

Bernalillo County, New Mexico

Fiscal Year 2014 Annual Report

May 2015

Debt Management Policy & Guidelines
(as adopted April 09, 2013)

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Purpose

In accordance with the Debt Policy and Guidelines approved by the Bernalillo County Commission on April 9, 2013, the Finance team is providing an annual report representing Bernalillo County's financial position as of FY14 (year ended 6/30/2014). This report includes appropriate measurements to evaluate the County's credit status, in comparison to other jurisdictions and financial benchmarks. In addition, information about significant events affecting outstanding debt, a summary statement to the overall status of the County's debt obligations and debt management process has been provided.

- I. Results of previous year's financings

- II. Rating agency reports and rating status

- III. Bond capacity and relevant comparable financial ratios

- IV. All bond financings in progress or anticipated for the subsequent fiscal year

- V. Any changes to the Debt Management Policy & Guidelines.

Additional Information:

- Median Comparison
- Glossary of Terms

I. 2014 Bond Sales (Rated: Aaa/AAA/AAA)

The County issued two series of General Obligation Bonds in Fiscal Year ended June 30, 2014. County Voters approved \$20.1MM of bonds at an election on November 6, 2012. The remaining \$8,700,000 of such bonds were sold on a competitive sale on April 22, 2014. The best bid, by HSE & Co., resulted in an interest rate of 1.65%

The 2014 bond projects of the 2012 Election Cycle are as follows:

- \$5,000,000 for road projects
- \$800,000 for library projects
- \$400,000 for constructing and equipping County buildings
- \$2,500,000 for design, construction and repair of storm sewer and wastewater systems.

The County refunded its Series 2004 General Obligation Bonds for interest rate savings. The Bonds were sold at a competitive sale on April 22, 2014. The best bid, by HSE & Co., resulted in an interest rate of 1.68%

- Over \$368,000 in Present Value Savings (Over \$399,000 in cash flow savings)
- The amount of saving equates to 12.29% of the bonds that were refunded, which exceeds the required thresholds pursuant to the Debt Policy.
- Also, in compliance with the County's Debt Policy, the final maturity of debt was not extended.
- The rate on the bonds were lowered from a 4.18% to a 1.68%

Date	Prior Debt Service	2014A Savings		Present Value
		Refunding Debt Service	Savings	
10/15/2014	\$63,038	\$16,662	\$46,376	\$46,037
10/15/2015	126,076	77,900	48,176	47,065
10/15/2016	126,076	77,900	48,176	46,288
10/15/2017	126,076	77,900	48,176	45,524
10/15/2018	126,076	77,900	48,176	44,772
10/15/2019	1,026,076	977,900	48,176	41,745
10/15/2020	990,076	931,900	58,176	50,163
10/15/2021	1,283,076	1,229,100	53,976	44,823
	\$3,866,570	\$3,467,162	\$399,408	\$366,417

PV of savings from cash flow	\$366,417
Plus: Refunding funds on hand	4,106
Net PV Savings	\$370,523

(1) Reflects initial bid. The Series 2014A bonds were resized with a net premium of \$145,637.89

II. History of County General Obligation Ratings

History of Moody's Ratings

Rating Date	Rating Action	Outlook Action
May 14 to Feb 15	Aaa	Stable
Aug 11 to Feb 13	Aaa	Negative
July-11	Affirmed Aaa	RUR Possible Downgrade
May-10	Migrated to Aaa	No Outlook
Nov 06 to Dec 09	Aa1	No Outlook

History of Standard & Poor's Ratings

Rating Date	Rating Action	Outlook Action
Oct 07 to Feb 15	Affirmed AAA	Stable
August-07	Upgraded to AAA	Stable
November-06	Affirmed AA+	Stable

History of Fitch Ratings

Rating Date	Rating Action	Outlook Action
May 14 to Feb 15	Affirmed AAA	Stable
February-13	AAA	Stable

RUR: Rating Under Review

Negative Outlook based on the reliance of federal government during sequestration.

Moody's: Assignment of the Aaa rating reflects the county's large tax base that serves as the economic engine of the state, the economic stability offered by institutional presence, healthy reserve levels, and a minimal debt profile. The outlook for Bernalillo County is stable, reflecting the slow but positive economic recovery, anticipated maintenance of ample reserves over the medium term, as well as the improved investment policy and internal controls recently implemented. The county's concentration in federal employment and procurement could be negatively impacted by federal spending reductions, which could erode economic stability and impact gross receipts tax collections.

S&P: Strong economy, which benefits from its participation in the broad and diverse economy of Albuquerque MSA; Very strong budgetary, with 2014 audited reserves at 35% of general fund expenditures; Weak budgetary performance due to planned deficit spending; Very strong liquidity; Very strong management with strong financial policies; Strong debt and contingent liabilities position; and Very strong Institutional Framework Score.

Fitch: Finances Pressured But Still Sound: The county's financial position is under spending pressure, particularly in public safety, but remains solid. Financial reserves remain large despite three consecutive years of sizable drawdowns. Ample revenue flexibility and stabilized detention center spending.
Favorable Debt Profile: The county's debt profile remains positive, as evidenced by moderate debt levels, a rapid GO bond principal payout rate, low carrying costs and modest capital plans.
Broad Economy: The county's economic base is broad but has been slow to recover from recessionary employment losses. The unemployment rate remains moderate. The county's recent development into a technology hub may aid its recovery while further enhancing economic diversity.

II. History of Gross Receipts Tax Revenue Ratings

History of Moody's Ratings

Series	Rating Action
2010 to Present	Aa2
2010	Moody's Recalibrated scale
2004 to 2009	Aa3

History of Standard & Poor's Ratings

Series	Rating Action
2007 to Present	AAA
2006	AA+
2004 to 2005	AA

History of Fitch Ratings

Series	Rating Action
2010 to Present	AA+
2004 to 2005	AA

Moody's: Assignment Of The Aa2 Rating Reflects Adequate Legal Provisions; Satisfactory Debt Service Coverage; Economic And Population Hub Of New Mexico And Strong Fiscal Management, Healthy Reserves Expected To Continue

S&P: Positive pledged revenue collection trends leading to strong coverage, strong legal covenants, and management's limited plans to issue additional parity debt. The outlook remains stable. The ratings reflect the area economy's diversification; the strong legal provisions, including a historical additional bonds test that required 2x future maximum annual debt service coverage, after payment for indigent aid, and a fully funded debt service reserve; the pledged revenue stream's consistent growth.

Fitch: Solid GRT Coverage: Debt service coverage of the county's gross receipt tax (GRT) revenue bonds remains solid; furthermore, legal and practical limitations on further leverage are strong.

III. GO Bond Capacity after 2014 Issuance & Residential Tax Rates

Bonding Capacity	
2013 Assessed Valuation	\$ 14,504,259,550
Legal Bonding Capacity (4% of assessed valuation)	\$ 580,170,382.00
Less total bonds to be outstanding ⁽¹⁾	\$ 121,641,000
Capacity in excess of present requirements	\$ 458,529,382

(1) Excludes the Refunded Bonds refunded with proceeds of the Series 2014A Bonds and includes the Series 2014 Bonds.

Property Tax Revenue

- Per state statute the County can impose up to \$11.85 mils for operational purposes
- The County currently maintains a non-residential tax rate of \$10.75 mils leaving approximately 1 mil or \$14.2 million of additional potential revenue

Total Levy	2013	2012	2011	2010
State of New Mexico	\$0.000	\$0.000	\$0.000	\$0.000
Bernalillo County	7.320	7.208	6.866	6.665
City of Albuquerque	6.544	6.544	6.544	6.389
AMAFCA	0.179	0.176	0.170	0.165
Albuquerque MSD # 12	<u>0.278</u>	<u>0.274</u>	<u>0.264</u>	<u>0.256</u>
Total	\$14.321	\$14.202	\$13.844	\$13.475

Over 20 Mill Limit - Interest, Principal, Judgement, etc.

State of New Mexico	\$1.360	\$1.360	\$1.362	\$1.530
Bernalillo County - Debt Service	1.246	0.897	0.897	0.550
Bernalillo County - Other	0.013	0.013	0.113	0.114
City of Albuquerque	4.976	4.976	4.976	4.976
AMAFCA	0.675	0.675	0.675	0.675
Albuquerque MSD #12	10.187	10.189	10.189	10.191
UNM Hospital	6.400	6.400	6.400	6.400
Central New Mexico CC	<u>3.392</u>	<u>3.344</u>	<u>3.237</u>	<u>3.158</u>
Total	\$28.249	\$27.854	\$27.849	\$27.594

TOTAL LEVY

City of Albuquerque	2013	2012	2011	2010
State of New Mexico	\$1.360	\$1.360	\$1.362	\$1.530
Bernalillo County	8.579	8.118	7.876	7.329
City of Albuquerque	11.520	11.520	11.520	11.365
AMAFCA	0.854	0.851	0.845	0.840
Albuquerque MSD #12	10.465	10.463	10.453	10.447
UNM Hospital	6.400	6.400	6.400	6.400
Central New Mexico CC	<u>3.392</u>	<u>3.344</u>	<u>3.237</u>	<u>3.158</u>

Total Residential	\$42.570	\$42.056	\$41.693	\$41.069
Total Non-Residential in	\$46.472	\$46.125	\$46.713	\$45.862

Village of Tijeras

Residential	\$31.055	\$30.536	\$30.180	\$27.716
Non-Residential	\$36.700	\$36.353	\$36.356	\$36.185

Village of Los Ranchos

Residential	\$31.195	\$30.683	\$30.273	\$29.173
Non-Residential	\$35.475	\$35.128	\$35.076	\$35.093

Source: New Mexico Department of Finance & Administration.

III. GO Financial Ratios as of June 30, 2014

1. Net Bonded Debt Per Capita <= 1%	
Bernalillo County Population (based on 2014 CAFR)	674,221
Net GO Bonded Debt	120,186,000
Less: Cash (in debt service fund)	(9,346,012)
Sub-Total Direct Debt	110,839,988
Net Bonded Debt Per Capita	<u>\$ 164.40</u>
Bernalillo County Income per Capita (2012 US Department of Commerce, Bureau of Economic Analysis)	<u>37,537</u>
Direct Debt as a Percentage to Income per Capita	0.44%
2. Net GO Bonded Debt as % of Assessed Taxable Valuation <=2%	
GO Bond Balance	\$ 120,186,000
New Bond Issue	-
Net GO Bonded Debt	120,186,000
Final Assessed Valuation (Tax Year 2013)	14,504,259,539
Net GO Bonded Debt as % of Assessed Taxable Valuation	0.83%
3. Direct & Overlapping Debt as % to Assessed Valuation <=8%	
Direct & Overlapping	\$ 1,348,186,597
New Bond Issue	-
Net Total Direct & Overlapping Debt	1,348,186,597
Assessed Valuation	14,504,259,539
GO Debt as % of Assessed Valuation	9.30%
4. Direct Debt as % to Full Valuation <=0.66%	
GO Bond Balance	\$ 120,186,000
New Bond Issue	-
Net GO Bonded Balance	120,186,000
Full Value	44,505,141,429
GO Debt as % of Full Valuation	0.27%

III. GRT Authorized vs Imposed

Type of Tax & Purpose	Total Taxing Authority	Percentage Imposed	FY15 Revenue*	Unused Authority	Potential Add'l Revenue
1 County GRT ⁽¹⁾	0.3750%	0.3750%	\$ 62,910,759	0.0000%	\$ -
2 County 1/16th GRT ^{(1) (4)}	0.0625%	0.0625%	10,485,127	0.0000%	-
3 County Infrastructure GRT ^{(2) (3) (5)}	0.1250%	0.0000%	-	0.1250%	2,959,041
4 County Capital Outlay GRT ^{(1) (3)}	0.2500%	0.0000%	-	0.2500%	41,954,753
5 County Healthcare GRT ^{(1) (3) (4) (7)}	0.1250%	0.1250%	10,479,053	0.0000%	-
6 County Jail GRT ^{(1) (3)}	0.1250%	0.1250%	20,977,376	0.0000%	-
7 County Environmental Services GRT ⁽²⁾	0.1250%	0.1250%	2,959,041	0.0000%	-
8 County Regional Transit GRT ⁽⁸⁾	0.1250%	0.1250%	18,949,713	0.0000%	-
9 County 3/8th GRT Hold Harmless ^{(4) (6)}	0.3750%	0.0000%	-	0.3750%	57,095,884
10 County Quality of Life GRT	0.2500%	0.0000%	-	0.2500%	41,954,753
Total Local Option GRT	1.9375%	0.9375%	\$ 126,761,069	1.0000%	\$ 143,964,430
11 County Emergency Comm. & Medical GRT ^{(1) (3)}	0.2500%	0.0000%	-	0.2500%	41,954,753
12 County Local Hospital GRT ^{(1) (3)}	0.5000%	0.0000%	-	0.5000%	83,909,505
13 County Fire Protection GRT ⁽²⁾	0.2500%	0.0000%	-	0.2500%	5,918,082

1) County-wide taxable gross receipts.

2) Unincorporated taxable gross receipts

3) Ability to impose on January/July.

4) Can be imposed without election

5) Requires election prior to imposition

6) Can be imposed by ordinance only not subject to referendum

7) Bernalillo County does not receive 1/16th of this enactment as it is intercepted by the State for Medicaid.

8) Bernalillo County does not budget and expend these funds as it is a pass through funds for Regional Transit Department.

* Based on actual collections from FY14

% Total Rates as of June 30, 2014

	City Imposed	County Imposed	State Imposed	Total
Bernalillo County	0.0000	0.9375	5.1250	6.0625
Albuquerque	1.0625	0.8125	5.1250	7.0000
State Fair Grounds	0.0000	0.9375	5.1250	6.0625
Los Ranchos de Albuquerque	1.1250	0.8125	5.1250	7.0625
Rio Rancho (Partial)	1.6875	0.8125	5.1250	7.6250
Village of Tijeras	1.5000	0.8125	5.1250	7.4375

III. GRT Financial Ratios as of June 30, 2014

5. Annual GRT Debt Service as % of GF Expenditures <=5%	
FY 2014 Annual GF GRT Debt Service	\$ 10,720,919
FY 2014 General Fund Expenditures	258,699,893
Annual GF GRT Debt Service as % of GF Expenditures	4.14%

6. GRT Debt Service Coverage from Pledge Revenue >4.0		FY14
Pledge Revenue (Legal definition)*	\$ 40,894,932	
Max annual Debt Service	14,969,498	
GRT Debt Service Coverage from Pledge Revenue		2.73

7. General Fund Balance as a % of Revenues >42%	
General Fund Balance as of June 30, 2014	\$ 139,202,445
Revenues	234,552,342
General Fund Balance as a % of Revenues	59.35%

8a. 3/12th Reserve Fund >25%	
Reserve Fund Balance Required for FY2015	\$ 69,344,139
General Fund Budgeted Expenditures	279,365,128
Less Roads Budget	(2,982,855)
Total General Fund Budgeted Expenditures as of 9/19/2014	276,382,273
3/12th and 1/12 Roads Reserve Requirement for 2015	25.09%

8b. 2/12th Reserve Fund > 16.67%	
Unreserved & Undesignated Fund Balance as % of Revenues	
Unreserved & Undesignated	\$ 35,809,099
Prior Year Operating Expenditures	248,855,528
Unreserved & Undesignated Fund Balance as % of Revenues	14.39%

* The County pledges its 1st and 2nd County GRT Revenue less \$1MM for indigent care.

Effective 4/9/2015 the County will pledge additional revenue from the 1st Hold Harmless GRT Revenue towards all GRT debt as well as the 2nd Hold Harmless GRT Revenue towards the 2010A Bonds.

IV. Future Financing – 2015 General Obligation Plan of Finance

- The County's 2014 assessed value as reported by the County Assessor is \$14,835,047,140 which is up 2.28% from tax year 2013.
- The County's outstanding general obligation debt is limited by the State Constitution to 4% of assessed value or \$593,401,886.
- As of February 1, 2015, the County has \$109,575,000 of outstanding debt making the County 18.5% bonded to capacity or \$483,826,886 million of remaining capacity.
- General obligation bond questions in the aggregate amount of \$27,541,000 was placed on the November 4, 2014 ballot and approved by voters.
- The County sold \$8.7 million in general obligation bonds in 2014 in conjunction with \$2,995,000 general obligation refunding bonds which refunded the County's outstanding 2004 General Obligation Bonds. The Series 2014 Bonds represented the final series of bonds from the 2012 election. The 2015 Bonds consisted of \$17.281 million of bonds authorized from the 2014 election.
- The 2015 bond projects are as follows:
 - \$4,260,000 for parks and recreation
 - \$4,541,000 for public safety
 - \$900,000 for library
 - \$4,250,000 for roads
 - \$2,130,000 for design, construction and repair of storm sewer and wastewater systems
 - \$1,200,000 for constructing and equipping public buildings
- In conjunction with the anticipated 2015 new money issuance, the County plans to refund the outstanding Series 2005, Series 2005A and Series 2006 General Obligation Bonds.

Debt Management Policy & Guidelines – Key Points – **General Obligation**

- General Obligation Bonds will be used to finance only those purposes as provided by State statute or home rule powers.
- The average life of the general obligation debt incurred should not be greater than the projected average life of the assets being financed. Final maturity shifted to 15 years from 20 years.
- Maintain or improve general obligation bond ratings.
- Limitation of General Obligation Bonds outstanding to no more than 4% of assessed valuation of taxable property within the County as established in the State Constitution.
- Unless otherwise justified, a current/advance refunding transaction shall require a present value savings of at least 3% of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses.
- Payment date of principal and interest to be migrated to twice a year February 15 and August 15 for future debt and principal to once a year on August 15.
- Level principal payment debt structure is a long-term goal.
- Structure debt to maintain stable tax rate level.
- www.berncogov/finance/debt-investment-policies.aspx

The County did not propose any changes to the Debt Management Policy & Guidelines for 2014.

Debt Management Policy & Guidelines – Key Points – GRT

1. GRT Revenue Bonds shall be used to finance capital improvements and long-term assets associated with, but not limited to constructing, acquiring, improving etc. public buildings, public parking facilities, public safety, water utilities, street and storm, parks and open space, and public transit.
2. GRT Revenue Bonds shall be used after considering alternative funding sources, such as federal and state grants and project revenues.
3. Maturity - The term of the GRT Revenue Bonds shall not exceed the average useful life of the improvements or assets being funded.
4. Principal and interest on GRT Revenue Bonds shall be structured to
 - a) Achieve a low borrowing cost for the County;
 - b) Accommodate the debt service payments of existing debt; and
 - c) Respond to perceptions of market demand.
5. The County shall maintain or improve its GRT bond ratings.
6. Capitalized Interest – GRT Revenue Bonds may require that capitalized interest on the bonds be funded from bond proceeds.
7. Reserve Fund – GRT Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage.
8. Additional Bonds Test – The County shall maintain, when issuing new GRT debt, an additional bonds test = 2.00x (debt service) computed for a period of 12 consecutive calendar months out of the preceding 18 months. The additional bonds test allows the County to issue additional bonds if the County can produce net revenues annually to pay 200% maximum of annual debt service requirements on all outstanding parity obligations.
9. Unless otherwise justified, a current/advance refunding transaction shall require a present value savings of at least 3% of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses.

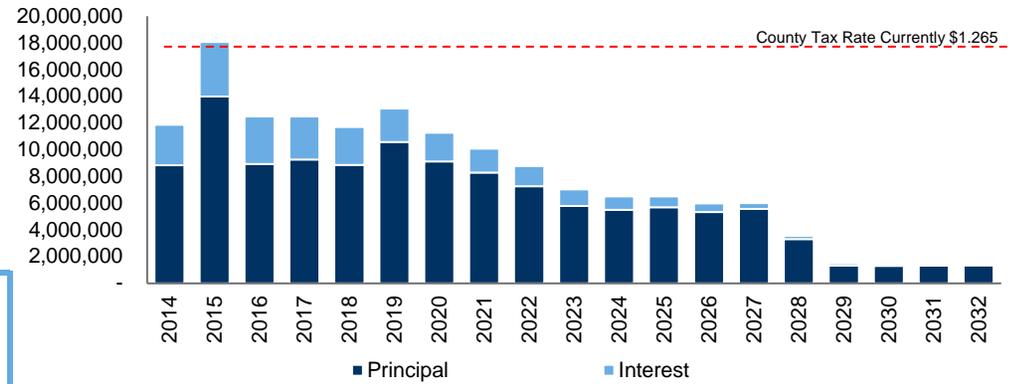
The County did not propose and changes to the Debt Management Policy & Guidelines for 2014.

Additional Information

I. Summary of County's Outstanding Debt Programs as of June 30, 2014

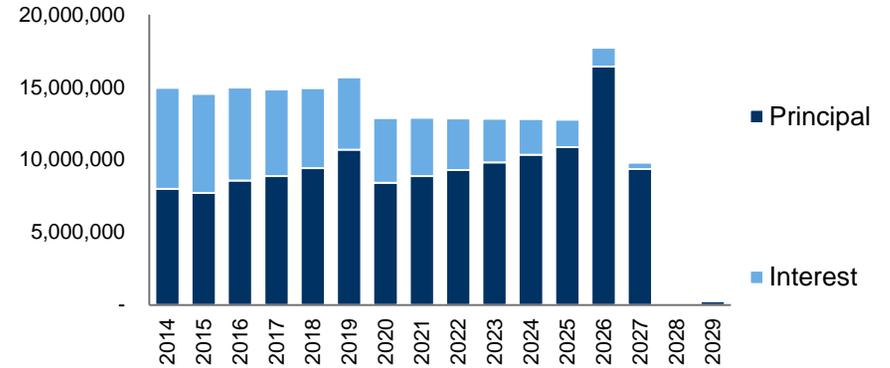
Summary of County's GO Bond Program

- Outstanding General Obligation Debt, as of June 30, 2014
 - The County has seventeen General Obligations bonds outstanding
 - \$121,641,000 in Par Amount Outstanding
 - Average Rate of the County's outstanding GO debt is 3.34%
 - The County has \$27,571,000 authorized and unissued GO Bonds



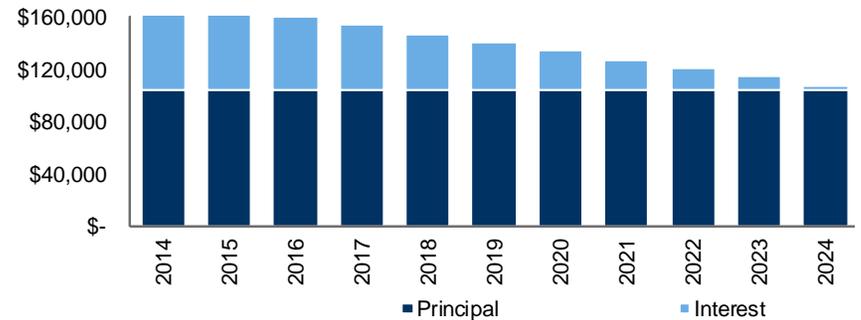
Summary of County's GRT Bond Program

- Outstanding Gross Receipts Tax Debt, as of June 30, 2014
 - The County has six Gross Receipts Tax Revenue bonds outstanding
 - \$137,195,000 in Par Amount Outstanding
 - Average Rate of the County's outstanding GRT debt is 5.23%
 - Security for the outstanding debt is the 1st and 2nd County GRT Increments
 - No authorized and unissued GRT Bonds



Summary of County's SAD Bond Program

- Outstanding Special Assessment District ("SAD") Debt, as of June 30, 2014
 - The County has one SAD bonds outstanding, 2003B
 - \$2,085,000 in Par Amount Outstanding
 - Average Rate of the County's outstanding SAD debt is 6.25%
 - All \$2,085,000 in Outstanding Par matures on December 15, 2023



Key Financial Ratios 2010 to 2014

Selected Financials and other Datapoints	Bernalillo County, NM					Notes
	2014	2013	2012	2011	2010	
Financial Data : Financial Statistics & Ratios						
Total General Fund Revenues (\$000)	234,880	233,182	247,758	224,059	231,455	
General Fund Balance as % of Revenues	59.3	77.6	83.6	83.4	84.3	Aaa >30%
Total General Fund Balance (\$000)	139,202	180,983	207,059	186,930	195,228	
General Net Cash as % of General Revenues	59.8	74.1	83.1	82.3	75.5	Aaa >25%
Financial Data : Tax Base Statistics and Ratios						
Total Full Value (\$000)	43,952,302	43,619,464	43,796,245	43,590,087	44,918,499	Aaa >\$12B
Full Value Per Capita (\$)	65,190	64,696	65,032	64,966	67,795	Aa \$150,000 > n > 65,000
Top Ten TaxPayers as % of Total	2.5	2.9	2.7	N/A	2.4	
Financial Data : Debt Statistics & Ratios						
Direct Net Debt Outstanding (\$000)	247,851	256,195	252,830	272,955	314,630	as a % of Operating Revenue = 0.75x A 0.67x , n 3.0x
Overall Net Debt Outstanding (\$000)	1,342,876	1,335,837	1,319,429	1,334,175	1,171,142	
Direct Net Debt as % of Full Value	0.6	0.6	0.6	0.6	0.7	Aaa < 0.75%
Direct Net Debt Per Capita (\$)	368	380	375	407	475	
Debt Burden (Overall Net Debt as % Full Value)	3.1	3.1	3	3.1	2.6	
Overall Net Debt Per Capita (\$)	1,992	1,981	1,959	1,988	1,768	
Payout, 10 Years, General Obligation Debt (%), Current Value	78.1	78.1	78.1	78.1	78.1	
Financial Data : Governmental Activities Statistics and Ratios						
Operating Revenues (\$000)	320,784	312,418	316,635	304,697	328,215	
Operating Expenses (\$000)	348,002	326,733	303,048	359,182	319,819	0.96x Baa 0.98x > n > 0.95x
Cash & Investments (\$000)	252,343	277,326	313,342	318,288	356,666	
3-Year Avg of Moody's ANPL / Full Value	N/A	1.4	1.2	N/A	N/A	
3-Year Avg of Moody's ANPL / Operating Revenues	N/A	2.5	2	N/A	N/A	
Quick Ratio	6.8	8.6	8.8	5.7	10	
Current Ratio	8.1	10.1	10.1	6.7	11.8	
Financial Data : Demographic Statistics						
Median Family Income as % of U.S. (2010 Census)	95	95	95	95	95	Aa 90%-150%

Glossary of Terms

- **Amortization:** The process of paying the principal amount of an issue of securities by periodic payments either directly to bondholders or to a sinking fund for the benefit of bondholders.
- **AD Valorem Tax:** A direct tax calculated “according to value” of property. Ad valorem tax is based on an assigned valuation (market or assessed) of real property and, in certain cases, on a valuation of tangible or intangible personal property.
- **Bond:** (1) The written evidence of debt, which upon presentation entitles the bondholder or owner to a fixed sum of money plus interest. The debt bears a stated rate(s) of interest or states a formula for determining that rate and matures on a date certain. (2) For purposes of computations made on a “per bond” basis, a \$1,000 increment of a security
- **Bond Counsel:** An outside counsel to the issuer who gives an opinion on the tax-exempt status and validity of the bond issue.
- **Bond Rating:** A bond rating is the method of evaluating the quality and safety of a bond. This rating provides a relative measure of risk and uncertainty that reflects an issuer’s ability and willingness to repay the debt incurred and the likelihood of default. The CNM’s credit is reviewed annually, and all new CNM debt and other obligation issuances undergo a comprehensive review, resulting in a rating at the time of issuance.
- **Coverage:** The ratio of available revenues available annually to pay debt service over the annual debt service requirement. This ratio is one indication of the availability of revenues for payment of debt service.
- **Debt Reserve Fund:** A fund in which monies are deposited to be applied to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. This fund may be funded with bond or other obligation proceeds at the time of issuance, through the accumulation of pledged revenues, with a surety or other type of guaranty policy, or only upon the occurrence of a specified event (e.g., upon failure to comply with a requirement in a bond contract).
- **Debt Service:** The amount of money necessary to pay interest on outstanding bonds, the principal of maturing or redeemed bonds and any required contributions to a sinking fund for term bonds. This amount is also known as the “debt service requirement.” “Annual debt service” refers to the total principal and interest required to be paid in a calendar year, fiscal year, or bond fiscal year. “Total debt service” refers to the total principal and interest paid throughout the life of a bond issue. “Average annual debt service” refers to the average debt service payable each year on an issue. “Maximum annual debt service” refers to the amount of debt service for the year in which the greatest amount of debt service payments are required and is often used in calculating required reserves and in additional debt tests.
- **Debt Service Fund:** A fund in which monies are deposited to assure the timely availability of sufficient funds for the payment of debt service requirements. Typically, the amounts of the revenues to be deposited into the debt service fund and the timing of such deposits are structured to ensure a proper matching between debt service fund deposits and debt service payments becoming due.
- **Depository Trust Company (“DTC”):** Acts as securities depository for the Securities. DTC also facilitates the post-trade settlement among DTC’s participants of sales and other securities transactions through electronic computerized book-entry transfers between participants’ accounts. This eliminates the need for physical movement of securities certificates.
- **Direct Debt:** is the amount of all long-term debt (generally debt supported by general revenues and taxes such as G.O. debt) less sinking fund accumulations and less self-supporting enterprise debt.
- **Disclosure Counsel:** Legal counsel hired by the issuer to provide due diligence and complete the issuer’s offering document and continuing disclosure requirements.

Glossary of Terms

- **Financial Advisor:** An investment banking firm which advises the issuer in all facets of the bond process. A financial advisor acts in a fiduciary capacity and advises on debt capacity, debt structure, time schedules, interest rates and generally coordinates all professionals in the process of issuing bonds.
- **Interest:** The amount paid by a borrower as compensation for the use of borrowed money. Issuers of municipal bonds pay interest on funds borrowed from purchasers of their bonds. This amount is generally calculated as an annual percentage of the principal amount.
- **Issuer:** A governmental entity through which tax-exempt local government bonds are issued.
- **Issuer's Counsel (General Counsel):** An in-house or outside counsel who gives an opinion on the legality of an Issuer's actions under applicable enabling statutes.
- **Leveraging:** The use of various financial instruments or borrowed capital, such as margin, to increase the potential return of an investment.
- **Mill Levy:** The "tax rate" that is applied to the assessed value of a property. One mill is one dollar per \$1,000 dollars of assessed value. It consists of a local portion which is used to fund area services and a statewide portion which is used to fund public schools.
- **Overall Debt / Overlapping Debt:** The issuer's proportionate share of the debt of other local governmental units that either overlap it (the issuer is located either wholly or partly within the geographic limits of the other units) or underlie it (the other units are located within the geographic limits of the issuer). The debt is generally apportioned based upon relative assessed values.
- **Par Amount:** The amount of principal of a security that must be paid at maturity
- **Parity Bonds:** Two or more issues or series of bonds that have the same priority of claim or lien against pledged revenues or other security.
- **Pledged Revenue:** The funds obligated for the payment of debt service and the making of other deposits required by the bond contract.
 - **Gross Pledge or Gross Revenue Pledge** – A pledge that all revenues received will be used for debt service prior to deductions for any costs or expenses.
 - **Net Pledge or Net Revenue Pledge** – A pledge that net revenues will be used for payment of debt service.
- **Principal:** Generally, the face amount or par value of a security payable on the maturity date.
- **Refunding:** Refunding is the process of refinancing outstanding debt by issuing new debt. The CNM's Debt Policy allows for refunding to generate interest savings, restructure debt service, or eliminate burdensome covenants.
- **Underwriter:** A financial institution that agrees to purchase an Issuer's bonds at either a set price or at a price as dictated by the public markets. An underwriter does not have a fiduciary responsibility to the issuer.
- **Underwriter's Counsel:** Legal counsel hired by the Underwriter to represent the underwriter or underwriters, provides the Bond Purchase Agreement and in some cases completes the issuer's offering document.