

COUNTY OF BERNALILLO NEW MEXICO
Management's Discussion and Analysis
June 30, 2006

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, 2006. 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, 2006 by \$391,831,224, an increase of \$21,391,185 or a 5.5% increase. Of this amount, \$264,003,528 is invested in capital assets, net of related debt. Of the remaining balance, \$43,396,414 is restricted for specific purposes and \$84,431,282 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- The fund balance in the County's general fund increased from \$72,308,683 in FY05 to \$97,463,295, an increase of \$25,154,612 or a 34.79% increase.
- The County was able to maintain adequate reserves in the amount of \$47,880,110 as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY07.
- During the year, the County sold \$5,261,000 of General Obligation Bonds (Series 2005A). \$1,500,000 for library books, \$1,000,000 for roads, \$1,255,000 for parks and recreation, and \$1,506,000 for public safety. Also, the County issued \$13,940,000 of General Obligation Refunding Bonds with an average interest rate of 3.81% to advance refund \$4,410,000 of series 1995 bonds outstanding, \$2,700,000 of series 1996 bonds outstanding, and \$6,275,000 of series 2000 bonds outstanding.
- The County has \$366,942,308 in available bonding capacity or 81.47% of allowable bonding capacity per the New Mexico State Constitution (see page 153).
- The County property valuations increased 11.48% from \$10.10 billion in FY05 to \$11.26 billion in FY06 (see page 144).
- The County maintained its Aa1 rating with Moody's Investors Service, Inc. and AA+ for Standard & Poor's Rating Service and Fitch for its General Obligation Bonds and was upgraded by Standards and Poor to an AA+ rating from an AA rating on the Gross Receipt Tax Revenue Bonds.

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 21-22 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-eight other individual governmental funds of which eighteen are classified as Special Revenue funds, thirteen are classified as Debt Service funds, and seventeen 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 27. 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 23-26 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, Housing Authority, Seybold Village Handicapped Project, 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 28-30 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 31 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 33-63 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 63-113 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 \$391,831,224 for the fiscal year ending June 30, 2006. By far the largest portion of the County's net assets (67 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 70% 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	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets:						
Current and other assets	\$281,394,443	\$234,517,129	\$3,798,216	\$ 2,368,950	\$285,192,659	\$236,886,079
Capital assets	481,156,828	481,366,127	4,949,500	5,417,840	486,106,328	486,783,967
Total assets	<u>762,551,271</u>	<u>715,883,256</u>	<u>8,747,716</u>	<u>7,786,790</u>	<u>771,298,987</u>	<u>723,670,046</u>
Liabilities:						
Long-term liabilities	269,118,143	269,724,477	2,799,457	1,986,294	271,917,600	271,710,771
Other liabilities	106,395,961	80,894,130	1,154,202	625,106	107,550,163	81,519,236
Total liabilities	<u>375,514,104</u>	<u>350,618,607</u>	<u>3,953,659</u>	<u>2,611,400</u>	<u>379,467,763</u>	<u>353,230,007</u>
Net Assets:						
Invested in capital assets, net of related Debt	259,799,155	256,203,651	4,204,373	3,602,601	264,003,528	259,806,252
Restricted	43,396,414	49,216,804	-	-	43,396,414	49,216,804
Unrestricted	83,841,598	59,844,194	589,684	1,572,789	84,431,282	61,416,983
Total net assets	<u>\$387,037,167</u>	<u>\$365,264,649</u>	<u>\$4,794,057</u>	<u>\$5,175,390</u>	<u>\$391,831,224</u>	<u>\$370,440,039</u>

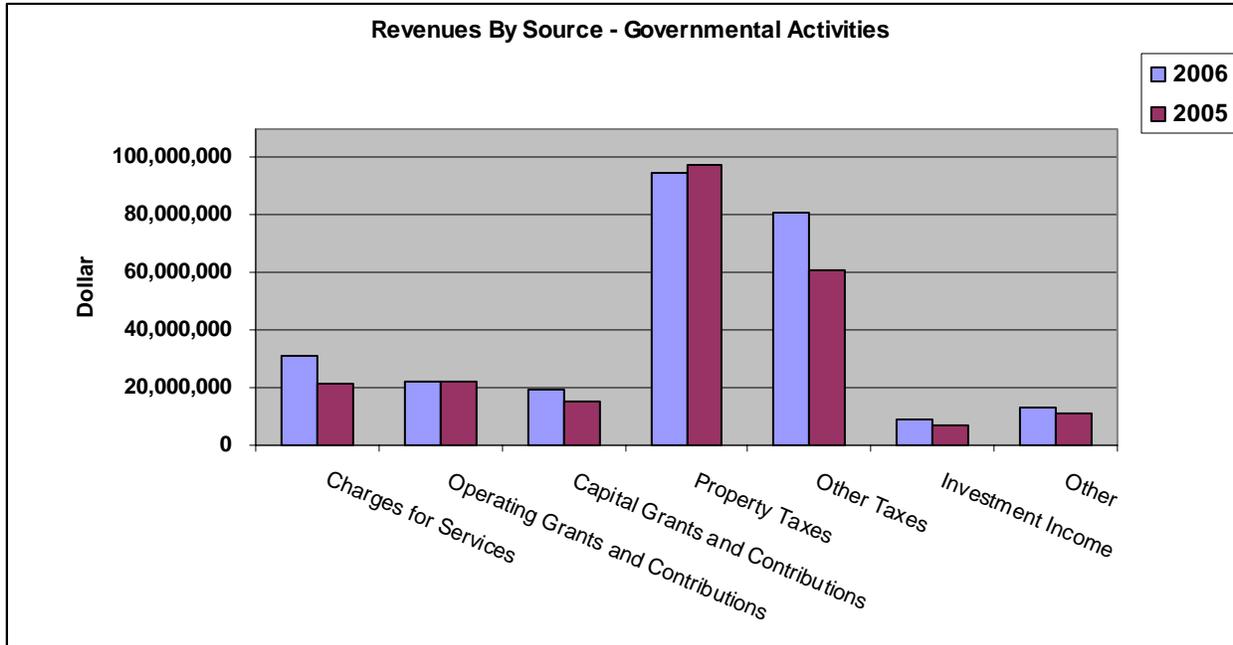
Restricted net assets in the amount of \$43,396,414 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$84,431,282 may be used to meet the government's ongoing obligations to citizens and creditors.

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 \$21,772,518 in FY06 as compared to \$19,292,259 in FY05.

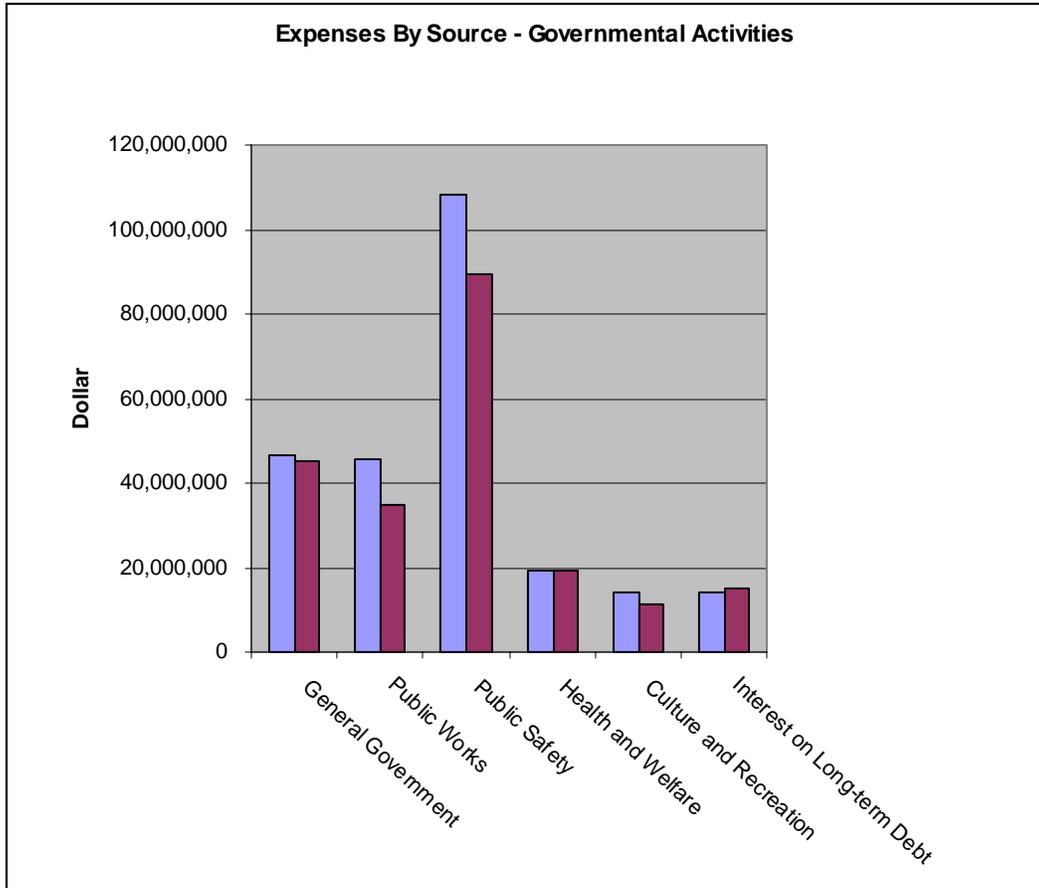
County of Bernalillo’s Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues:						
Program revenues:						
Charges for services	\$30,857,136	\$21,396,030	\$5,495,303	\$ 4,903,003	\$36,352,439	\$26,299,033
Operating grants and contributions	21,947,700	21,825,526	196,975	139,226	22,144,675	21,964,752
Capital grants and contributions	19,257,667	15,059,440	-	-	19,257,667	15,059,440
General revenues:						
Property taxes	95,070,478	97,468,762	-	-	95,070,478	97,468,762
Other taxes	80,668,274	60,843,367	-	-	80,668,274	60,843,367
Investment income	9,043,065	6,952,564	50,653	9,022	9,093,718	6,961,586
Grants and contributions not restricted to specific programs	-	-	534,517	558,439	534,517	558,439
Other	13,182,736	10,845,578	107,233	119,688	13,289,969	10,965,266
Total revenues	<u>270,027,056</u>	<u>234,391,267</u>	<u>6,384,681</u>	<u>5,729,378</u>	<u>276,411,737</u>	<u>240,120,645</u>
Expenses:						
General government	46,477,713	45,288,911	-	-	46,477,713	45,288,911
Public works	45,618,719	34,986,816	-	-	45,618,719	34,986,816
Public safety	108,438,819	89,268,696	-	-	108,438,819	89,268,696
Health and welfare	19,199,026	19,266,114	-	-	19,199,026	19,266,114
Culture and recreation	14,202,035	11,411,012	-	-	14,202,035	11,411,012
Interest on long-term debt	14,318,226	15,077,459	-	-	14,318,226	15,077,459
Solid Waste	-	-	4,257,715	3,255,586	4,257,715	3,255,586
Housing Authority	-	-	469,038	1,036,213	469,038	1,036,213
Seybold Village	-	-	168,763	145,955	168,763	145,955
Juvenile Detention Center	-	-	1,273,084	1,330,647	1,273,084	1,330,647
El Centro Familiar	-	-	404,069	382,877	404,069	382,877
Total expenses	<u>248,254,538</u>	<u>215,299,008</u>	<u>6,572,669</u>	<u>6,151,278</u>	<u>254,827,207</u>	<u>221,450,286</u>
Increase in net assets before transfers	21,772,518	19,092,259	(187,988)	(421,900)	21,584,530	18,670,359
Transfers in (out)	-	200,000	-	(200,000)	-	-
Capital contributions	-	-	16,688	1,113,598	16,688	1,113,598
Increase in net assets	<u>21,772,518</u>	<u>19,292,259</u>	<u>(171,300)</u>	<u>491,698</u>	<u>21,601,218</u>	<u>19,783,957</u>
Net assets –beginning	365,264,649	346,202,703	5,175,390	4,059,309	370,440,039	350,262,012
Prior period adjustment	-	(230,313)	(210,033)	624,383	(210,033)	394,070
Net assets – beginning as restated	<u>365,264,649</u>	<u>345,972,390</u>	<u>4,965,357</u>	<u>4,683,692</u>	<u>370,230,006</u>	<u>350,656,082</u>
Net assets – ending	<u>\$387,037,167</u>	<u>\$ 365,264,649</u>	<u>\$4,794,057</u>	<u>\$5,175,390</u>	<u>391,831,224</u>	<u>\$370,440,039</u>



Governmental Activities revenues increased by \$35.6 million from \$234.4 to \$270.0, an increase of 15.2%. Key elements in the growth of governmental activities revenues are as follows:

- General revenues other taxes increased \$19.8 million from \$60.8 million in FY05 to \$80.6, a 32.5% increase, which accounts for 55.6% of the increase in governmental activities revenues during the year. The increase is attributed to a 3/16 tax rate increase in the County's operational gross receipt tax rate from 5.375% to 5.5625% (5.0 state portion) that was effective for the last half of FY05 (January 1, 2005) and all of FY06. The overall taxable gross receipts reported by the State for Bernalillo County increased by 1.23% during the year from \$15.121 billion in FY05 to \$15.307 billion in FY06. The small increase in the taxable gross receipts was attributed in part to a state-wide food and physician gross receipt tax exemption that went into effect on January 1, 2005.
- Program revenues Charges for Services increased by \$9.4 million from \$21.4 to \$30.8 million, a 43.9% increase which accounts for 26.4% 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 Regional Correction Center (RCC) from \$4.6 million in FY05 to \$13.0 million in FY06. The RCC was only operational for four months during FY05 as compared to twelve months during FY06.
- Program revenues Capital Grants and Contributions increased by \$4.2 million from \$15.0 million to \$19.2 million, a 28.0% increase. A significant part of the increase was attributed to an increase in spending on the Isleta Blvd Phase II right of way and road improvement project costs.
- Property taxes revenue decreased \$2.4 million from \$97.4 million to \$95.0 million, a 2.5% decrease. While taxable property valuation within the County increased 11.5% from \$10.102 billion to 11.260 or by \$1.158 billion, the County's operation non-residential mill levy rate decreased slightly from 11.6 to 10.658. The decrease in property tax rates was slightly offset by an increase in the current property tax collection rate from 95.71% to 96.12%.



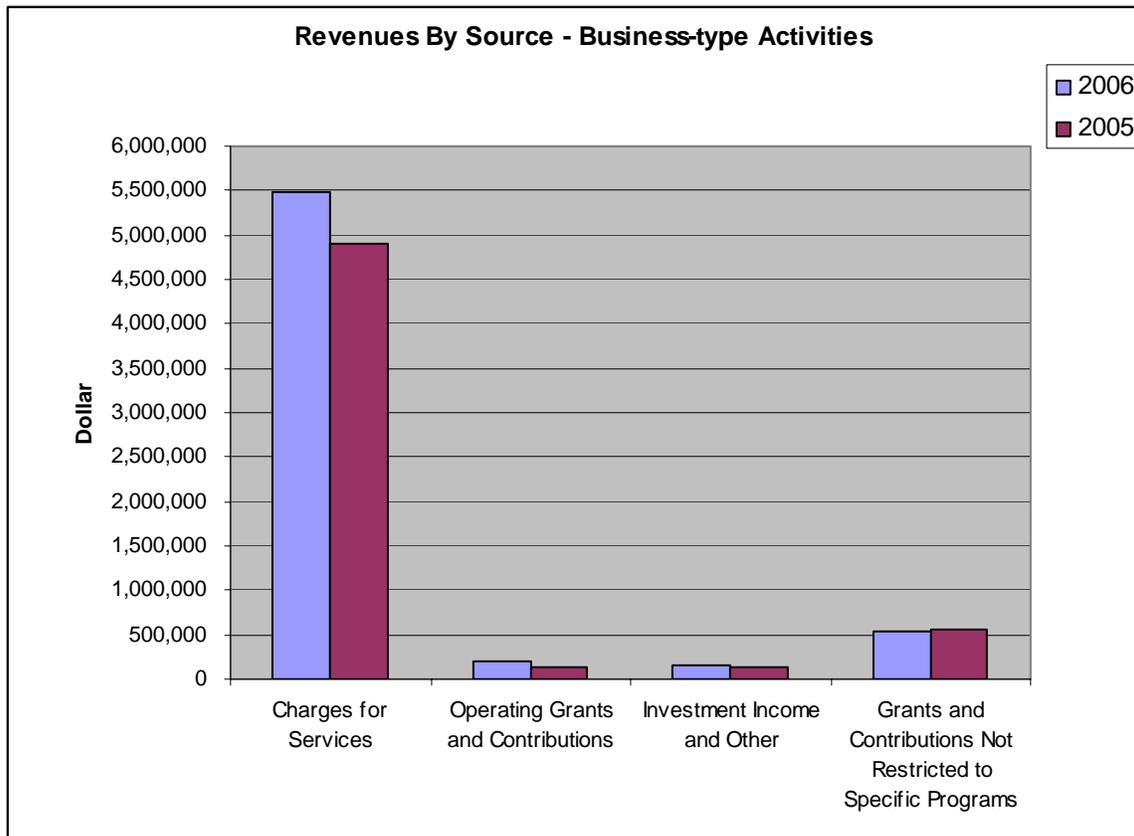
Governmental activities expenses increased by \$32.9 million from \$215.3 to \$248.2, a 15.3% increase. Key elements in the changes of governmental activities expenses, other than an increase in salary and related fringe benefit costs due to a 3% across the board salary increase, a 10% increase in healthcare premium cost, and a 5% employer contribution increase in healthcare premium benefits for County employees, are as follows:

- General government expenses increased by \$1.2 million from \$45.3 million to \$46.5 million, a 2.6% increase. The increase in general government expenses is primarily attributed to the annual cost of living increase and enhancement of employee healthcare benefits.
- Public works expenses increased by \$10.7 million from \$34.9 million to \$45.6 million, a 30.6% increase, which accounts for 32.5% of the increase in governmental activities expenses during the year. \$5.8 million of this increase is attributed to cost associated with the development of the west-side industrial park (Tempur-Pedic). A significant portion of the remaining increase is attributed to the cost incurred for Phase II of the Isleta Boulevard Reconstruction project.
- Public safety expenses increased by \$19.1 million from \$89.3 million to \$108.4 million, a 21.4% increase, which accounted for 58.0% of the increase in governmental activities expenses during the year. A large percentage of the increase, \$8.4 million, was attributed to an increase in expenses charged for services for the Regional Correction Center from \$4.6 million in FY05 to \$13.0 million in FY06. The RCC was only operational for four months during FY05 as compared to twelve

months during FY06. Increased cost associated with operating the Albuquerque/Bernalillo County Metropolitan Detention Center was due to an increasing average daily inmate population, which accounted for \$2.4 million of the increase in public safety expenses in FY06. The remaining significant increase in public safety expenses was the result of an expansion of Fire and Rescue operations. Between FY04 and FY06 an additional 48 new positions were created and filled in order to enable at least two apparatus units from each station to respond to fire and rescue calls and to fully staff all fire stations.

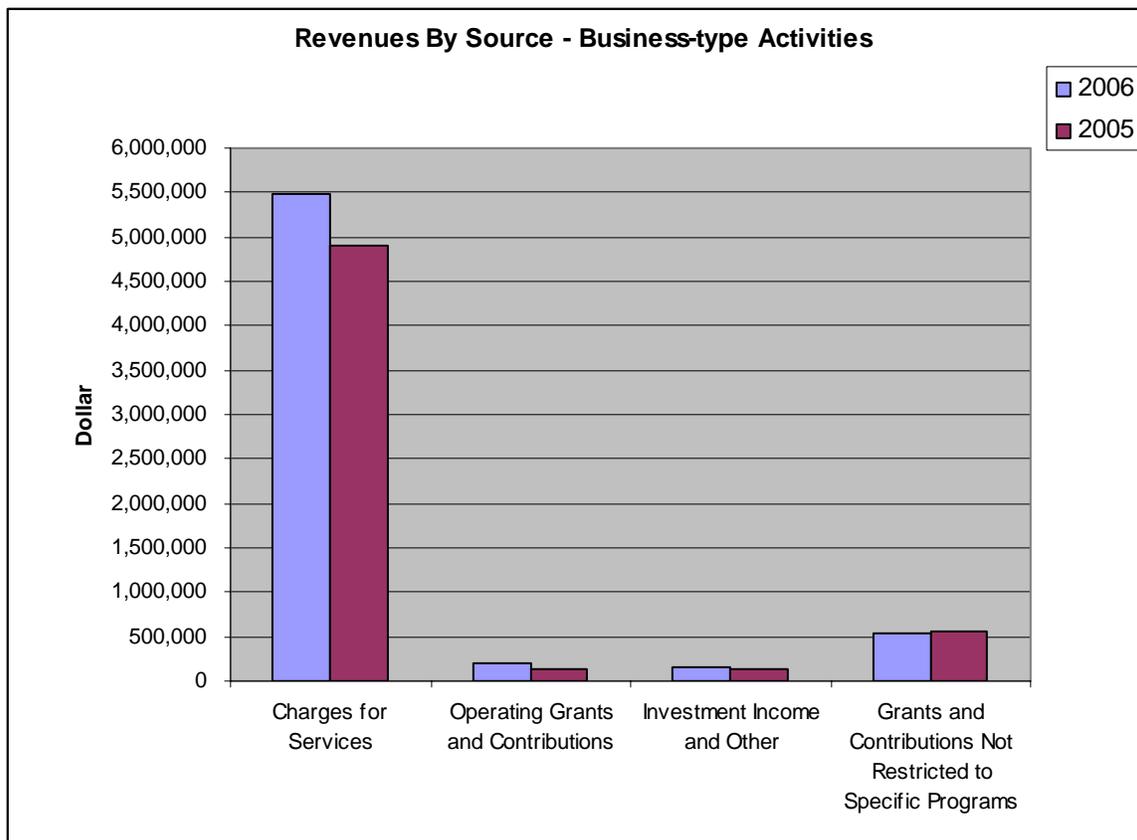
- Culture and recreation expenses increased by \$2.8 million from \$11.4 million to \$14.2 million, a 24.6% increase, which accounted for 8.4% of the increase in governmental activities expenses during the year. The increase was attributed to an increase in the purchase of library books of \$953,505, increased grant expenses of \$324,371, increase costs associated with city mandates and general operating costs.

Business-type activities. Business-type activities net assets decreased by \$171,300 during the current fiscal year. The Solid Waste fund, the Housing Authority, the Seybold Village Handicapped Project fund, the Juvenile Detention Center, and the El Centro Familiar incurred losses of \$38,600, \$365,744, \$128,600, \$27,458 and \$190,406 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 \$750,808 operating loss (program revenues less expenses) before non-operating revenues of \$562,820.



Business-type activities revenue increased from \$5.7 million in FY05 to \$6.4 million in FY06, a 12.3% increase. A key element in the increase of business-type activities revenues is as follows:

- Revenue Program charges for services increased from \$4.9 million to \$5.5 million, a 12.2% increase. The increase was attributed to an increase in the solid waste fees of \$1.0 million due to a fee increase implemented in FY06 and to an increase in revenues from a new recycling program.
- Revenue Program charges for the Housing Authority decreased from \$479,823 to \$79,899, an 83.3% decrease. In FY05, additional revenues were generated from the sale of rehabilitated homes to qualified low-income individuals. FY06 revenue of \$79,899 represents rental income - lease purchase.



Business-type activities expenses increased from \$6.2 million to \$6.6, a 6.5% increase. Key elements in the increase of business-type activities expenses are as follows:

- Contractual expenses in the Solid Waste Fund increased from \$2.0 million to \$2.9. A significant portion of the increase was attributed to the additional cost of implementing the new recycling program.

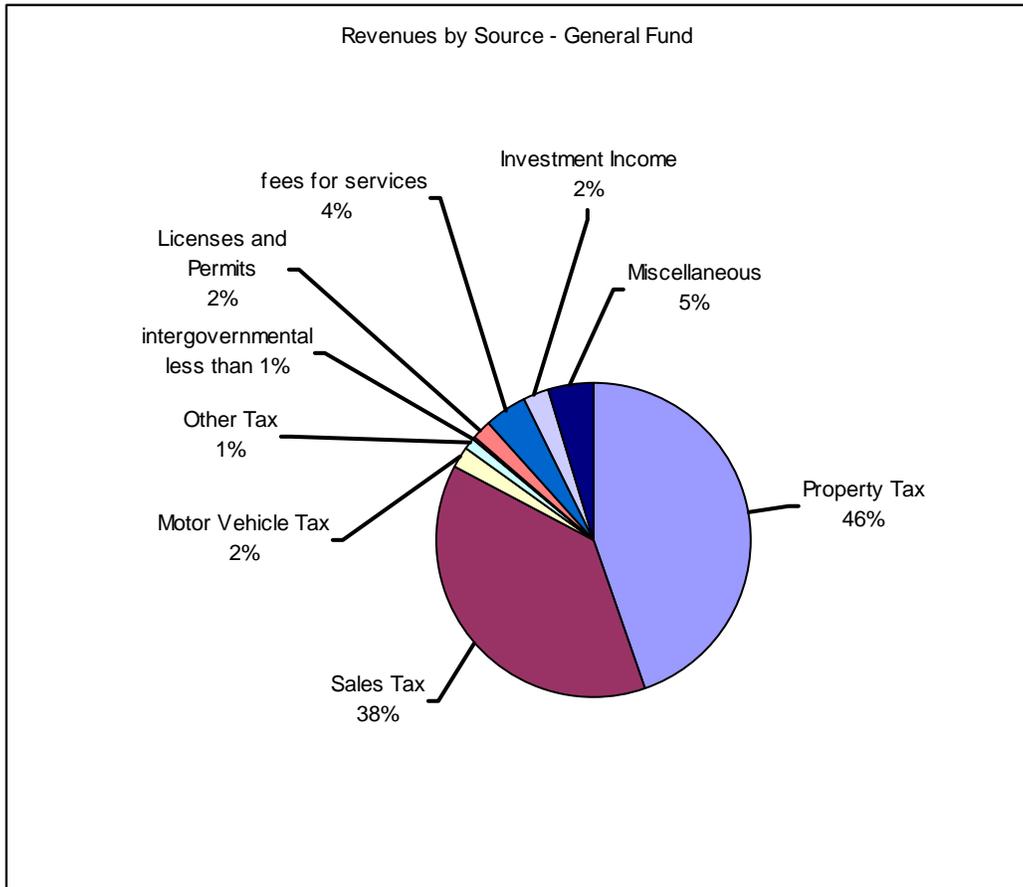
- Grant expenses in the Housing Authority decreased from \$808,374 to \$221,863 which was reflective of a decrease in home rehabilitation grant funds.

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 \$183,788,099. Approximately 33.9% of this total, \$62,321,144, 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 \$47,880,110, 2) \$49,555,176 in encumbrances to liquidate contracts and purchase orders of the prior period, 3) \$21,847,708 to pay debt service, and 4) \$2,183,961 for a variety of other restricted purposes.

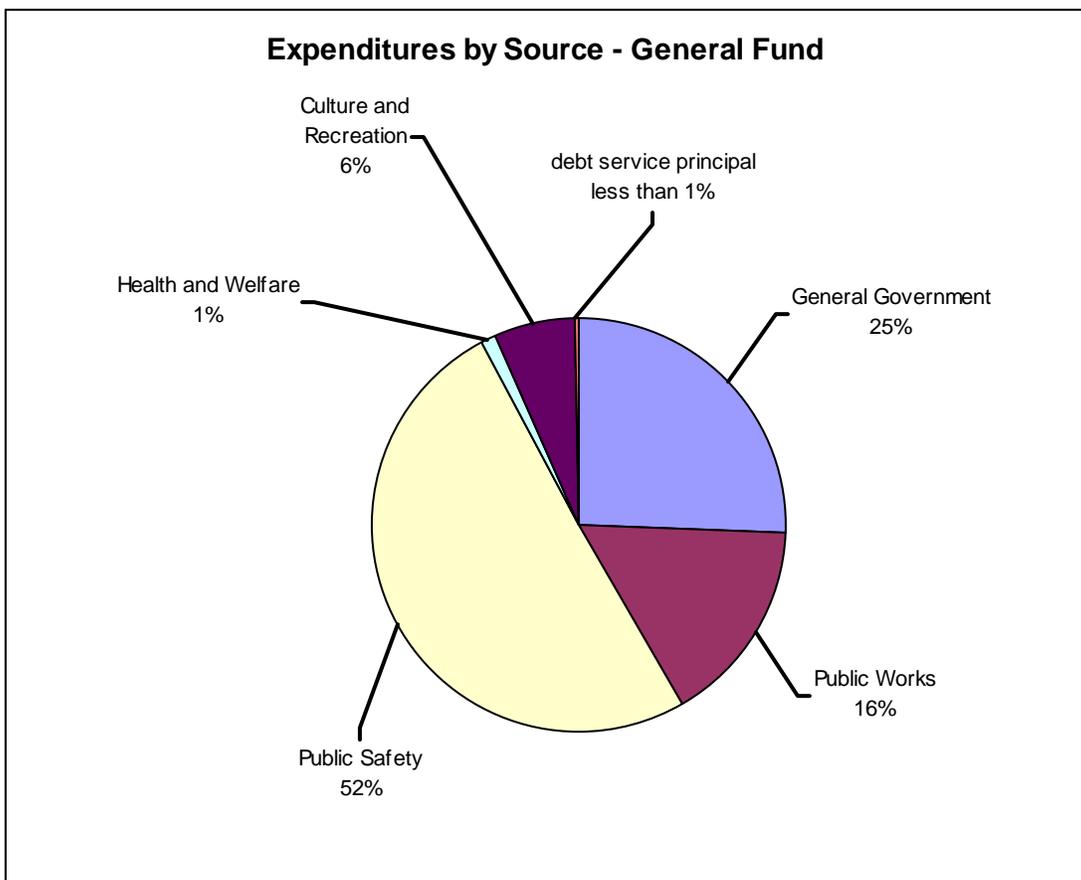
General Fund. The County’s general fund balance increased \$25,154,612 during the current fiscal year. Key factors in this growth are based on the increase in local taxes from the previous year combined with less than expected incurred expenditures during the year.



General Fund revenues increased \$17.5 million from \$168.0 million to \$185.5 million, an increase of 10.4%. Key elements in the growth of General Fund revenues are as follows:

- Gross receipt tax revenue in the General Fund increased by \$19.0 million or by 36.7% from \$51.7 million to \$70.7 million. The increase in gross receipt tax revenue accounts for almost all of the increase in revenues during the year and is attributed to an increase in the County's gross receipt tax rate from 5.375% to 5.5625% that went into effect January 1, 2005; however, the full effect of the rate increase was not fully realized until FY 2006.
- Property taxes revenue decreased by \$3.7 million or by 4.3% from \$86.7 million to \$83.0 million. While taxable property valuation within the County increased 11.48% from \$10.10 billion to \$11.26 or by \$1.16 billion, the County's operational non-residential mill levy rate decreased slightly from 11.6 to 10.658. The decrease in property tax rates was slightly offset by an increase in the current property tax collection rate from 95.71% to 96.12.

General Fund expenditures increased \$15.9 million from \$130.4 million to \$146.3, a 12.2% increase. Key elements in the increase in General Fund expenditures, other than an increase in salary and related fringe benefit costs due to a 3% across the board salary increase for County employees, are as follows:



- Public Works expenditures increased by \$7.4 million from \$16.2 million to \$23.6 million, a 45.6% increase, which accounted for 46.5% of the increase in General Fund expenditures. \$5.8 million of this increase is attributed to cost associated with the development of the west-side industrial park (Tempur-Pedic). A significant portion of the remaining increase is attributed to the cost incurred for Phase II of the Isleta Boulevard Reconstruction project.
- Public Safety expenditures increased by \$7.0 million from \$66.9 million to \$73.9 million, a 10.5% increase, which accounted for 44.0% of the increase in General Fund expenditures. Increased cost associated with operating the Albuquerque/Bernalillo County Metropolitan Detention Center was due to an increasing average daily inmate population, which accounted for \$2.4 million of the increase in public safety expenditures. The remaining significant increase in public safety expenditures was the result of an expansion of Fire and Rescue operations. Between FY04 and FY06 an additional 48 new positions were created and filled in order to enable at least two apparatus units from each station to respond to fire and rescue calls and to fully staff all fire stations.

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 2006, the County's Special Revenue funds reported combined ending fund balances of \$10,937,600, an increase of \$2,144,446. \$237,198 of the fund balance is reserved for advances to other funds, \$4,232,272 is reserved for encumbrances, and the remaining fund balance of \$6,468,130 is unreserved undesignated.

Debt Service funds. As of the end of fiscal year 2006, the County's Debt Service funds reported combined ending fund balances of \$20,845,262, an increase of \$1,913,482. All of the fund balance is reserved to pay debt service.

Capital Projects funds. As of the end of fiscal year 2006, the County's Capital Project funds reported combined ending fund balances of \$53,539,496 a decrease of \$5,206,223. 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. \$38,498,919 of the fund balance is reserved for encumbrances and the remaining fund balance of \$15,040,577 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 original budgeted revenues increased \$448,770, or by .3%, from \$165.3 million to \$165.7 million. General fund original budgeted expenditures increased \$448,771, or by .2%, from \$182.5 million to \$182.9 million. Significant changes between the original budget and the final amended budget are summarized as follows:

- The Miscellaneous income revenue budget was increased from \$7.3 million to \$7.7 million to increase miscellaneous reimbursements from payments in lieu of taxes.
- The Finance original expenditure budget increased \$7.8 million from \$8.3 million to \$16.1 million. \$7.4 million of the increase was for a new county-wide Enterprise Resources Planning (ERP) financial reporting system.
- The General County original expenditure budget increased \$3.7 million from \$11.4 million to \$15.1 million. The increase was primarily attributed to \$4.5 million in new Senate Bill 88 gross receipt tax monies which were earmarked in part for MDC Transition/Infrastructure, MDC carryover cost, fleet appropriations, and various other items.
- The Other expenditure budget decreased by \$24.4 million from \$26.4 million to \$2.0 million due to the reclassification of \$24.9 million in budgeted expense, associated with the new Senate Bill 88 gross receipt tax monies that were identified in the County's two-year budget (Fiscal years 2005 and 2006), which was re-categorized in FY2006.
- The Public Works original expenditure budget increased \$2.4 million from \$24.1 to \$26.5 million. A significant portion of the increase in expenditures was attributed to an increase in anticipated cost associated with the West/Mesa water sewer project for the Westside Industrial Park project.
- The Fire original expenditure budget increased \$1.3 million from \$9.4 million to \$10.7 million. The increase was attributed to an increase in salary and overtime cost associated with the increase of new fire and rescue operational staffing levels.
- The Sheriff original expenditure budget increased \$4.2 million from \$25.4 million to \$29.6 million. A significant portion of the expenditure budget increase was \$3.3 million for the purchase of a new helicopter. The other portion of the increase is attributed to increased salary cost.
- The Metropolitan Detention Center original expenditure budget increased \$3.6 million from \$33.2 to \$36.8 million. The increase was attributed to higher operating costs at the jointly Albuquerque/Bernalillo County funded detention center due to a higher than expected inmate average daily population and increases in medical care, workers compensation premiums and other operating costs.

General Fund Budgetary Highlights – Budget to Actual

General Fund revenues exceeded budgetary estimates by \$19,343,270 or by 11.67%. General Fund expenditures were less than budgetary estimates by \$32,772,479 or by 17.9% 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 \$21,520,109. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$5,471,065. The budget projections had projected a 95% collection rate of current property taxes within the County as of June 30, 2006. The actual

collection rate was 96.12%. The significant reason for the positive variance was that delinquent taxes and interest on delinquent taxes exceeded projections by \$1,147,764 and \$683,392 respectively. Current property tax collections was \$3,727,935 greater than budget (5.1% of budget) which was reflective of the 11.4% increase in assessed taxable property valuation from the 2005 reappraisal that was higher than anticipated.

- Gross receipt tax revenue had a positive variance of \$7,422,580. The State implemented a statewide food and physician gross receipt tax exemption of which the full effect on the reduction of revenue to the County would not be completely realized until 2006 which resulted in a more than normal conservative estimate of projected revenues. Also, during the second half of 2006, the taxable gross receipts from businesses in the County grew at a 4.63% rate which was significantly higher than anticipated due to a favorable economy.
- Fees for services revenue had a positive variance of \$1,566,231. The increase was attributed to an increase in Clerk fees of \$671,274 as a result of higher collections due to low interest rates (refinancing of home loans) and the larger number of recordings. Other increases were attributed to higher than expected public works design review fees of \$226,882 and public works chargeback fees of \$524,600.
- Investment income revenue had a positive variance of \$2,011,494. 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.
- Finance expenditures had a positive variance of \$9,031,247. A significant portion of this variance pertained to the anticipated purchase of a new Enterprise Resources and Planning financial software system that was budgeted at \$7,428,000 that is not scheduled for implementation until July 1, 2008. A significant portion of the remaining variance was attributed to lower insurance premiums and deductibles of \$539,444 and less than expected expenditures for Law Enforcement Officer liability claims in the amount of \$542,095 and lower than expected fleet replacement cost of \$208,643. 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 \$7,506,137. This variance was primarily attributed to lower expenses of \$6,780,485 for items earmarked to be paid for with new Senate Bill 88 gross receipt tax monies, \$667,921 in budgeted capital improvements and outlays that were not incurred, \$782,480 less in prior year carryover expenditures that did not materialize, and \$555,650 in anticipated election expense that was 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.
- Sheriff expenditures had a positive variance of \$2,703,805. This variance was attributed to a \$2,980,787 variance for the purchase of a new helicopter which was not finalized before the end of FY2006. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.

- Bernalillo County Detention Center expenditure category had a positive variance of \$8,041,576. This variance was attributed to less than expected cost for MDC transition of \$3,775,068, some of which was not recorded until the next fiscal year, and less than expected staffing and operating cost of \$4,266,508 that were not realized for the new Health Services Unit that did not open up in 2006.
- Culture and recreation expenditure category had a positive variance of \$1,618,380. The variance was attributed in part to less cost associated with funding City of Albuquerque mandates in the amount of \$478,862. It is also attributed in part to \$484,200 in tennis court renovations that had not yet been spent and smaller savings in other operational areas.

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, 2006 amounts to \$486,106,328 (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. VUP construction projects, providing approximately 1,900 water and sanitary sewer connections, were either completed or construction was started. The County took over as lead agency from the City of Albuquerque for the Area I and J project that will serve a large portion of the Village of Los Ranchos de Albuquerque. The initial project, serving the Caballero del Norte subdivision, has started construction. The design phase for the larger second phase will be completed early in FY06/07.
- The design for the Isleta Boulevard Reconstruction Project, Phase 2, was completed and construction started.

- Through the use of funds from County bonds and New Mexico Department of Transportation funds, the County was able to complete the construction of a number of local road improvement projects throughout the County including the Golf Course Road project and the Industrial Park Water System, serving Tempur-Pedic.

County of Bernalillo's Capital Assets

(net of accumulated depreciation)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$122,476,209	\$121,202,983	\$ 435,352	\$ 435,352	\$122,911,561	\$121,638,335
Buildings	173,807,704	179,312,066	3,501,579	3,760,015	177,309,283	183,072,081
Machinery and equipment	9,306,552	10,717,076	977,731	1,089,514	10,284,283	11,806,590
Infrastructure	149,159,238	147,498,576	-	-	149,159,238	147,498,576
Leasehold improvements	2,233,853	2,346,013	-	-	2,233,853	2,346,013
Construction in progress	22,748,760	18,864,901	34,838	132,959	22,783,598	18,997,860
Art	1,424,512	1,424,512	-	-	1,424,512	1,424,512
Total	\$481,156,828	\$481,366,127	\$4,949,500	\$5,417,840	\$486,106,328	\$486,783,967

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 prequalified underwriters.

General Obligation Bonds. At the end of the current fiscal year, the County had total general obligation debt outstanding of \$83,475,000. 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 2006, 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, 2025. 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 (0.74%) of the \$11.2 billion taxable value of property within Bernalillo County, as of June 30, 2006. The County may currently issue up to an additional \$366.9 million of general obligation bonds. The net general bonded debt per capita is \$133.44. The lowest per capita amount in the last ten fiscal years was \$113.00 in fiscal year ended June 30, 2002. The County's ratings on uninsured general obligation bonds as of June 30, 2006 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 \$181,510,000. 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 partial refunding series, and the 2005 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 \$305.92. The lowest per capita amount in the last nine fiscal years was \$209.04 in fiscal year end June 30, 1997. The pledged revenue coverage of gross receipts tax revenues to debt service requirements is 4.97. The lowest pledged revenue coverage in the last seven fiscal years was 2.19 in fiscal year 2002. These bonds have retirement dates ranging from November 15, 2011 through April 1, 2027. Standard's and Poor has rated the County's revenue bonds AA+.

General Obligation and Revenue Bonds Outstanding

	Governmental Activities		Business-type Activities	
	2006	2005	2006	2005
General obligation bonds	\$ 83,475,000	\$ 82,479,000	\$ -	\$ -
Revenue bonds	181,510,000	187,340,000	1,780,000	1,815,000
Total	<u>\$264,985,000</u>	<u>\$269,819,000</u>	<u>\$1,780,000</u>	<u>\$1,815,000</u>

The County's total bond debt decreased by \$4,869,000 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 51-54 of this report and in the statistical section of this report.

Economic Factors and Next Year's Budgets and Rates

According to forecasts by the University of New Mexico's Bureau of Business and Economic Research, the New Mexico economy will continue to experience non-farm employment growth during the next four quarters averaging 2.7 percent. Growth will then slow to near 2.0 percent into 2009. Non-farm employment growth is expected to reach 2.3 percent in 2007 and dropping to 2.0 percent in 2008 and 2009. New Mexico personal income is projected to increase 6.1 percent this year and 5.5 percent in 2007. New Mexico personal income growth is expected to closely mirror the national rate in the remaining months of 2006 and in 2007. Sources of projected new job growth in Bernalillo County include: Tempur-Pedic, Eclipse Aviation and Verizon Wireless. The construction of the Tempur-Pedic plant in Bernalillo County is well underway. The over 800,000 square foot facility was constructed at a cost of \$56 million and the company will eventually provide 300 jobs. The indicators seem to agree the local economy is on solid footing.

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.