and 2.1 percent, respectively), with employment growth reaching 1.5 percent by 2012. Albuquerque MSA personal income growth will drop from 8.3 percent last year to 6.4 percent in 2007 and will show a pattern of slow growth from 2008 through 2012. The unemployment rate will remain close to 3.5 percent annually.

The major slow down to the Albuquerque economy was the construction sector, where employment growth fell from a 9.1 percent increase in 2006 to a 1.0 percent decline in the first half of 2007. The drop-off in construction employment was due to a harsh winter, a continuing decline in housing construction, and the completion of several large construction projects, including the UNM Hospital

expansion, the Center for Integrated Nanotechnologies, and the Microsystems Engineering and Sciences Application (MESA) facility. Next year will bring a small recovery. Upcoming construction projects include a new cancer center at the University of New Mexico, a power plant in Rio Communities (just southwest of Belen), a 150-room Hilton Garden Inn in the uptown area, a 4-story Holiday Inn Hotel & Suites near I-40 and 12th, some road and highway projects funded under GRIP 2, two more sound stages at Albuquerque Studios, and the completion of Phase II at ABQ Uptown. Housing construction overall will remain depressed through 2007, however, but a modest recovery is expected to commence toward the end of 2008.

Strength in the economy will come from information, educational & health services and professional & business services. The government sector will continue to provide thousands of jobs, even though annual growth will only be 1.5 to 2.0 percent each year. Near term growth will occur with the expansion at Verizon Wireless, the arrival of PR Newswire, and hundreds of jobs in the film industry, including at Albuquerque Studios and Sony Pictures Imageworks special effect studios in Albuquerque, and Lions Gate Studios in Rio Rancho. Another source of growth will be in the health services sector. Coming sources of health care employment include a new hospital in Rio Rancho and new medical offices at Kaseman Hospital, expansions at the Lovelace Downtown Albuquerque Medical Center and at the Lovelace Women's Hospital, at the UNM Children's Hospital and Critical Care Pavilion, at the new UNM Cancer Center, at the county-operated hospital in Valencia County, and at the Enchanted Hills Medical Plaza in Rio Rancho. In the manufacturing sector, employment growth will increase as Eclipse Aviation, Tempur-Pedic, Advent Solar, Merrilat Cabinets and other smaller manufacturers continue to expand. In addition, new firms Tesla Motors and LoPrestiFury Aviation plan to hire hundreds over the next few years.

Request for Information

This financial report is designed to provide a general overview of the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Deputy County Manager for Budget and Finance, One Civic Plaza, NW – 10th Floor, Albuquerque, New Mexico 87102.