



Albuquerque Bernalillo County  
Water Utility Authority

**ANNUAL INFORMATION STATEMENT**

**DATED MARCH 23, 2017**

**IN CONNECTION WITH  
WATER/WASTEWATER BONDS AND  
OTHER OBLIGATIONS**

# **ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**

## **WATER UTILITY AUTHORITY BOARD**

Councilor Klarissa J. Peña, Chair  
Commissioner Debbie O'Malley, Vice-Chair  
Mayor Richard J. Berry  
Councilor Pat Davis  
Commissioner Wayne Johnson  
Councilor Trudy E. Jones  
Commissioner Maggie Hart Stebbins  
Trustee Pablo R. Rael (ex-officio member)

## **WATER UTILITY AUTHORITY ADMINISTRATION**

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John Stomp, Chief Operating Officer  
Stan Allred, Chief Financial Officer  
Dr. James H. "Jim" Olsen, Jr. P.E., Field Operations Manager  
Charles S. Leder, P.E., Plant Operations Manager  
David J. Price, Water Resources, Planning and Engineering Manager  
Cody R. Stinson, Chief Information Officer  
Peter Auh, Esq., Chief Counsel  
Hobert "H" Warren, Customer Service and Area Operations Manager  
David Morris, Public Affairs Manager  
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## INTRODUCTION

The Albuquerque Bernalillo County Water Utility Authority (the “Authority”) governs the water and wastewater utility for all of the City of Albuquerque (the “City”) and Bernalillo County (the “County”). The Authority’s governing board includes three Bernalillo County Commissioners, three Albuquerque City Councilors, the Mayor of Albuquerque and a Village of Los Ranchos de Albuquerque Trustee as an Ex Officio member. The current members of the governing board are as follows: Councilor Klarissa J. Peña, Chair; Commissioner Debbie O’Malley, Vice-Chair; Mayor Richard J. Berry; Councilor Pat Davis; Commissioner Wayne Johnson; Councilor Trudy E. Jones, Commissioner Maggie Hart Stebbins and Trustee Pablo R. Rael, Ex-Officio (non-voting). The Executive Director of the Authority is Mark Sanchez. The Authority is focused regionally on conservation, elimination of septic tanks and provision of potable water to the developed areas of the City and County. It is also striving to make improvements to the existing distribution system to avoid water losses, to utilize the surface drinking water project to avoid the depletion of the aquifer, and to maintain compliance with Indian Pueblo water quality standards, which are more stringent than federal water quality standards. In addition, it is working towards realizing better management efficiencies for rate payers and providing long range planning and delivery for water and wastewater in the service area.

The joint water and wastewater system (the “System”) is owned and operated by the Authority pursuant to Section 72-1-10 NMSA 1978. The Authority has the statutory powers provided to all public water and wastewater utilities in the State and is recognized as a political subdivision of the State of New Mexico (the “State”). The Authority has a minimal relationship with the City under a Memorandum of Understanding, dated July 1, 2013, by and between the Authority and the City. These ties include the Authority’s rental of space and computer equipment from the City and Authority employees may participate in certain City employment benefits such as medical, dental, vision and life insurance. Other than these limited connections, the Authority operates independently of the City and County.

Actions of the Authority’s governing board taken after January 1, 2017, including information relating to bonds, notes or other obligations of the Authority issued or incurred after that date, are not included in the Annual Statement unless otherwise indicated. Other information contained in the Annual Statement is current as of January 1, 2017, unless specifically stated otherwise in the Annual Statement. The information in the Annual Statement is subject to change without notice and the delivery of the Annual Statement shall not create any implication that the affairs of the Authority have remained unchanged since the date of its delivery. The distribution of this Annual Statement by the Authority does not in any way imply that the Authority has obligated itself to update the information herein. All financial and other information presented in the Annual Statement has been provided by the Authority from its records, except for information expressly attributed to other sources believed to be reliable.

## OUTSTANDING OBLIGATIONS

### **Outstanding System Obligations**

The following special limited obligations secured on a parity basis by net revenues of the System are outstanding (“Senior Obligations”). These obligations are generally described below and certain terms of such obligations are summarized in the Authority’s Annual Financial Report for the year ended June 30, 2016.

**Outstanding Senior Obligations  
as of January 1, 2017<sup>(1)</sup>**

<u>System Issue</u>	<u>Principal Amount of Original Issue</u>	<u>Outstanding Principal Amount</u>
NMFA – Public Project Revolving Fund Loan Agreement (2007)	\$77,005,000	\$5,540,000
Revenue Bonds, Series 2009A-1	135,990,000	51,350,000
NMFA – Drinking Water State Revolving Fund Loan Agreement (2009)	1,010,000	862,388
NMFA – Public Project Revolving Fund Loan Agreement (2011)	53,400,000	39,410,000
Revenue Bonds, Series 2013A-B	118,215,000	92,075,000
Revenue Bonds, Series 2014A	97,270,000	96,180,000
Revenue Bonds, Series 2015	211,940,000	<u>211,940,000</u>
Total Senior Obligations		<u><u>\$497,357,388</u></u>

- (1) The Authority issued its Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2017 on March 1, 2017 in the aggregate principal amount of \$87,970,000. The Series 2017 Bonds, in part, advance refunded the Series 2009A-1 Bonds maturing on and after July 1, 2030 in the aggregate principal amount of \$27,280,000.

Other obligations payable on a subordinate basis from Net Revenues, as of January 1, 2017, are shown below:

**Outstanding Subordinate Obligations  
as of January 1, 2017**

<u>Obligation</u>	<u>Principal Amount of Original Issue</u>	<u>Outstanding Principal Amount</u>
New Mexico Finance Authority Drinking Water Loan (2008)	\$9,627,877	\$7,870,187
Revenue Bonds, Series 2014B	87,005,000	<u>77,645,000</u>
Total Subordinate Obligations		<u><u>\$85,515,187</u></u>

On February 3, 2017, the Authority entered into a Loan Agreement with the New Mexico Finance Authority for a Water Trust Board loan in the amount of \$669,550. The Water Trust Board Loan has a super subordinated lien on the Net Revenues of the System.

The Authority does not have any outstanding debt with variable interest rates and does not have any interest rate swap agreements related to its debt.

*Combined Debt Service and Coverage Ratios*

The following schedule shows, for each calendar year, the total combined debt service requirements payable for the outstanding System obligations.

**Total Combined Debt Service  
Outstanding Water/Wastewater Obligations  
January 1, 2017**

Fiscal Year	Senior Lien Debt Service	Subordinate Lien Debt Service	Total Current Debt Service	Pledged Revenue	Senior Coverage	Senior and Subordinate Coverage
2017	\$59,903,966	\$15,102,153	\$75,006,119	119,876,650	2.00x	1.60x
2018	62,785,593	11,958,654	74,744,247	119,876,650	1.91x	1.60x
2019	62,783,044	11,730,628	74,513,672	119,876,650	1.91x	1.61x
2020	56,965,045	11,459,065	68,424,110	119,876,650	2.10x	1.75x
2021	57,366,297	11,067,927	68,434,224	119,876,650	2.09x	1.75x
2022	51,039,298	10,856,816	61,896,114	119,876,650	2.35x	1.94x
2023	51,389,636	10,505,530	61,895,166	119,876,650	2.33x	1.94x
2024	46,321,888	10,145,567	56,467,455	119,876,650	2.59x	2.12x
2025	41,083,639	9,782,179	50,865,818	119,876,650	2.92x	2.36x
2026	35,896,140	715,367	36,611,507	119,876,650	3.34x	3.27x
2027	25,225,442	715,130	25,940,572	119,876,650	4.75x	4.62x
2028	17,073,391	714,718	17,788,109	119,876,650	7.02x	6.74x
2029	17,081,629	714,127	17,795,756	119,876,650	7.02x	6.74x
2030	17,189,541	725,687	17,915,228	119,876,650	6.97x	6.69x
2031	17,229,122	59,298	17,288,420	119,876,650	6.96x	6.93x
2032	17,134,031	-	17,134,031	119,876,650	7.00x	7.00x
2033	17,129,181	-	17,129,181	119,876,650	7.00x	7.00x
2034	8,763,031	-	8,763,031	119,876,650	13.68x	13.68x
2035	2,427,625	-	2,427,625	119,876,650	49.38x	49.38x
2036	2,423,813	-	2,423,813	119,876,650	49.46x	49.46x
2037	1,350,500	-	1,350,500	119,876,650	88.76x	88.76x
2038	1,349,250	-	1,349,250	119,876,650	88.85x	88.85x
<b>Total</b>	<b>\$669,911,102</b>	<b>\$106,252,846</b>	<b>\$776,163,948</b>			

In the ordinances pursuant to which the System obligations have been issued, the Authority, as successor to the City, agreed to charge all purchasers of services reasonable rates sufficient to produce net revenues annually to cover 133% of the annual debt service requirements on all System obligations (excluding reserves therefor and the super subordinate obligations). The net revenues of the System for Fiscal Year 2016 were \$119,876,650. The maximum calendar year combined debt service requirements for Senior Obligations payable from net revenues of the System are \$62,785,593 (occurring in year-end July 1, 2018), resulting in a coverage ratio of 1.91x. The coverage ratio of Fiscal Year 2016 System net revenues of

\$119,876,650 to combined debt service requirements of all System Obligations of \$75,006,119 (occurring in year-end July 1, 2017), is 1.60x.

In November 2010, the Authority received the Fiscal Year 2009 Audit and determined that it was not in compliance with the rate covenant for System Obligations. In response, the Authority promptly hired a rate consultant to evaluate the current rates for the System and related operations and expenses for the System. The Authority Board took prompt action to approve a 5% rate increase effective July 1, 2011 to address the shortfall in debt service coverage. Subsequently, the Board approved 5% System rate increases for Fiscal Years 2014, 2015, 2016 and 2018, of which the rate increases for Fiscal Years 2014, 2015 and 2016 have been added to System rates.

#### *Current Ratings of the Senior Obligations*

The outstanding Senior Obligations are currently rated “Aa2” by Moody’s, “AA+” by S&P and “AA” by Fitch. These ratings are higher than the current ratings for the respective bond insurers, as applicable, and should be considered the ratings on the bonds.

### **JOINT WATER AND WASTEWATER SYSTEM OF THE AUTHORITY**

#### **Water System**

The Water System provides water services to approximately 670,779 residents comprising approximately 95% of the residents of the County. About one-third of unincorporated County residents are customers of the Water System. As of January 1, 2017, service is provided to approximately 208,140 customer accounts, including 186,301 residential and 21,839 multi-family, commercial, institutional and industrial accounts. Approximately 50% of the water sales are for residential uses.

Groundwater from the middle Rio Grande basin aquifer and surface water from the San Juan-Chama Drinking Water Project are the primary sources of supply used for the Water System. In calendar year 2016, the Authority’s water resources use consisted of 32.73% from groundwater and 65.57% from San Juan-Chama surface water and 1.7% from reuse of treated effluent for irrigation. The groundwater supply is produced from 60 wells grouped in 17 well fields located throughout the metropolitan area and the San Juan-Chama surface water is diverted from the Rio Grande. Total well production capacity is approximately 294 million gallons per day (“MGD”). Eliminating high arsenic wells (those greater than 10 parts per billion arsenic) results in available production capacity of 184 MGD. Maximum historical peak day demand is 214 MGD. Peak day demand for 2016 was 144 MGD. A chlorination station associated with each well field satisfies the total required water treatment needs for the water produced in each well field.

Water storage reservoirs provide for fire, peak hour and uphill transfer storage. Water is distributed from higher to lower elevations through a 115-foot vertical height pressure zone to provide minimum static pressures of 50 pounds per square inch (psi) for consumers. Sixty-two (62) reservoirs are located throughout the service area, with a total reservoir storage capacity of 245 million gallons. If demand requires, reservoir water can also be transferred to a higher zone or across zones through an east-west series of reservoirs by means of pump stations sited at the reservoirs. There are a total of 129 boosters, with a total capacity of 775 MGD, available for water transfers between reservoirs. These reservoirs are interconnected by 3,130 miles of

pipelines and are situated at various locations east and west of the service area to provide multiple sources of supply to customers and for operating economies. The Water System takes advantage of the unique topography of the Authority's service area which allows ground level storage while simultaneously providing system pressure by gravity. Control of the Water System is provided by remote telemetry units distributed throughout the Water System for control from a central control facility.

## **Water Supply**

### *Existing Water Resources*

On September 4, 2003, the New Mexico Office of the State Engineer granted the 1993 application of the City's Water Utility Department (the "Utility") to appropriate groundwater in the Middle Rio Grande Administrative Area. This water rights permit allows the withdrawal of groundwater from the aquifer in the amount of up to 155,000 acre-feet per annum as follows:

<u>Years</u>	<u>Annual Diversion Limit (acre-feet)</u>
2016 thru 2029	142,900
2030 and thereafter	155,000

The previous groundwater permit limited the Authority's pumping to 132,000 acre-feet per year. The new permit is governed by the Middle Rio Grande Administrative Area Guidelines for Review of Water Rights Applications adopted by the State Engineer in 2000.

The Authority also holds groundwater diversion permit RG-4462 with 14 groundwater wells permitted in the Corrales trunk with a maximum diversion limit of 10,000 acre-feet per year. The permit and wells were acquired when the Authority acquired New Mexico Utilities, Inc. in 2009.

The average annual groundwater withdrawal for the five years ending in Calendar Year 2016 was 45,778 acre-feet with a maximum occurring in Calendar Year 2012. Additionally, the Authority has the right to use consumptively 74,622.2 acre-feet of surface water per year. This figure consists of imported Colorado River water pursuant to a contract with the Secretary of the Interior for 48,200 acre-feet per year from the San Juan-Chama Drinking Water Project, vested water rights of 17,875 acre-feet from the New Mexico State Engineer's Rio Grande Basin declaration in 1956, and other water rights totaling 8,547.16 acre-feet. In addition to the annual delivery contract for 48,200 acre-feet of San Juan-Chama water, the Authority also has approximately 160,000 acre-feet of San Juan-Chama water from prior year deliveries stored in reservoirs located in northern/central New Mexico (Abiquiu and Heron Reservoirs). In July 2003, the Authority began diversions of San Juan-Chama water under the Non-Potable Surface Water Reuse Project. The total surface water diversions for Calendar Year 2016 were 64,222 acre-feet with an average of 52,715 acre-feet over the last five years.

The Authority believes that water received pursuant to the contract for San Juan-Chama water and the rights to Rio Grande Basin water will be sufficient to support, in perpetuity, a customer population of more than 1,000,000 using 135 gallons per capita per day with 40% consumptive use and 60% return flow. Alternatively, these same water resources will support a customer population of 500,000 using water at the rate of 250 gallons per person per day with the same consumptive use and return flow. The current service population is approximately 670,779, and the current usage is approximately 129 gallons per capita per day (Fiscal Year



2016), down from an average of 250 gallons per capita per day between 1987 through 1993. The Authority believes this decrease can be attributed to the Authority's "Water Conservation Program."

### *San Juan-Chama Drinking Water Project*

Imported Colorado River water from the San Juan-Chama project was purchased in 1963 and began flowing into the Rio Grande in the early 1970's. This water was intended to be directly diverted or to provide legally required offsets for the effects of pumping the aquifer on the Rio Grande. Studies in the 1990's showed that the Rio Grande is not directly connected to the aquifer and that continued sole reliance on groundwater would lead to water quality impacts and land surface subsidence. The policy to transition to direct diversion and full use of the imported Colorado River water (San Juan-Chama water) was adopted in 1997 along with seven dedicated rate increases to pay for the construction and operation.

Construction of the San Juan-Chama Drinking Water Project began in August 2004 following the completion of the diversion and environmental permitting. The San Juan-Chama Drinking Water Project came on-line on December 5, 2008. The San Juan-Chama Drinking Water Project consists of a diversion dam on the Rio Grande, eighteen pipeline segments, approximately 44 miles of pipeline, a raw water pump station, a raw water intake and fish passage structure designed to protect habitat on the Rio Grande and the endangered Rio Grande Silvery Minnow, and a surface water treatment plant. Construction costs for the project were approximately \$385 million with an additional \$70 million for design, construction inspection and land purchases.

The San Juan-Chama Drinking Water Project diverts San Juan-Chama water in combination with native water from the Rio Grande for purification to replace sole reliance on the aquifer. Under a permit with the New Mexico Office of the State Engineer, the native water is diverted from the Rio Grande to the surface water treatment plant where the water is purified through a state-of-the-art multi-barrier treatment system designed to remove particulate matter, sediment and bacterial and microbial contaminants. The treatment plant is capable of processing 90 million gallons of water each day. The purified drinking water is then blended with groundwater at the existing reservoirs to supplement drinking water supplies. The State Engineer's permit has many conditions that require diversion from the Rio Grande to be curtailed or stopped including a minimum flow requirement at the Central Avenue gauge. The minimum flow requirements have reduced the ability to divert San Juan-Chama water from the Drinking Water Project since the beginning of operations due to drought. Even with the reduced diversions in the summer months, the aquifer in the Middle Rio Grande Basin has been rising since 2008. Since that time, the water table has risen 20 feet and it is predicted to continue to rise for the next ten years. The San Juan-Chama Drinking Water Project provides Authority customers with a significant additional source of drinking water, which design and construction has been recognized nationally.

### *Water Supply Plan*

Prior to 1997, the water supply plan for the Authority's service area, which was based on technical knowledge of the surface and groundwater systems at the time, could be summarized as follows: the City would pump groundwater to meet water system demands; groundwater pumping would cause additional seepage (induced recharge) from the river; and the City would provide surface water to offset river depletion by return wastewater flow, native water rights and

imported water obtained under contract with the Secretary of Interior from the San Juan-Chama diversion project. Technical investigations by the New Mexico Bureau of Mines and Mineral Resources, the U.S. Geological Survey and the Bureau of Reclamation concluded that the Authority's wastewater return flows were sufficient to offset the annual seepage from the Rio Grande associated with the Authority's groundwater pumping. Technical work is continuing to provide water resources information needed for long-term management and to develop water supply solutions.

In 1997, the City Council adopted the Water Resource Management Strategy ("WRMS") as the City's water supply plan. The WRMS was the culmination of years of planning and technical investigations, cooperation with federal, state and local agencies and public involvement and education. The WRMS: (1) calls for the City (or the Authority as successor) to more fully utilize its renewable water resources in order to reduce reliance on groundwater to serve customers; (2) provides for limited reuse of industrial and municipal effluent to irrigate large turf areas; (3) provides for the development of a groundwater drought reserve, which was recommended by resource economists in a report commissioned to provide for the Authority's anticipated year 2060 water demands; (4) includes recommended implementation and financing plans; and (5) recommends pursuit of regional solutions and several specific additional sources of water for the future. The total estimated capital and initial operating costs of the WRMS (including \$10.8 million for costs of site selection and acquisition, \$385 million for the drinking water supply project, and \$29.4 million for three reclamation and reuse projects) is \$425.2 million.

In 2007, the Authority adopted a new WRMS as its water supply plan. The new WRMS is a combination of existing policies from the original 1997 WRMS with several new policies that were developed in cooperation with federal, state, and local agencies and significant public involvement and education. The WRMS outlines thirteen policies including continued support for the San Juan-Chama Drinking Water Project and the remaining reuse and reclamation projects.

The four specific projects identified in the 1997 WRMS have been implemented. The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. The final revised Order and Permit (SP-4830) for the San Juan-Chama Drinking Water Project was received in December 2014 which completes the legal process. The Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004 and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Drinking Water Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat.

With respect to the three water reclamation and reuse projects identified in the WRMS, the Industrial Recycling Project has been completed and operational since approximately August 2000. The North I-25 Non-Potable Surface Water Project began full operations in January 2004. Together these two projects provide approximately 2,600 acre-feet of water each year for irrigation use in the Northeast Heights of the City. The Southside Municipal Effluent Polishing and Reuse Project utilizes about 1,000 acre-feet per year of treated wastewater effluent for irrigation and industrial use in the Southeast Heights and South Valley of Albuquerque. The completion and operation of the Southside Reuse Project completes the four projects as called for

in the original 1997 and updated 2007 WRMS to provide a safe and sustainable water supply to 2060 (which is as far as the WRMS projected).

As a result of the implementation of the 2007 WRMS, the aquifer has been rising throughout the Middle Rio Grande. Although the region has experienced drought for six consecutive years, the water supply is increasing in the Albuquerque area as a result of the Authority's transition to surface water (DWP), reuse and significant water conservation efforts. To date, the Authority has saved more than 1,000,000 acre-feet of ground water over the last five years.

Following the past successful water planning work in 1997 and 2007, the Authority Board adopted Water 2120: Securing Our Water Future in September 2016. Water 2120 is a long-range water supply plan which provides policy directives to meet water supply gaps for a range of potential future demands over the next 100 years. Water 2120 also reflects updates in the scientific literature on climate modeling enhancing the Authority's understanding of the new water resources systems we manage. The document consists of thirteen policies and more than sixty sub-policies to guide implementation of the plan including programs and projects needed to provide a safe, sustainable and resilient water supply for the next 100 years.

The plan focuses on full utilization of the water rights and resources already owned by the Authority. The overall approach to Water 2120 was to simulate a number of scenarios of supply and demand over the next 100 years, with current supplies and rights, and to quantify key results. To fill the gaps in supply, numerous potential water supply alternatives were examined, and simulations were run. One of the key policies in the new water supply plan was to implement a groundwater management strategy that protects a large quantity of the aquifer for future generations. A management level was established such that new supplies would be implemented over time to reduce long-term aquifer drawdown and allow future generations the opportunity to utilize that savings account.

In addition to the groundwater management plan, the new 100 year plan focuses on utilizing the existing rights owned by the Authority with additional water conservation. Additional water reuse and storage provide flexibility for future along with increase aquifer storage and recovery. Watershed restoration and management are also part of the new plan to ensure that we are taking the necessary steps to protect the environment from potentially devastating fires and watershed damage.

#### *Aquifer Storage and Recovery*

Aquifer storage and recovery ("ASR") is a means of storing excess water in the aquifer to reduce evaporation and provide a groundwater drought reserve when surface water supplies are not available. Aquifer storage and recovery is another water resources management tool that the Authority is implementing to ensure a safe and sustainable water supply. The Authority initiated the first land application project, called the Bear Canyon ASR Project, in 2009 and has since stored 1,578 acre-feet of water in the aquifer. In November 2014, the Authority received the full-scale permit for the Bear Canyon ASR project and began regular operations in 2014. In 2015, the Authority recovered 1,357 acre-feet from the Bear Canyon storage account. The Authority has received a demonstration permit from the New Mexico Office of the State Engineer for the large scale ASR project capable of injecting about 5,000 acre-feet a year into the aquifer which will be recovered in the first three years, but will provide for additional storage that will assist in

further expanding the drought supply for the Authority. Additional ASR projects are called for in the new 100 year plan that would include both infiltration and direct injection.

### *South Valley Expansion Projects*

Construction of the South Valley Water System Expansion Project is being done in phases and is managed by the Bernalillo County Public Works Department. The Authority is the significant financial sponsor of the project. The project will construct water system infrastructure in the Southwest Valley of Bernalillo County and allow the residents to connect to the System and end their use of wells. The project will provide water service to approximately 3,200 developed parcels in the Southwest Valley. Phase I consisting of a major transmission line was completed in August 2007. The Authority paid \$9 million of the \$14 million cost. Phases 2 and 2A consist of a water distribution system to 1,240 households in the area and are under construction with an estimated cost of \$8.5 million with the Authority's share at \$7.5 million. Phases 3 and 4, consisting of a reservoir, transmission line and a water booster station are underway, with the Authority committed to providing \$8.4 million.

### *New Arsenic Standard Applicable to Water Supply*

The United States Environmental Protection Agency ("EPA") promulgated new regulations in 2001 reducing the allowable amount of arsenic in municipal drinking water from 50 parts per billion to 10 parts per billion. When EPA adopted the new standard, Congress allowed large water systems the opportunity to apply for a maximum three-year exemption, which the Authority applied for and was granted.

Two projects were instituted to comply with the new arsenic standard. The first and most important is the San Juan-Chama Drinking Water Project. The surface water has less arsenic than the groundwater and the treatment process at the new water treatment plant removes arsenic. The second project is the College Arsenic Treatment Plant, which was once the largest microfiltration arsenic treatment facility in the United States. The Gonzales to College Well Collector Line project conveys high arsenic well water to the College Arsenic Treatment Plant.

The Authority is now in compliance with the EPA's arsenic regulations. Because of diversion limitations placed by the State Engineer on the San Juan-Chama Drinking Water Project, additional arsenic removal treatment systems to remove arsenic from the Authority's existing facilities or other production facilities with lower arsenic water may be needed to meet demand in the future.

### *Water Conservation Program*

In an effort to extend the lifetime of the Authority's water resources, the City initiated a water conservation program in 1995. The City adopted a goal of 30% reduction from baseline period water use to be attained by 2005. The City utilized Calendar Years 1987 through 1993 as the baseline period, with gross community per capita water use at an average of 250 gallons per day. Gross community water use needed to be reduced to 175 gallons per capita per day to achieve the 30% conservation savings goal. At the end of 2005, Authority customers had reduced their per capita use 33% compared with use during the established baseline period.

In 2004, the Authority adopted a new water conservation goal of 10% reduction in addition to the 30% reduction goal established in 1995 to be implemented in 2005 with reduction

rates of 1% per year until 2014 to achieve a usage of 150 gallons per capita per day (“GPCD”). This goal was achieved three years early in 2011.

In 2013, the Authority adopted an additional reduction goal to reduce per capita usage from 150 GPCD to 135 GPCD over the next ten years. A new program was established to accomplish the goal following significant public input and meetings with the Authority Board. The new elements consist of increased public education, test your toilet month, new rebate programs, and revisions to the xeriscape program. GPCD for 2016 was 127 and the Authority’s current goal is to maintain water use at or below the 135 GPCD goal.

Elements of the current long-term water conservation strategy will stay in place including public education and marketing effort, financial incentives for customers who attend classes to learn about efficient irrigation techniques, replacement of high volume toilets with low volume toilets, converting high water use landscaping with xeriscaping, replacing high water use washing machines with low use models, installing rain water harvesting equipment, evaporative cooler thermostats, rain sensors, hot water recirculation units and more efficient sprinkler system heads. Free water use audits are available to all customers. Residential audits include retrofits of showerheads, faucet aerators, and hose nozzles. Finally, the Authority has established water budgets for over 1,300 large turf customers.

The Water Conservation Program has achieved significant reductions in water use since 1995 and is recognized as one of the more successful water conservation programs in the United States. The Authority has imposed 5% rate increases in Fiscal Years 2012, 2014, 2015 and 2016 and has authorized a 5% rate increase in Fiscal Year 2018 to help address the lost System revenues due to conservation. See “FINANCIAL INFORMATION – Rates and Charges of the System.”

### *Surface and Ground Water Protection Plan*

The Albuquerque/Bernalillo County Groundwater Protection Policy and Action Plan (“GPPAP”) was adopted by the City and County in 1994. The goals of the GPPAP are to prevent any additional groundwater contamination in Bernalillo County, to facilitate clean-up of existing contamination, and to promote the coordinated protection and prudent use of groundwater. In 2009, the GPPAP was updated to include surface water quality protection measures, as the Authority started its use of the San Juan-Chama Project water. The Authority, City and County have jointly established a Water Protection Advisory Board (“WPAB”) which replaced the GPPAP to address surface water quality protection in addition to groundwater quality protection. Additionally, the WPAB studies and advises the Authority, City and County on surface and groundwater protection concerns, including policies necessary to enhance protection of surface and groundwater quality including promoting consistency among the governmental entities in pursuing these goals.

The WPAB works with local, state and federal agencies to monitor the progress of mitigation of current contamination sites and is continuing to develop policies to prevent future contamination. The current contamination cleanups are primarily in the South Valley and Northwest Mesa of Bernalillo County. The Authority has plugged or discontinued use of wells that were affected by the various contamination sites. Additionally, the Authority has assisted in a \$120 million program to eradicate 8,000 septic tanks in the North and South Valleys, and at the end of Calendar Year 2016 over 6,000 septic tanks have been eliminated.

## *Kirtland Air Force Base Fuel Spill*

In 1999, the United States Air Force discovered an underground fuel spill around its bulk fuel storage facility at Kirtland Air Force Base in southeast Albuquerque. The Air Force, in conjunction with the New Mexico Environment Department and the City, immediately began to investigate the scope of the spill and necessary remediation steps. The Air Force installed a soil vapor remediation system which began extracting fuel vapor from the soil in 2003. The Authority's groundwater supply remains safe, has not experienced contamination and is tested on a monthly basis. The Air Force, New Mexico Environment Department and the Authority continue to work collectively to identify the most effective remediation steps to protect the area's groundwater and develop contingency plans should the fuel spill threaten the Authority's groundwater supply. The Air Force has accepted responsibility for the cost of the remediation and has stated its commitment to dedicate the necessary resources to remediate the fuel spill. The Air Force has recently ramped up efforts to clean up this site, providing additional expert staff to the project from their Civil Engineering Center in San Antonio, Texas. For additional information concerning the Air Force fuel spill, please see [www.kirtlandjetfuelremediation.com](http://www.kirtlandjetfuelremediation.com).

### *Drought Relief Measures*

The Authority adopted the City's Drought Management Strategy when the Authority was created in 2004. The Drought Management Strategy was updated and approved by the Board in 2012. The purpose of a Drought Management Strategy is to preserve and protect the aquifer and also to meet water conservation goals during a drought. The current Drought Management Strategy identifies four levels of drought -- drought advisory, drought watch, drought warning and drought emergency -- and provides various educational steps and voluntary and mandatory conservation measures to reduce water usage during each of these drought levels.

### *Water Usage*

The Water System serves consumers inside and outside of the City limits. The consumers served outside the City limits constitute approximately 10% of total consumers served. Well pumps are presently producing at 150 to 1,000 feet depths. Their yields range from about 500 gallons per minute to more than 3,700 gallons per minute. During Calendar Years 2012-2016, the Water System supplied the following volumes to customers within the service area including contributions from both surface water and groundwater supplies:

#### **Usage<sup>(1)</sup> 2012-2016**

<b><u>Calendar Year</u></b>	<b><u>Gallons Produced (in 000s)</u></b>	<b><u>Gallons Billed (in 000s)</u></b>	<b><u>Percentage Billed</u></b>
2012	33,318,000	30,044,094	90.17%
2013	33,222,000	28,113,371	84.26%
2014	30,836,000	28,075,612	91.05%
2015	29,498,000	27,195,260	92.19%
2016	30,720,000	28,250,000	91.96%

- (1) There is a difference between gallons pumped and gallons billed. Gallons which are produced but not billed include certain accounts billed on the basis of estimated usage, amounts lost due to line leakage and breakage, and fire protection usage which is not metered. These variables fluctuate from year to year and impact the percentage billed. The fire protection usage is not metered but is built into the rate covenant for the System and is not considered a free use.

Source: Albuquerque Bernalillo County Water Utility Authority.

The top ten customers of the Water System are:

**Water System Top Ten Customers<sup>(1)</sup>**

Fiscal Year 2016

<b><u>Customer Name</u></b>	<b><u>Consumption Rate (Kgal)</u></b>	<b><u>Total FY 2016 Revenue</u></b>	<b><u>% of Total FY 2016 Revenue</u></b>
City of Albuquerque	2,802,472	\$9,960,711	6.70%
Albuquerque Public Schools	687,963	3,044,848	2.05
University of New Mexico	306,136	1,273,790	0.86
Bernalillo County	210,757	751,872	0.51
Kirtland Air Force Base	134,821	640,281	0.43
ABCWUA	84,308	312,612	0.21
Central NM Community College	64,987	276,635	0.19
Lovelace Health Systems	88,523	273,852	0.18
Sumitomo	111,845	269,132	0.18
Albuquerque Academy	99,320	<u>241,286</u>	<u>0.16</u>
<b>Total</b>		<b><u>\$17,045,019</u></b>	<b><u>11.47%</u></b>
<b>Total Revenue for Water System</b>		<b><u>\$148,622,758</u></b>	

<sup>(1)</sup>Includes non-potable water customers.

Source: Albuquerque Bernalillo County Water Utility Authority.

**Wastewater Plant and Collection System**

The Wastewater System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant. The wastewater treatment plant provides preliminary screening, grit removal, primary clarification and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent disinfection using ultraviolet light prior to discharge to the Rio Grande.

Treatment plant capacity is based upon 76 MGD hydraulic capacity. Existing flows at the plant have averaged 52 MGD over the past five years. The Authority has an operational industrial pretreatment program approved by the United States Environmental Protection Agency (“EPA”). The EPA recognized that the Authority’s pollution prevention efforts have been largely responsible for the Authority maintaining compliance with strict standards contained in National Pollution Discharge Elimination System (“NPDES”) Permit #NM0022250. The Authority’s wastewater effluent discharge consistently meets all NPDES permit requirements. The current NPDES permit expires in October 2017. Application for renewing this Permit will be submitted to the EPA during the first quarter of calendar year 2017.

The Authority received an Administrative Order from the EPA for violations of the NPDES permit associated with Sanitary Sewer Overflows, laboratory reporting issues, and plant violations from 2001 to 2010. The Authority received two additional Administrative Orders (“AO”) for an overflow which occurred on February 27, 2015 as a result of a major power failure. The first AO required that the Authority implement electrical and other improvements to prevent another power failure and the potential for another spill. All of that work was completed in 2015 and a report was filed with EPA at the end of 2015. The second AO includes adoption of the Corrective Action Plan (CAP) items that are scheduled to be completed within the next

five years. Biannual reports are to be submitted to EPA outlining the work completed to accomplish the projects outlined in the CAP. The first report was filed at the end of 2015.

Since January 2003, the treatment plant has had a 6.6 mega-watt cogeneration facility to provide most of its power needs. The cogeneration facilities are complemented by a one mega-watt solar energy plant that began service in December 2012. These on-site power generating facilities normally supply 100% of the treatment plant’s present electrical needs, along with providing heating of various buildings and sludge digesters. The engines are fueled by methane produced in the digesters and by natural gas purchased through a contract carrier. The Southside Water Reclamation Plant currently generates electricity from the bio-gas produced in the digesters. This is no cost gas that qualifies the electricity generated for Renewable Energy Certificates (“REC”). These certificates have a value to other electrical energy producers and the Authority continues to research how to sell its RECs to increase revenue. For example, the Authority issued an RFB for the unused REC’s which were purchased by El Paso Electric.

Total beneficial reuse of sludge is accomplished by three methods: surface disposal (62% of sludge produced); land application on 5,000 acres of public-private range land (0% of sludge produced); and production of compost (38% of sludge produced). The Authority sells the compost, primarily to the State Department of Transportation. A 660-acre dedicated land application site is used when beneficial reuse options are unavailable (for example, when the range land site is snow-covered). The Authority’s Compliance Division operates a water quality laboratory, providing analytical support for process control and regulatory compliance for wastewater, drinking water, groundwater, storm water, surface water, the zoological park, residuals management and environmental health programs. The laboratory is internationally accredited under International Standards Organization Standard 17025 for inorganic chemistry and microbiology testing. The Authority reduces expenses by analyzing all of the bacteriological samples at the Authority’s internal water quality lab.

The following table sets forth the quantity of water treated and customers served through the Wastewater System for Calendar Years 2012-2016:

<b>Treated Water 2012-2016</b>		
<b><u>Calendar Year</u></b>	<b><u>Gallons Treated (in 000s)</u></b>	<b><u>Average # of Customers</u></b>
2012	20,595,000	191,810
2013	20,378,630	192,387
2014	18,214,780	194,360
2015	18,122,990	193,922
2016	18,250,000	195,140

Source: Albuquerque Bernalillo County Water Utility Authority.



The top ten customers of the Wastewater System are:

**Wastewater System Top Ten Customers**

Fiscal Year 2016

<b><u>Customer Name</u></b>	<b><u>Consumption Rate (Kgal)</u></b>	<b><u>Total Collected FY 2016 Revenue</u></b>	<b><u>% of Total FY 16 Revenue</u></b>
Kirtland Air Force Base	744,617	\$1,263,401	1.85%
University of New Mexico	485,108	874,125	1.28
Albuquerque Public Schools	142,838	808,579	1.19
City of Albuquerque	170,284	671,861	0.99
Creamland Dairies	50,247	484,979	0.71
Lovelace Health	68,503	254,237	0.37
Bernalillo County	55,140	181,653	0.27
Central NM Community College	31,466	116,680	0.17
Sandia Park Services	72,929	77,037	0.11
Four Hills MHP	34,730	75,329	0.11
<b>Total</b>		<b>\$4,807,881</b>	<b>7.05%</b>
<b>Total Revenue Wastewater System</b>		<b>\$68,166,636</b>	

*Source:* Albuquerque Bernalillo County Water Utility Authority.

**Management of the System**

Authority management is responsible for day-to-day operations of the System, policy, System expansion, budget, rates, personnel reorganizations, unbudgeted intra-year positions, negotiation or renegotiation of labor contracts and litigation relating to the System. The individuals described in the following paragraphs are the present management for the Authority.

Mark Sanchez, Executive Director. Mr. Sanchez has been the Executive Director of the Authority since its inception and was formerly the Director of Council Services for the Albuquerque City Council. Mr. Sanchez holds a Master’s Degree in Business Administration from New Mexico Highlands University and a Master’s Degree in Public Administration from the University of New Mexico. He is a graduate of the Harvard JFK School of Government Program for Senior Executives in State and Local Government. Mr. Sanchez has held executive-level positions in government, private sector and the non-profit sector in the areas of business and government policy, housing and community development, health, human and social services, job training and economic development. Mr. Sanchez serves as a Commissioner on the New Mexico Interstate Stream Commission and on the Board of the Multi-State Salinity Coalition and National Association of Clean Water Agencies. He has been very active at the local, state and national levels on intergovernmental issues.

John M. Stomp, P.E., Chief Operating Officer. Mr. Stomp is responsible for the Authority’s operations group including the water and wastewater treatment plants, wastewater collection systems and lift/vacuum stations, and water distribution and transmission lines. Mr. Stomp was the Water Resources Manager for over ten years prior to becoming the Chief Operating Officer. Mr. Stomp has been employed by the City, and the Authority as successor, since April 1996. Prior to employment with the Authority, Mr. Stomp was employed as a project manager by local and national water/wastewater consulting firms. Mr. Stomp has been involved with water and wastewater issues in Albuquerque and throughout New Mexico for

approximately 29 years. He has a Bachelor's and Master's Degree in Civil Engineering from the University of New Mexico.

Stan Allred, Chief Financial Officer. Mr. Allred held the position of Finance Officer, Water Utility Department from June 2003 until May 2008 when he was promoted to Chief Financial Officer. Mr. Allred is responsible for the Financial/Business Services Group which includes all finance, accounting, information services and Authority warehouse functions. He has approximately 29 years of financial and cost accounting experience. Prior to employment with the Authority, Mr. Allred was employed as a director with a multi-billion dollar national long-term care corporation. Mr. Allred was involved with corporate financial reporting requirements and rate setting for Medicare and 15 different state Medicaid systems. Mr. Allred has a BBA with a concentration in Accounting from the University of New Mexico.

Dr. James H. "Jim" Olsen, Jr., P.E., Field Operations Manager. Mr. Olsen has worked for the City, and now the Authority, for over 39 years and has served in his current position since 2008. Past assignments have included: Transmission & Distribution Manager for PNM Water Services (Santa Fe water system), Chief Utility Engineer for ECO Resources (Rio Rancho water & wastewater systems), Project Manager for the Pueblo of Laguna, NM Jackpile Mine Reclamation Project, management and engineering/technical assignments for ARCO-Anaconda, the Standard Oil Company (Ohio), and the City of Albuquerque Water System. He holds a Mining Engineering degree from New Mexico Institute of Mining & Technology (Socorro, NM) and a Master's in Business Administration from the Anderson School of Management, University of New Mexico. He completed his Doctorate in Education at the University of New Mexico in 1996. He has served on the faculty of the University of Phoenix since 1987 and taught graduate and undergraduate courses in management, environmental science, engineering processes, economics, project management, statistics, algebra, geography and business research methods & projects, and motivation theory; served as Lead Faculty and Area Chair for Undergraduate Mathematics and Graduate Research and Quantitative Methods.

Charles S. Leder, P.E., Plant Operations Manager. Mr. Leder has held the Division Manager position since July of 2012 after serving as a Principal Engineer for Plant Operations since March 2010. He has approximately 38 years-experience in planning, design, construction, and operations of water and wastewater facilities. Mr. Leder has a BS from the Johns Hopkins University, and an MS in Sanitary Engineering from the Georgia Institute of Technology.

David J. Price, P.E., Water Resources, Planning & Engineering Division Manager. Mr. Price has been in his current position since April 2010. Prior, he was the Chief Engineer for the Plant Division – Drinking Water. Before joining the Authority, Mr. Price spent 19 years as a consulting engineer with a focus on the evaluation and design of drinking water systems. He has a B.A. in Political Science from the University of Pennsylvania, a B.S. in Civil Engineering from the University of Arizona, and a M.S. in Environmental Engineering also from the University of Arizona.

Cody R. Stinson, Chief Information Officer. Mr. Stinson has a Bachelor's Degree from the University of New Mexico in Management of Information Systems, and a M.B.A. from the University of New Mexico in Management of Technology. Mr. Stinson also has over 18 years of Information Technology experience, including work for the New Mexico State Judiciary, and as Deputy Chief Information Officer for Bernalillo County. Mr. Stinson has managed several large implementations, including the Video Arraignment Process for the Bernalillo County

Metropolitan Court, and the County's procurement and implementation of SAP, which is an Enterprise Resource Planning Application.

Peter Auh, General Counsel. Mr. Auh has been with the Authority since December 27, 2016. He obtained his law degree from the University of Iowa College of Law in 1987, and was admitted to the New Mexico Bar in 1988. His legal career began with 16 years in private practice, first with a law firm and then as a solo practitioner. Mr. Auh entered the public sector in 2002, as an assistant city attorney with the City of Albuquerque's litigation section before joining the Bernalillo County Attorney's office where he served as the deputy county attorney. In 2014, Mr. Auh joined the New Mexico Attorney General's Office as the deputy attorney general in charge of four civil divisions. Immediately prior to becoming General Counsel for the Water Authority, Mr. Auh held the position of Senior Litigation Attorney with the New Mexico Association of Counties. In his 29 years of legal practice, Mr. Auh has gained experience in a wide variety of matters that are of regular concern to public bodies, including procurement, sunshine laws, personnel and labor issues, administrative law, torts and civil rights, eminent domain, land use, easements and rights of way acquisition and the drafting of ordinances and resolutions.

Hobert "H" Warren, Customer Services and Area Operations Manager. Mr. Warren has held the manager position since 2012. He has approximately 20 years-experience in operations, compliance, construction, transition planning, automated meter reading implementation, billing systems, and rate studies. Prior to employment with the Authority, Mr. Warren was the local operations manager for a company that owns and operates more than 130 regulated water and wastewater systems in nine states.

Mark P. Kelly, P.E., Compliance Division Manager. Mr. Kelly has been in his current position since December 2014. Previous to his current position, he was the Industrial Pretreatment Engineer. Mr. Kelly has 12 years of engineering experience in water and wastewater system design, as well as landfill design. He has a B.S. in Environmental Engineering from the New Mexico Institute of Mining and Technology.

## FINANCIAL INFORMATION

### Statement of Net Position

The following table is the historical statement of net position for the System for Fiscal Years Ended June 30, 2012-2016:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>ASSETS</b>					
Current Assets					
Cash and investments	\$101,195,934	\$68,886,433	\$23,118,415	\$4,376,391	\$41,250,713
Cash held for debt service	0	0	37,717,945	34,205,405	33,547,414
Accounts receivable	18,981,742	14,678,230	14,513,349	15,487,864	15,861,463
Due from other governments	447,969	932,227	2,616,356	2,194,935	768,235
Prepaid assets	0	0	0	15,851	93,054
Notes receivable	740,459	790,870	817,849	920,432	989,359
<b>Total Current Assets</b>	<b>121,366,104</b>	<b>85,287,760</b>	<b>78,783,914</b>	<b>57,200,878</b>	<b>92,510,238</b>
Noncurrent Assets					
Long-term receivables	3,958,777	3,754,006	3,946,792	5,216,608	5,719,123
Restricted Assets					
Cash and investments	46,529,971	77,114,772	31,848,311	3,057,077	0
Post-Employment life insurance benefit trust	0	798,900	818,273	0	0
<b>Total Restricted Assets</b>	<b>50,488,748</b>	<b>81,667,678</b>	<b>32,613,376</b>	<b>3,057,077</b>	<b>0</b>
Capital Assets					
Net capital assets other than purchased water rights	1,099,515,341	1,094,473,803	1,146,008,251	1,222,710,534	1,257,370,901
Purchased water rights	48,862,906	48,240,385	45,116,733	44,581,533	43,720,597
Land	25,170,378	25,724,125	25,702,293	0	0
Long-term notes receivable	3,958,777	3,754,006	3,946,792	0	0
Construction work in progress	3,791,893	42,578,965	16,202,781	3,892,953	10,384,658
<b>Total Capital Assets</b>	<b>1,187,300,706</b>	<b>1,220,391,650</b>	<b>1,245,562,198</b>	<b>1,271,185,020</b>	<b>1,311,476,156</b>
Capitalized bond issuance costs	0	0	0	0	3,537,317
<b>Total Noncurrent Assets</b>	<b>1,237,789,454</b>	<b>1,302,059,328</b>	<b>1,282,175,574</b>	<b>1,279,458,705</b>	<b>1,320,732,596</b>
<b>TOTAL ASSETS</b>	<b>1,359,155,558</b>	<b>1,387,347,088</b>	<b>1,360,959,488</b>	<b>\$1,336,659,583</b>	<b>\$1,413,242,834</b>
<b>LIABILITIES</b>					
Current Liabilities					
Accounts payable	12,910,228	10,500,449	10,860,709	2,817,948	3,959,680
Accrued payroll	2,582,062	2,129,109	2,305,108	1,912,951	434,532
Claims payable, current portion	993,586	563,865	0	0	0
Accrued compensated absences	3,019,584	2,663,822	3,349,805	3,071,653	3,264,417
Deposits	687,857	727,676	766,419	702,845	673,903
Construction contracts payable	0	0	5,272,729	4,274,419	6,283,258
Current portion debt obligation bonds	37,265,000	35,530,000	24,735,000	23,545,000	22,235,000
Loan agreements/lines of credit	9,710,054	8,508,529	10,109,815	18,609,698	18,422,091
Water rights contract	1,135,776	1,102,203	1,069,622	1,038,005	1,007,322
Accrued interest payable	0	0	276,343	11,829,953	12,426,778
Accrued interest for debt obligations	13,278,888	12,568,850	13,326,311	0	0
<b>Total Current Liabilities</b>	<b>81,583,035</b>	<b>74,294,503</b>	<b>66,822,789</b>	<b>67,802,472</b>	<b>68,706,981</b>
Noncurrent Liabilities					
Debt obligations					
Bonds net premium/discounts	584,931,928	634,147,215	508,809,453	410,568,603	438,180,426
Loan agreements/line of credit	48,078,533	58,704,590	127,174,021	192,195,579	211,221,688
Water rights contract	7,579,189	8,714,965	9,817,168	10,886,790	11,924,795
Unamortized premium	0	0	23,863,736	0	0
<b>Total Debt Obligations</b>	<b>640,589,650</b>	<b>701,566,770</b>	<b>645,800,642</b>	<b>613,650,972</b>	<b>661,326,909</b>
Other Noncurrent Liabilities					
Claims payable, net of current position	1,429,794	1,188,165	0	0	0
Net pension liability	38,165,167	29,351,538	0	0	0
OPEB life insurance obligation	389,848	415,763	390,711	1,108,722	0
Accrued compensated absences	367,674	889,528	1,222,954	746,797	52,457
<b>Total Other Noncurrent Liabilities</b>	<b>40,352,483</b>	<b>31,844,994</b>	<b>1,613,665</b>	<b>1,855,519</b>	<b>52,457</b>
<b>Total Noncurrent Liabilities</b>	<b>680,942,133</b>	<b>733,706,267</b>	<b>647,414,307</b>	<b>615,506,491</b>	<b>661,379,366</b>
<b>TOTAL LIABILITIES</b>	<b>762,525,168</b>	<b>807,706,267</b>	<b>714,237,096</b>	<b>683,308,963</b>	<b>730,086,347</b>
<b>NET POSITION</b>					
Net investment in capital assets	568,244,966	576,677,611	595,695,430	617,398,422	636,174,669
Unrestricted	53,424,920	23,764,690	51,026,962	35,952,198	46,981,818
<b>TOTAL NET POSITION</b>	<b>\$621,669,886</b>	<b>\$600,442,301</b>	<b>\$646,722,392</b>	<b>\$653,350,620</b>	<b>\$683,156,487</b>

Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Reports.

## Revenues and Expenditures

The following table shows the historical revenues and expenditures for the System for Fiscal Years ended June 30, 2012-2016:

	<u>Fiscal Years</u>				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>Operating Revenues</b>					
Charges for services	<u>\$218,128,394</u>	<u>\$192,311,627</u>	<u>\$182,350,427</u>	<u>\$179,677,625</u>	<u>\$177,054,690</u>
<b>Operating Expenses</b>					
General and administrative	67,982,206	61,106,551	-	-	-
Source of supply, pumping, treating, distr.	46,986,703	46,524,899	-	-	-
Non-capitalized major repair	4,285,103	6,428,665	-	-	-
Salaries and fringe benefits	-	-	50,381,058	48,510,025	46,482,075
Professional services	-	-	1,726,252	882,847	297,125
Utilities	-	-	15,076,188	12,889,006	13,125,123
Supplies	-	-	1,504,730	9,295,557	8,985,061
Travel <sup>(1)</sup>	-	-	-	-	-
Fuels, repairs and maintenance	-	-	18,749,564	13,095,120	9,447,368
Chemicals	-	-	5,943,487	-	-
Contractual services	-	-	9,179,077	9,694,480	9,449,591
Franchise fees	-	-	6,714,627	6,629,318	6,524,463
Tort and other legal fees	-	-	2,306,928	2,618,768	2,489,935
Workman's compensation costs	-	-	351,186	754,159	831,048
Administrative fees other governments	-	-	271,588	1,550,000	1,550,000
Other operating expenses	-	-	1,671,153	1,294,397	1,350,532
Depreciation	80,357,265	83,094,979	84,788,418	86,644,314	84,849,475
Amortization	-	-	448,100	442,748	434,139
Bad debt expense	-	-	<u>56,973</u>	<u>27,084</u>	<u>77,124</u>
Total Expenses	<u>\$199,611,277</u>	<u>\$197,155,094</u>	<u>198,664,257</u>	<u>195,436,545</u>	<u>185,893,059</u>
<b>Operating Income/Loss</b>	<u>18,517,117</u>	<u>(4,843,467)</u>	<u>(16,313,830)</u>	<u>(15,758,920)</u>	<u>(8,838,369)</u>
Non-operating revenues (expenses)					
Interest on investments	155,431	44,453	159,871	42,009	148,520
Interest expense	(18,034,371)	(19,856,948)	(27,545,590)	(24,565,918)	(23,806,064)
Water service expansion charges	9,256,938	7,541,201	7,872,237	8,197,016	8,035,123
Bond issue amortization	-	(2,272,566)	(812,445)	-	(348,123)
Lease of stored water	1,615,215	99,627	3,536,037	-	-
Other	<u>4,212,925</u>	<u>2,057,745</u>	<u>4,709,186</u>	<u>1,685,449</u>	<u>1,546,894</u>
Total non-operating income	<u>(2,793,862)</u>	<u>(12,386,488)</u>	<u>(12,080,704)</u>	<u>(14,641,444)</u>	<u>(14,423,650)</u>
<b>Income (loss) before contributions</b>	15,723,255	(17,229,955)	(28,394,534)	(30,400,364)	(23,262,019)
Capital contributions	<u>5,504,330</u>	<u>7,347,569</u>	<u>9,388,162</u>	<u>4,131,814</u>	<u>5,058,962</u>
<b>Change in Net Position</b>	21,227,585	(9,882,386)	(19,006,372)	(26,268,550)	(18,203,057)
<b>Net Position July 1, as restated<sup>(2)</sup></b>	<u>600,442,301</u>	<u>610,324,687</u>	<u>653,350,620</u>	<u>679,619,170</u>	<u>701,359,544</u>
<b>Net Position June 30</b>	<u>\$621,669,886</u>	<u>\$600,442,301</u>	<u>\$646,722,392</u>	<u>\$653,350,620</u>	<u>\$683,156,487</u>

(1) Reclassified to other operating expenses for the 2012 financial statements.

(2) Net position as of July 1, 2012 was restated to conform to GASB No. 65 which eliminated deferred bond issuance costs as an asset. Net position as of July 1, 2015 was restated to conform to GASB No. 68, reflecting an adjustment to record the Authority's net pension liability.

Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Reports.

## Historical Financial Information

The following table compares revenues, expenses and net revenues available for debt service over the past five fiscal years.

<b>Water/Wastewater System Debt Service Coverage Calculation Fiscal Years 2012-2016</b>					
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total operating revenues	\$218,128,394	\$192,311,627	\$182,350,427	\$179,677,625	\$177,054,690
Non-operating revenues (expenses):					
Interest	155,431	44,453	75,920	211,411	148,520
Expansion charges	9,256,938	7,541,201	7,872,237	8,197,016	8,035,123
Other Expenses	-	-	-	(1,150,019)	-
Other Revenues	<u>7,304,796</u>	<u>3,936,638</u>	<u>8,935,575</u>	<u>4,031,540</u>	<u>1,546,894</u>
<b>Total adjusted revenues</b>	<b><u>\$234,845,559</u></b>	<b><u>\$203,833,919</u></b>	<b><u>\$199,234,160</u></b>	<b><u>\$190,967,573</u></b>	<b><u>\$186,785,227</u></b>
Total operating expenses	\$199,611,277	\$197,155,094	\$198,664,257	\$195,436,545	\$185,893,059
Less:					
Franchise fees	-	-	-	(6,629,318)	(6,524,463)
Bad debt expense	-	-	(56,973)	-	-
Non-capitalized system obligations	(4,285,103)	(6,428,665)	(5,641,663)	-	-
OPEB Life Insurance Benefits	-	(34,339)	-	(1,108,722)	-
Depreciation	(80,357,265)	(83,094,979)	(84,788,418)	(86,644,314)	(84,849,475)
Amortization	-	-	-	(442,748)	(434,139)
<b>Total adjusted operating expenses</b>	<b><u>\$114,968,909</u></b>	<b><u>\$107,597,111</u></b>	<b><u>\$108,177,203</u></b>	<b><u>\$100,611,443</u></b>	<b><u>\$94,084,982</u></b>
Release from Rate Stabilization Fund	-	-	-	<u>\$4,000,000</u>	-
<b>Net revenues available for debt service</b>	<b><u>\$119,876,650</u></b>	<b><u>\$96,236,808</u></b>	<b><u>\$91,056,957</u></b>	<b><u>\$94,356,130</u></b>	<b><u>\$92,700,245</u></b>
Total senior debt service	<u>\$61,243,842</u>	<u>\$66,248,432</u>	<u>\$67,968,843</u>	<u>\$63,504,816</u>	<u>\$61,574,823</u>
Senior debt service coverage	1.96x	1.45x	1.34x	1.42x	1.51x
Subordinate debt service <sup>(1)</sup>	<u>\$13,505,600</u>	<u>\$4,134,843</u>	<u>\$1,316,774</u>	<u>\$1,957,641</u>	<u>\$3,403,355</u>
Combined total debt service	<u>\$74,749,442</u>	<u>\$70,383,275</u>	<u>\$69,285,617</u>	<u>\$65,462,457</u>	<u>\$64,978,178</u>
<b>All in debt service coverage</b>	<b>1.60x</b>	<b>1.37x</b>	<b>1.31x</b>	<b>1.38x</b>	<b>1.43x</b>

(1) This total does not include Outstanding Super Subordinated Obligations.  
Source: Albuquerque Bernalillo County Water Utility Authority.

## Operating Revenue

The following table outlines the Authority’s revenue from water and wastewater charges and other operating revenue as measured in the Statement of Revenues, Expenses and Changes in Fund Net Assets for the past five years.

### Revenue from Water and Wastewater Charges and Other Operating Revenue

<u>Fiscal Year</u>	<u>Revenue from Water Charges</u>		<u>Revenue Wastewater Charges</u>	<u>Other Operating Revenue<sup>(2)</sup></u>	<u>Total Operating Revenue</u>
	<u>For General Operations</u>	<u>For WRMS<sup>(1)</sup></u>			
2012	\$83,145,457	\$29,096,281	\$56,982,228	\$7,830,724	\$177,054,690
2013	84,994,139	29,558,320	57,072,020	8,053,146	179,677,625
2014	91,229,726	28,561,586	61,327,115	1,232,000	182,350,427
2015	96,878,168	29,939,349	64,171,110	1,323,000	192,311,627
2016	148,622,758	-	68,166,636	1,339,000	218,128,394

- (1) These revenues are attributable to rate increases adopted to finance capital costs and operating expenses to implement the Water Resource Management Strategy. In Fiscal Year 2016, the WRMS revenues were combined with General Operations revenues as part of the new rate ordinance structure.
- (2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

Source: Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

## Utility Expansion Charges

In order to fund expanded capacity needs of the System, all new customers are charged one-time utility expansion charges (“UECs”) for water and wastewater services. The charges are calculated by analyzing the average forecast of new customers over a five-year period, average expansion-related construction expenditures and the revenues generated by such customers. The Development Fees Act, Sections 5-8-1 through 5-8-42 NMSA 1978, authorizes the imposition of utility expansion charges and provides for a method of calculation of such charges which is consistent with historical calculations by the Authority and the City. Under the Development Fees Act, the Authority is required to prepare a capital implementation plan and to calculate a maximum impact fee under the allowed method, applicable to any impact fee imposed on or after July 1, 1995.

The current UECs have been reviewed and updated as contemplated under the Development Fees Act. The determination of water and wastewater UECs is based on the calculated unit-cost of capacity for major infrastructure elements which have been constructed, or are planned to be constructed, as part of an approved 10-year plan. When UECs are charged to new customers, the charge is apportioned to reflect the capacity that customer is requesting, depending on the size of service. Larger sized service installations have greater use capacity needs, and thus a greater proportion of the UEC cost basis is allocated to that service size.

The Authority may adjust the UECs annually by the Engineering News Records (“ENR”) indexes. These cost indices are the building cost or construction cost indices (“BCI” and “CCI”) per the ENR. The ENR tracks changes in building and construction costs (the difference between the levels of labor costs; the CCI being more heavily weighted on labor costs) for a 20-

city average. These indices are commonly used to estimate the replacement costs of utility infrastructure. The Authority’s rate consultant recommends the comparison of the CCI and BCI as the best approach to apply to UECs and the water supply charge discussed below.

The following table sets forth the current water and wastewater utility expansion charges.

### **Current Utility Expansion Charges**

<u>Meter Size</u>	<u>Water Charge</u>	<u>Wastewater Charge</u>
¾”	\$3,046	\$2,285
1”	5,076	3,808
1 ½”	10,152	7,614
2”	16,247	12,182
3”	32,487	24,423
4”	50,763	39,035
6”	101,528	78,075
8” & over	162,444	121,827

*Source:* Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

During Fiscal Years 2012 through 2016, the following revenue from the collection of UECs was received.

### **Revenue from Utility Expansion Charges**

<u>Fiscal Year</u>	<u>Total UEC Revenues</u>
2012	\$8,035,123
2013	8,197,016
2014	7,872,236
2015	7,541,201
2016	9,256,938

*Source:* Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

Authority policy requires that expansion or improvement of the System for development purposes be at no net expense to the Authority. Revenues generated from the expansion of the System must be sufficient to support the costs of water and wastewater facilities and the related infrastructure. The facilities constructed must meet the level of service standards agreed upon between the developer and the Authority in the applicable development agreement. Increased revenues should correlate to the additional operational and maintenance expenses for the System expansion. The developer bears the risk and expense for any revenue shortfall related to the System expansion.

### **Water Supply Charge**

The Water Supply Charge (“WSC”) is assessed by the Authority at the time of meter sale or application for service to any new water customer requesting connection to the System in an area not located within the Authority’s service area requiring a development agreement. The proceeds from this charge are dedicated and restricted to the development of new water



resources, rights or supplies to serve the beneficiary new customers outside of the service area consistent with the Authority’s Regional Water Plan and Water Resources Management Strategy and other guiding principles adopted by the Authority. The amount of the WSC is adjusted annually by BCI or CCI as published by ENR. The WSC does not apply to non-potable water service. The Authority’s rate consultant has reviewed the methodology used in the calculation in developing the WSC and has agreed to its development and it is one that is widely applied in the industry.

The following table sets forth the current water supply charges.

**Current Water Supply Charges**

<u>Meter Size</u>	<u>Water Supply Charge</u>
3/4"	\$1,573
1"	2,631
1 1/2"	5,242
2"	8,387
3"	16,776
4"	26,029
6"	52,535
8" & over	83,873

Source: Albuquerque Bernalillo County Water Utility Authority

**Rate Stabilization Fund**

The Rate Stabilization Fund reserves water and wastewater revenues in a dedicated fund for the purpose of offsetting declines in rate revenue and to mitigate future rate increases. The Rate Stabilization Fund is currently funded at \$2 million annually. There is no funding cap set for the Rate Stabilization Fund and the current balance is \$8.0 million for Fiscal Year 2016. Consistent with the Rate Stabilization Fund’s intended use, the Authority withdrew \$4.0 million of available funds in Fiscal Year 2013 due to declining revenues. Any expenditure from this Rate Stabilization Fund requires an appropriation approved by the Authority Board.

**Additional Charges**

The following variable charges are in effect for all accounts to which the specific criteria for each charge apply.

**Water Commodity Charge:** Water usage metered or estimated is at a rate of \$2.018 per unit (1 unit = 100 cubic feet or 748 gallons).

**Water Conservation Charge:** Annually, the average water usage for the months of December through March is calculated and used in determining the surcharge during the months of April through October. The surcharge amount added for each unit exceeding 200% of the customer’s individual winter mean water usage is equal to 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit. A second tier surcharge for each unit exceeding 300% of the customer’s individual winter mean water usage is equal to an additional 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit. A third tier surcharge for

each unit exceeding 400% of the customer's individual winter mean water usage is equal to an additional 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit.

**Wastewater Commodity Charge:** All wastewater discharged is charged at a rate of \$1.425 per unit for residential, commercial, industrial and institutional customers and \$0.744 per unit for wholesale customers based on either 95% of the average metered or estimated volume of water for the previous winter months of December through March, or based on 95% of the actual water used if that amount is less.

## **Rate Comparisons**

The Authority continues to keep water and wastewater rates at a competitive level. Based on results for the 2012 Water and Wastewater Rate Survey, extracted from the water/wastewater survey by the American Water Works Association, the Authority was ranked at or below average for water and wastewater rates, based upon a usage of 11,200 gallons for water and 7,480 gallons for wastewater.

## **Water/Wastewater Billing and Collections**

The Authority imposes all rates and charges through a water and wastewater rate ordinance. Charges are billed to the property and are the responsibility of the property owner (except in cases of leased property for which the Authority is notified that the tenant will have payment responsibility). Property liens may be filed and foreclosed as provided by State law.

The Authority performs all meter reading services in connection with the System. Meters are read and billed once each month. Customers are billed within the same approximate time frame each month depending upon the location of the customer. Customers are billed the same day their meters are read. The payment is delinquent if not made within 15 days following the due date on a utility statement. A penalty of 1.5% per month may be imposed on any delinquent account. The Authority may cause the water supply to be turned off and discontinue service to the property if any charge remains unpaid for a period of 30 days from the original due date on the customer's utility statement.

The Authority has made efforts to reduce delinquencies through aggressive collection attempts with changes in the method of assigning turn-off crews work assignments and the use of a check collection vendor. The delinquency rate has historically averaged 2.49% and is currently at 1.83%.

## **Rates and Charges of the System**

The Authority has mandated that the operation and maintenance of the System be self-sustaining. Consistent with this mandate, the System is budgeted as a self-sustaining enterprise fund for the purpose of determining costs associated with providing water and wastewater services. Ordinances authorizing issuance of System obligations prohibit Net Revenues of the System from being transferred to other funds, and require Net Revenues to be used for lawful System purposes including redemption of System obligations or paying costs and expenses relating to administration of System obligations.

The capital and operating budgets for the System are submitted by the Executive Director to the Board by April of each year for the fiscal year which begins July 1. The Board considers

the budgets, together with the rates necessary to finance the operation and capital improvements, and adopts the budget and rates necessary for the next fiscal year no later than May of each year.

The Federal Water Pollution Control Act Amendments of 1974 have a stated goal of restoring and maintaining the chemical, physical and biological integrity of the nation's waters. As a result, each federally funded and publicly owned wastewater treatment facility is required to charge each user a proportionate share of the costs of operation and maintenance. Since the Authority receives federal grant funds through the United States Environmental Protection Agency, the requirements under the Amendments must be met. Accordingly, the Authority has incorporated the following items into the wastewater rate structure:

(i) Costs benefiting both water and wastewater operations have been identified, and each cost has been evaluated to determine an appropriate basis for its allocation between water and wastewater service.

(ii) Budgeted wastewater categories for collection, treatment, disposal and an equitable portion of the administration expenses have been isolated for wastewater rate-making purposes.

(iii) A “high-strength sewage treatment surcharge” is imposed in order that each user pay his proportionate share of the operational, maintenance and replacement costs to treat liquid waste discharged with significant levels of pollutants above the domestic level.

#### *Current Levels of Base Rates and Charges*

Customers pay fixed rates for water and wastewater services as well as additional charges which vary depending on the volume of water used or discharged. These fixed rates are designed to cover, at a minimum, customer service costs and all debt service costs. The rate structure is designed to ensure that debt service costs are covered, regardless of changes in conditions such as drought or the continued success of the Authority’s water conservation efforts. Residential customers pay fixed water rates (depending on service size) between \$14.43 and \$2,746.62, while commercial customers pay between \$15.11 and \$2,848.99. For wastewater service, residential customers pay a fixed wastewater rate (depending on service size) between \$9.12 and \$1,016.41, while commercial customers pay between \$11.28 and \$1,291.19.

#### *Increases to Rates and Charges*

The Authority has increased System rates and charges by the following percentage increases during Fiscal Years 2012-2016 as described below and has approved a 5% rate increase effective July 1, 2017, respectively, due to a decrease in consumption levels.

**Implemented and Approved  
Increases in Rates and Charges**

<u>Fiscal Year</u>	% Increase		
	<u>General Operations</u>	<u>WRMS</u>	<u>Franchise Fee</u>
2012	5	5	0
2013	0	0	0
2014	5	0	0
2015	5	0	0
2016	5	0	0
2017	0	0	0
2018	5	0	0

Source: Albuquerque Bernalillo County Water Utility Authority.

**Customer Information**

The following tables set forth historical information regarding the average number of customers of the Water System by meter size and class during Fiscal Years 2012 through 2016.

**History of Water Users by Meter Sizes**

<u>Meter Size</u>	<u>Fiscal Year</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
¾"	171,103	171,874	171,395	184,743	185,894
1" and 1 ¼"	17,717	17,645	17,474	17,447	17,392
1 ½"	2,221	2,249	2,238	2,269	2,300
2"	2,320	2,352	2,303	2,349	2,386
3"	634	634	578	575	590
4"	273	286	270	276	278
6"	61	63	60	63	64
8" and over	46	47	42	40	41
Total	194,375	195,150	194,360	207,762	208,945

Source: Albuquerque Bernalillo County Water Utility Authority.

## History of Water Users by Class

<u>Class</u>	<u>Fiscal Year</u>				
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Residential	174,277	174,909	174,193	186,461	187,479
Multi-Family	6,393	6,430	6,569	7,115	7,268
Commercial	11,287	11,321	11,303	11,923	11,901
Institutional	2,316	2,391	2,196	2,150	2,187
Industrial	102	99	99	113	110
<b>Total</b>	<b>194,375</b>	<b>195,150</b>	<b>194,360</b>	<b>207,762</b>	<b>208,945</b>

*Source:* Albuquerque Bernalillo County Water Utility Authority.

According to the Authority's records for Fiscal Year 2016, the top ten retail customers of the System, in the aggregate, accounted for no more than 16.89% of the total billed consumption for the Water System, 11.47% of the total revenue of the Water System, 10.17% of the total billed consumption for the Wastewater System and 7.05% of the total revenue of the Wastewater System.

During Fiscal Year 2016, 51.77% of billed water consumption was residential, while 16.80% was classified as commercial. The balance consisted of multi-family users consuming 15.87%, institutional users consuming 5.34%, industrial users at 1% and special contracts and hydrants meters at 9.51%.

**Selected Water/Wastewater System Statistics  
(Calendar Year)**

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Estimated Population (Service Area)	638,887	643,881	656,305	658,238	670,779
Number of Meters Billed	203,912	205,316	206,944	208,200	208,140
Estimated Persons Per Meter	3.13	3.14	3.17	3.16	3.22
Annual Pumpage (1,000 Gallons)	33,318,000	33,222,000	30,836,000	29,498,000	30,720,000
Annual Water Billed (1,000 Gallons)	30,044,094	28,113,371	28,075,612	27,195,260	28,250,591
Average Daily Pumpage (Gallons)	91,282,192	91,019,178	84,482,192	80,816,438	84,164,384
Peak Day Pumpage (Gallons)	175,000,000	157,000,000	144,000,000	146,000,000	146,000,000
Average Daily Production Per Meter (Gallons)	448	443	408	388	404
Well Pumping Capacity (per 24 Hour Period)	196,000,000	187,000,000	183,000,000	184,000,000	178,000,000
Storage Capacity (Gallons)	249,000,000	249,000,000	253,000,000	245,000,000	245,000,000
Surface Water Treatment Plant Capacity (Gallons)	84,000,000	84,000,000	84,000,000	84,000,000	84,000,000
Surface Water Pumping Capacity (Gallons)	140,000,000	140,000,000	140,000,000	140,000,000	140,000,000
Surface Water Storage Capacity (Gallons)	20,000,000	20,000,000	20,000,000	20,000,000	20,000,000
Fire Hydrants	15,110	15,249	15,344	15,572	15,827
Southside Water Reclamation Plant Capacity (Gallons)	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
Number of Miles of Lines <sup>(1)</sup>					
-Water	2,663	2,680	2,691	2,721	2,749
-Wastewater	1,869	1,875	1,879	1,900	1,920
Surface Water	37	37	37	37	37

(1) Estimated

Source: Albuquerque Bernalillo County Water Utility Authority.

## **Financial Management**

### *Financial Policies*

The Authority has implemented various financial policies to facilitate its performance based budgeting process which requires balanced budgets. The Authority expects to spend approximately \$54 million in Fiscal Year 2017, and increase \$3.0 million annually, for System rehabilitation with basic system capital needs being funded, on average, by at least 50% cash and grants and the remaining 50% to be funded with bond or loan proceeds. The Authority's policy with respect to debt issuance is to seek target coverage of 150% of debt service on all lien levels for current and future years with the debt service coverage being monitored at the end of each quarter. Bonds issued to finance basic capital needs will not exceed a final maturity of 12 years. Pursuant to the Authority's "no net expense" System expansion policy, infrastructure for new development within or outside the System's service area will not be funded from the System's existing customer base. The Authority's budget process and Capital Implementation Program ("CIP") are described in greater detail below.

### *Budget Process*

The Authority operates on a fiscal year basis, from July 1 through June 30. The Board has adopted a Budget Ordinance that provides for the formulation and approval of the Authority's annual operating and capital budgets. The Budget Ordinance requires the establishment of five-year goals and one-year objectives to guide the budget process. The goals and objectives provide the framework for the delivery of services, implementation of planned capital improvements, promoting active citizenship participation and measuring performance. The operating budget is prepared on an accrual basis of accounting. The Executive Director formulates the operating budget to be consistent with the goals and objectives as established and approved by the Board. Operating and capital budgets are submitted by the Executive Director to the Board at the April meeting each year and, following at least two public hearings, must be approved or amended and approved before or at the May meeting each year.

The annual operating and capital budgets determine the Authority's appropriations by fund. Expenditures may not legally exceed appropriations. The Authority's Chief Financial Officer and staff are responsible for monitoring and controlling operation and project expenditures to ensure that budgeted appropriations are not exceeded. Financial status reports are presented to the Board quarterly. Budget amendments during or after the end of the fiscal year require approval by the Board, except that the Executive Director has authority to transfer or change line-item expenditures within the operating budget up to 5% or \$100,000, cumulatively, whichever is less, provided that no such adjustment shall result in a change in the total expenditures authorized in the Authority's budget.

The Executive Director develops the CIP which consists of a ten-year plan of capital expenditures, including a detailed yearly CIP budget which is submitted to the Board in accordance with the Budget Ordinance. Development of the CIP plan is based on information collected and analyzed on the Authority's capital assets. Maintenance, rehabilitation, and replacement of assets are linked to the Authority's short- and long-term financial needs and reflected in the CIP plan and operating budget. The budget amounts of the capital project funds are individual project budgets authorized by the Board for the entire length of the project which are not necessarily the same as the Authority's fiscal year. The Executive Director may transfer

funding up to 10% of an existing capital project as approved by the Board, provided the change does not significantly alter the project's scope. The Budget Ordinance also sets forth requirements for Board review and approval of applications or proposals for state and federal grants.

### *Capital Implementation Program*

The blueprint for the Authority's capital program is the Decade Plan, a ten-year capital plan required to be updated biennially in even numbered fiscal years with two, four, six, eight and ten-year planning elements. The Decade Plan includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Authority Board with at least one public hearing and due deliberation. In those fiscal years where the Decade Plan must be updated, the new Decade Plan must be approved by the Authority's Board before that year's Capital program budget can be approved. This policy ensures there is always an approved two-year planning element in place for every approved annual capital program budget.

The Authority's capital program is comprised of categories of projects, each with its own funding rules. The Basic Capital Program is funded by recurring revenues generated from the water/wastewater rate structure. Special Projects are done outside of the Basic Capital Program but are funded from the same revenue stream that funds the Basic Capital Program. Since the Basic Capital Program is the first in line to get this revenue, the size and scope of these special projects depend upon the availability of resources. "Dedicated Revenue" projects have a revenue element in the rate structure dedicated for that specific purpose and accordingly, their size and scope are dependent upon the revenue stream generated. The Authority has increased in recent years its utilization of state and federal grants to fund some capital projects in whole or in part.

Basic Capital Program needs are incorporated into the water/wastewater rate structure. The Rate Ordinance requires that Basic Capital Program needs are funded, on average, by 50% from cash, with the balance of capital funding obtained through revenue bond or loan financing. The rate structure is designed to provide sufficient revenue to meet the cash requirement and to meet the debt service obligations incurred to finance the remainder of the Basic Capital Program. System growth projects are funded through UEC revenues, either by reimbursing capital investments made under the terms of a developer agreement, or by direct appropriation to Authority capital projects. UEC revenue is considered cash for purposes of meeting the 50% test.

The current Decade Plan, Fiscal Year 2016 – Fiscal Year 2025, is designed to focus on meeting the basic utility needs for water and wastewater assets, balancing growth and rehabilitation, and meeting federal and state regulatory requirements. The program focuses on maintaining safe drinking water, meeting pollution control standards, providing adequate fire protection and water system reliability, and implementing an asset management approach for rehabilitating deteriorated water and wastewater infrastructure at a targeted \$60 to \$85 million per year level of rehabilitation investment starting in Fiscal Year 2016 as outlined below.

The development of this Decade Plan continued the use of risk analysis techniques combined with an asset management strategy to determine where the Authority's capital resources should be expended in order to maximize the benefit to rate payers. The Authority's asset management plan is intended to provide a business model for managing infrastructure assets to minimize the total costs of owning and operating them at an acceptable level of risk.



Ratepayers’ investment in the infrastructure is maximized as a result. The adopted Decade Plan represented the funding decisions made by a broad array of staff and managers throughout the Authority. Project prioritization resulted from discussions within the Authority and with outside consultants engaged to assist the Authority in charting a path for its Basic Capital Program.

The Authority’s asset management program is an extensive business model that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset management were developed to address the critical problem of aging public infrastructure and changing utility business environment. In Fiscal Year 2011, the Authority completed a comprehensive Asset Management Plan (“AMP”) used to provide a framework for understanding and planning of long-range asset renewal (rehabilitation and replacement) requirements. The AMP consolidates the Authority’s asset information into a structured framework and uses it to provide a justifiable basis to support long-term organization, operations, and asset management decisions. In Fiscal Year 2012, the Authority began work on preparing a set of 10-year asset management plans for various asset classes (i.e., small diameter pipes, large diameter pipes, and wastewater treatment plant, and groundwater and collection system facilities). The 10-year plans are generated to provide the Authority with a more accurate understanding of the short and intermediate-term renewal requirements. In Fiscal Year 2016, the Authority completed the planned 10-year asset management plans and will continue to improve on its asset management practices going forward.

The internal assessment of the condition of the Authority’s infrastructure and future system needs as well as changes in the external environment in which the Authority operates will necessarily lead to changes in revenue allocation over time. The next Decade Plan, Fiscal Year 2017 – Fiscal Year 2027, that will be in place before the start of Fiscal Year 2018 can be expected to reflect some change in priorities from the current decade plan.

The Authority anticipates \$680 million in capital needs through Fiscal Year 2025.

	<u>FY2017</u>	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY 2024</u>	<u>FY 2025</u>	<u>Total</u>	<u>%</u>
Capital Needs	\$66,000	\$64,000	\$62,000	\$65,000	\$68,000	\$71,000	\$74,000	\$77,000	\$80,000	\$680,000	100%
Bond Proceeds	\$29,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$281,000	41%
Difference Funded with Cash	\$37,000	\$36,000	\$34,000	\$37,000	\$40,000	\$43,000	\$46,000	\$49,000	\$52,000	\$399,000	59%

These projections are subject to change.

Source: Albuquerque Bernalillo County Water Utility Authority.

The Basic growth program has shifted in focus from placing new pipe in the ground to achieving performance improvement goals and meeting mandated standards. The discretionary spending in the Fiscal Year 2017 growth program budget will continue initiatives in information technology support for the operating divisions. The remainder of the growth program is primarily non-discretionary and includes funding for the low income connection program managed by the County and repayment to developers as connections are made to the System.

In addition to seeking improvements in efficiency and effectiveness through its AMP, the Authority continues to participate in the American Water Works Association’s QualServe program. The QualServe program provides a framework for water and wastewater utilities to continually improve using a Plan-Do-Check-Act framework. It currently offers a well-developed toolbox of benchmarking, self-assessment and peer review for water and wastewater utilities.

The QualServe program has assisted the Authority in identifying what it does well and areas where improvement is necessary. The Authority has used the information and recommendations gathered from the QualServe program to provide guidance in the one-year objectives, the performance plan and the financial plan. This information and recommendations have also been the basis for operational improvements already implemented in the Authority.

#### *Approved Fiscal Year 2017 Budget*

The approved Fiscal Year 2017 budget is the Authority's financial plan for Fiscal Year 2017. The development of this financial plan has been guided by the Authority's Five-year Goals, One-year Objectives, Performance Plan and the Guiding Principles. In the development of the approved Budget, the Authority has taken a conservative financial approach to provide effective and efficient water and wastewater services balanced against projected resources. The approved Budget is based upon the ten-year financial plan, balanced and fiscally conservative and sound.

The utility's success can be measured in a number of different ways. One of these is recognition by industry peers and professional organizations. In Fiscal Year 2016 this recognition included:

- The National Association of Clean Water Agencies (NACWA) Gold Recognition Award for Excellence in Management.
- NACWA National Environmental Achievement Award: Public Information and Education Award (for the utility's grease abatement campaign)
- The Government Finance Officers Association (GFOA) Distinguished Budget Presentation Award
- GFOA Certificate of Achievement for Excellence in Financial Reporting
- Commercial Real Estate Development Association (NAIOP) Vision Award

Other achievements in the preceding fiscal year include: kick-off of a new rainwater harvesting pilot program in partnership with the New Mexico Water Collaborative; record-low per capita water use by Authority customers in response to conservation initiatives; first-time recovery of water stored underground via the Bear Canyon Aquifer Storage and Recovery Project; and introduction of a new mobile app that allows customers to easily pay bills and check their account via phones and other mobile devices. Building on accomplishments such as these, Authority staff and leadership will continue to pursue new operational efficiencies and improvements in Fiscal Year 2017.

Helping to guide this effort will be an updated Water Resources Management Strategy (WRMS), which will go into effect during Fiscal Year 2017. The new WRMS will incorporate the latest science regarding future water availability. Using simulation models from Sandia National Laboratories and the U.S. Geological Survey, among other agencies, it will take climate variability into account and will for the first time look at a 100-year time horizon for the greater Albuquerque area.

Looking forward, the Authority must continue to spend the \$250 million to upgrade its sewage treatment plant and adding an additional \$36 million per year in Capital Implementation Program (CIP) funding to cover the costs of routine replacement of aging pipes, pumps and other infrastructure as recommended in a recent asset management study commissioned by the

Authority. The CIP infrastructure renewal budget is planned to increase by \$3 million per year; this started in Fiscal Year 2015.

In the preparation of the Fiscal Year 2017 Budget, the Authority developed a maintenance of effort budget within the projected estimated revenues. Staffing levels have an increase of 4.5 net positions in Fiscal Year 2017. There is a 1% increase in other employee benefits. General operating expenditures increased by \$3.0 million. The most significant expense of the Authority continues to be debt service payments which will comprise 33% of the total operating expense in Fiscal Year 2017.

The operational cornerstone of the WRMS is the San Juan-Chama Drinking Water Project (DWP), which will continue to have a major positive impact on the ground water resources in the Middle Rio Grande. After eight years of operation, the DWP – along with conservation and other resource management efforts – has resulted in rising aquifer levels throughout the service area as documented by the U.S. Geological Survey.

The DWP provided 65% of all water distributed to Water Authority customers in calendar year 2016. The Water Authority's goal is to have the DWP supply 70-75% of all customer demand. Flow conditions in the Rio Grande may limit the ability to fully realize this goal. At the end of calendar year 2016, the Authority still had more than two years of stored water available through the DWP.

In Fiscal Year 2017, the Health and Wellness Specialist will continue offering wellness challenges for individuals and departments in conjunction with the Solutions Group as part of our health insurance. At least two fitness challenges per quarter will be offered this year and will include nutrition, physical activity and weight loss tips as well as disease and injury prevention topics to employees. In addition, Authority Fit will be developing some signs that can be posted at Authority worksites to offer employees quick ways to exercise and mark out walking paths with distances for them to use around the premises. Downtown walking routes with distances will be mapped out and distributed for employees to walk during their breaks and lunches.

The Fiscal Year 2017 Budget also includes nonrecurring funding for an employee incentive program. This program will reward employees for cost savings as a result of a decrease in work-related losses. Funding for this program is contingent on the Authority generating the same or a greater amount in savings. This incentive program has been an effective tool in the reduction of the Authority's Workers Compensation expense.

CSD will be implementing the Wells Fargo online payment and Integrated Voice Response (IVR) system which will simplify the user interface when making online payments and improve the IVR process for the Authority customers. Customer Services Field Operations will be implementing Phase 4 of the Automated Meter Infrastructure project which will move towards a 50% saturation of automated meters in the service area and the goal is to complete all work orders on the Clevest mobile solution. In Fiscal Year 2017, the top twenty-five large meters will begin to be tested annually.

Revenue for Fiscal Year 2017 is estimated to be \$217.0 million representing an increase of \$2.5 million from the budgeted Fiscal Year 2016 amount. Revenue in the Debt Service Fund has a \$2.2 million decrease due to a decrease in the transfer from the operating fund for debt service payments.

The Fiscal Year 2017 Budget shows a net increase of 4.5 new positions; 1.5 were Fiscal Year 2016 mid-year additions, two positions were deleted from the FTE count and are budgeted as part-time and five are requested as part of the Fiscal Year 2017 Budget. The positions are: one Network Administrator, one Heavy Equipment Mechanic, one Administrative Specialist, and two Utility Technicians. There is also a 1% increase for other employee benefits and a 2% step increase for all employees.

For Fiscal Year 2017 revenues are expected to be \$5.4 million over proposed expenditures, which include funding the Rate Stabilization Fund. This amount is expected to bring the Working Capital or Fund Balance to \$11.8 million at June 30, 2017. The Authority continues to strive to achieve a Fund Balance to 1/12 of the annual budgeted operating expenditures. For Fiscal Year 2017, \$2 million will be added to the Rate Stabilization fund.

Also submitted in a separate resolution is the Capital Improvement Program (CIP) budget for Fiscal Year 2017. The appropriation for Fiscal Year 2017 for CIP is \$66.8 million. \$59.0 million is appropriated for the level one priority basic capital programs, \$4.0 million for growth related projects, and \$3.8 million is appropriated for special projects. The \$3.8 million for special projects is comprised of \$2.0 million for the Automated Meter Infrastructure (AMI), \$1.0 million for steel water line replacement, \$350,000 for various renewable energy projects, and \$474,000 for water rights enhancements. There are no appropriations in the Fiscal Year 2017 CIP budget for projects that will be funded with revenues from Fiscal Year 2018 or later.

The Authority continues to participate in American Water Works Association's (AWWA) Benchmarking program which allows the utility to compare its performance against other utilities at least every two years. The most recent survey data was compiled in 2013 by AWWA from 124 different utilities. The Authority utilizes performance measures or indicators to help guide the operating and capital budgets in prioritizing and allocating the Authority's financial resources. The Authority also uses these measures to help improve its operational efficiency and effectiveness through the One-Year Objectives.

The Authority has established an asset management program with a steering committee to oversee the program. The program is an extensive, well thought out business model that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset management were developed to address the critical problem of aging public infrastructure and changing utility business environment. In Fiscal Year 2011, the Authority completed a comprehensive AMP used to provide a rational framework for understanding and planning of long-range asset renewal, rehabilitation and replacement requirements. The AMP consolidates the Authority's asset information into a structured framework and uses it to provide a justifiable basis to support long-term organization, operations, and asset management decisions. The Authority has also completed several strategic ten-year asset management plans for various asset classes (i.e., small diameter pipes, large diameter pipes, wastewater treatment plant, groundwater, and collection system facilities). The ten-year plans are generated to provide the Authority with a more accurate understanding of the short and intermediate-term renewal requirements. In Fiscal Year 2017, the Authority will continue to improve on its asset management practices by upgrading its Computer Management and Maintenance system and integrating mobile work order technology to improve the accuracy of the asset data.

The Fiscal Year 2017 Budget represents a financial plan that will provide the necessary funding to perform all the varied operational and administrative functions, to provide customers

with quality water and wastewater service and address the Authority's priorities for Fiscal Year 2017 to improve services and gain operating efficiencies.

## **OTHER POST-EMPLOYMENT BENEFITS**

### **Public Employees Retirement Association**

The Authority participates in a pension plan organized on a statewide basis and operated by the State of New Mexico. The Public Employees' Retirement Association of New Mexico ("PERA"), established by Section 10-11-1 *et seq.* NMSA 1978, as amended, requires contributions to its plan (the "Plan"), computed as a percentage of salary, from both employee and employer for all full time employees. The majority of State and municipal employees in New Mexico participate in the Plan. The Authority's liability under the Plan is limited to the periodic employer contributions that it is required to make for its participating employees. The Authority has no unfunded liabilities with respect to the availability of funds to cover the obligations of the retirement plan. However, on June 25, 2012, the Governmental Accounting Standards Board approved Statement No. 68 which requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. Statement No. 68 requires cost-sharing employers, such as the Authority, to record a liability and expense equal to their proportionate share of the collective net pension liability and expense for the cost-sharing plan. Statement No. 68 is effective for fiscal years beginning after June 15, 2014. As of June 30, 2016, the Authority reported a net pension liability of \$38,165,167 for its proportionate share of the net pension liability. See "Detailed Notes (E) – Defined Benefit Pension Plan – Public Employees Retirement Association", Appendix A - Annual Financial Report Year ended June 30, 2016.

As required by State law, eligible employees are required to contribute between 7.74% and 18.15% of their gross salary, depending on the specific plan type. The Authority is required to contribute 9.15% of the gross covered salary. The Authority has elected to pay a percentage of the employee's contributions. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the State Legislature. The Authority's employer contribution to PERA for the fiscal years ended June 30, 2016, 2015 and 2014 were \$3,020,667, \$2,959,288 and \$2,664,487, respectively, which equal the amount of the required contributions for each fiscal year. The Authority's total paid contributions for fiscal year ended June 30, 2016 were \$6,376,612.

PERA issues a publicly available financial report that includes financial statements and additional information. A copy of this report can be obtained from PERA at [www.pera.state.nm.us](http://www.pera.state.nm.us).

Actuarial information is shown below:

**State of New Mexico Public Employees Retirement Fund  
Summary Information as of June 30, 2016**

Membership <sup>(1)</sup>	100,974
Actuarial Information	
Accrued Liability <sup>(2)</sup>	\$19,474,241
Actuarial Value of Assets <sup>(3)</sup>	\$14,654,814
Unfunded Actuarial Accrued Liability	\$4,819,427

<sup>(1)</sup> Includes both state and municipal divisions.

<sup>(2)</sup> Includes accrued liability of both the retired and active members.

<sup>(3)</sup> The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.25% annual return for the first 10 years and 7.75% thereafter. Annual returns are smoothed in over a four-year period.

Source: Public Employees Retirement Association.

As of June 30, 2016, PERA has an amortization or funding period of 56 years, based on the employer and member contribution rates in effect as of July 1, 2016. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 75.3% as of June 30, 2016 and the UAAL of the PERA Fund increased \$108 million to approximately \$4.8 billion. The State's portion of the UAAL of the PERA Fund is 52.9%, or \$2.5 billion. Prior to a 2013 pension reform, the funded ratio was 65.3% and the UAAL of the PERA Fund was calculated to be approximately \$6.2 billion. The primary cause of the slight increase in the funded ratio is due to use of pensionable wages and the increase in accrued actuarial liability is reflective of the lower than expected investment return from the 2016 plan years. On a market value basis, PERA's funded ratio is approximately 69.18% as of June 30, 2016. Current 30-year projections indicate the PERA Fund will be 76.8% funded in 2043.

### **Defined Contribution Retirement Plan**

The Authority approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees in 2004. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory and only a small number of Authority employees participate in the plan. Under the plan the employer contributes 19.01% of earnings for full time employees and 7% for part time employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute a specified percentage of the employee's salary. Total contributions to the plan were \$275,297 in fiscal year 2016, of which \$212,224 was from employer contributions and \$63,073 was from employee contributions.

## **New Mexico Retiree Health Care Authority**

Authority employees also participate in the State-sponsored New Mexico Retiree Health Care Authority (the “NMRHCA”). The NMRHCA administers the New Mexico Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and eligible dependents. NMRHCA offers both pre-Medicare and Medicare plans, as well as dental, vision, and life insurance plans to eligible retirees. There were approximately 58,036 enrolled members as of July 2015 and approximately 300 participating public entities. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that the act does not create any contract, trust or other rights in public employees to health care benefits.

Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, Public Employees Retirement Association, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act. Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person’s behalf unless that person retires before the employer’s NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer’s effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years. During the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.000% of each employee’s annual salary. The Authority’s contributions (employer and employee) to the NMRHCA for the fiscal years ended June 30, 2016, 2015 and 2014 were \$948,912, \$931,393 and \$913,779, respectively, which equal the required contributions for each year.

Based on GASB Statement 43 valuation for fiscal year 2014, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5%, the UAAL has been calculated to be approximately \$3.4 billion. As required by GASB Statement 43, this calculation takes into consideration only current assets of the NMRHCA Fund. The NMRHCA continues to look for additional opportunities to strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan for the long-term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and employers. In addition to increased retiree cost sharing through plan design changes, the solvency plan calls for proportionately higher premiums for retirees retired younger (decreased premium subsidies to pre-Medicare retirees), did not work or pay into the system as long (increasing years of service required to receive maximum subsidy), and decreased subsidies for family members. Combined, these actions are expected to improve the financial condition of the trust fund by increasing revenues and reducing future liabilities.

As recently as 2007, the NMRHCA was projected to be insolvent as early as 2014. However, according to the most recent solvency report, actions taken by the NMRHCA, including decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer and employee contribution rates have extended the NMRHCA’s

solvency period through 2035. The NMRHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. That report and further information can be obtained by writing to the Retiree Healthcare Authority at 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

### **Life Insurance Benefits**

The Authority, as of the fiscal year ended June 30, 2016, participated in the City of Albuquerque's Life Insurance Benefit Plan (the "City Plan"). The City Plan is a single employer defined benefit plan administered by the City which includes coverage for the employees of the Authority. Upon retirement, an eligible Authority employee will continue to be covered by the City Plan at no cost to the employee. Employees who were hired before July 1, 2013 and retire on or after December 31, 2013 from the Authority will receive an employer paid life insurance premium in the amount of \$5,000. Retirees prior to January 1, 2014 will receive the original insurance coverage up to \$25,000. New employees hired after July 1, 2013 will no longer be offered employer paid life insurance in an amount after they retire. The number of Authority retired employees covered under the City Plan at June 30, 2016 was 177. The number of active employees at June 30, 2016 was 498.

In fiscal year 2014, the City and the Authority created the City of Albuquerque Pooled Post-Employment Benefit Trust Fund. Prior to July 1, 2013, the City and the Authority had been contributing only the amount required to pay retiree life insurance premiums each year. The City has set the contribution rate each year based on an actuarial valuation. The contributions are expected to match or exceed the annual required contribution ("ARC") calculated in the actuarial study in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize unfunded actuarial liabilities of the plan for the remainder of the 30 year closed period. Total contributions made for the fiscal year ended June 30, 2016 exceeded the annual required contribution. The Authority's contributions to the trust for the fiscal year ended June 30, 2016 were \$64,311.

### **INVESTMENT POLICIES AND PROCEDURES**

The Authority's funds are invested by the Authority's Chief Financial Officer pursuant to the Authority's Investment Policy (the "Investment Policy"). According to the Investment Policy, all the investments should be made in accordance with the "Prudent Person" rule (all investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived) and on the basis of competitive bids and/or offers. The liquidity goal is achieved by matching investment maturities with the expected timing of obligations. Attainment of a market return is measured by benchmarking the portfolio against a relevant market index. Finally, diversification (safety) is accomplished through implementation of a strategic asset allocation, derived from modern portfolio theory concepts.

The Investment Policy seeks to balance four primary objectives:

- Maximize investment returns while minimizing risk;



- Maintain a level of liquidity to ensure that unanticipated cash needs are met;
- Allow for diversification of the Authority's portfolio; and
- Recognize the impact of the Authority's investment program on the local economy.

The Investment Policy permits the Authority to invest in (a) U.S. Treasury obligations; (b) U.S. Government agency and instrumentality obligations; (c) bonds or negotiable securities of the State of New Mexico or of any county, municipality, or school district within the State which has a taxable valuation of real property for the last preceding year of at least one million dollars (\$1,000,000) and which has neither defaulted in the payment of any interest or sinking fund obligation, nor failed to meet any bonds at maturity at any time within five years last preceding; (d) time deposits in banks and savings and loan associations; (e) interest bearing checking accounts in banks and savings and loan associations; (f) passbook savings accounts; (g) banker's acceptances; (h) SEC2a-7 money market funds whose portfolios consist of the foregoing securities; and (i) the Local Government Investment Pool pursuant to Section 6-10-10.1 NMSA 1978.

### **FORWARD-LOOKING STATEMENTS**

This Annual Information Statement contains statements relating to future results that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Annual Information Statement, the words "estimate," "forecast," "intend," "expect," "project," "budget," "plan" and similar expressions identify forward-looking statements.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE AUTHORITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR.

### **LITIGATION**

Except as stated in this Annual Information Statement, there is no action, suit, proceeding, inquiry, investigation or controversy of any nature pending, or to the Authority's knowledge threatened, involving the Authority which may result, either individually or in the aggregate, in final judgments against the Authority which would have a material adverse effect on the Authority's existence or its financial condition.

## **APPROVAL OF ANNUAL STATEMENT**

This Annual Statement and its distribution and use for the purposes herein have been authorized and approved by the Authority.

Approved by:

/s/ Mark Sanchez

Executive Director

**Appendix A**

**Albuquerque Bernalillo County Water Utility Authority  
Annual Financial Report  
Year ended June 30, 2016**



# COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Years Ended June 30, 2016 & 2015



Albuquerque Bernalillo County  
Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY  
WATER UTILITY AUTHORITY**

**ALBUQUERQUE, NEW MEXICO**

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**Prepared by the Finance/Business Services Division**

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**COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2016 and 2015**

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# ***INTRODUCTORY SECTION***

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November 16, 2016

To: Members of the Board of the Albuquerque Bernalillo County Water Utility Authority  
The Customers of Albuquerque Bernalillo County Water Utility Authority

We are pleased to present the Comprehensive Annual Financial Report (“CAFR”) of the Albuquerque Bernalillo County Water Utility Authority (“Water Authority”) for the years ended June 30, 2016 and 2015. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial statements be audited in accordance with auditing standards generally accepted in the United States of America by a certified public accounting firm licensed in the State of New Mexico.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

REDW LLC, Certified Public Accountants, has issued an unmodified (“clean”) opinion on the Water Authority’s financial statements for the years ended June 30, 2016 and 2015. The independent auditor’s report is located at the front of the Financial Section of this report.

Management’s Discussion and Analysis (“MD&A”) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

### ***Profile of the Water Authority***

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Albuquerque Bernalillo County Water Utility Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Wastewater Systems (System) would be transferred from the City of Albuquerque, New Mexico, (City) to the Water Authority. The legislation also provided that the debts of the City payable from Net Revenues of the System shall be debts of the Water Authority and that the Water Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Water Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Water Authority. All policy-making for the System resides with the Water Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Water Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Water Authority as a political subdivision of the state.

As a political subdivision of the state, the Water Authority is governed by an eight-member board consisting of three Albuquerque City Councilors, three Bernalillo County Commissioners, the Mayor of the City of Albuquerque, and a non-voting member from the Village of Los Ranchos.

The Board is responsible, among other things, for passing resolutions, adopting the budget, appointing committees and hiring the Water Authority’s Executive Director. The Water Authority’s Executive Director is responsible for carrying out the policies and resolutions of the governing board and for overseeing the day-to-day operations of the Water Authority.

The Water Authority’s Vision is to go beyond our customer’s expectations. We value high quality and reliable service to our customers at a reasonable cost, supporting the regional community, the environment and our employees. The Water Authority’s Mission is to:

- Assure responsive customer service
- Provide reliable, high quality, affordable and sustainable water supply, wastewater collection treatment, and reuse systems
- Support a healthy, environmentally-sustainable, and economically-viable community

### ***Factors Affecting Economic Condition***

The information displayed in the financial statements presents the Water Authority's current ***financial position***, i.e., its existing resources and claims on those resources. The following information is provided to help assess the Water Authority's ***economic condition***, i.e., both existing and future resources and claims on those resources. Stated differently, economic condition reflects not only today's financial position, but also the prospects that today's financial position will improve or deteriorate.

### ***Summary of Local Economy***

Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance and Valencia Counties. The MSA has a population of 900,464 as of the 2013 census. Some of the largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Laboratories (SNL), and Kirtland Air Force Base.

The Albuquerque economy has an industry composition not unlike that of the U.S. as a whole. Manufacturing makes up a smaller part of the Albuquerque economy and has declined in employment in the past 10 years.

According to the most recent data from the Current Employment Statistics (CES), the Albuquerque MSA economy forecast points to a solid growth for the remainder of the year. In the third and fourth quarters of 2015, growth was at 1.8%. However, the Albuquerque MSA has seen it come in a bit faster than the final quarterly data. The Bureau of Business and Economic Research (BBER) believes that the trend suggests job growth will come in slower than CES estimate at 1.4%.

Moving forward to 2016, the total employment in the Albuquerque MSA is forecasted to advance 1.4%. The private sector is forecasted to add 1.8% for the year and the government sector, on the other hand, is expected to lose -0.1% in the year. Solid contributors to growth include healthcare and social assistance sector jobs due to the impacts of the Affordable Care Act that continue to resonate through the year.

In the longer term, through 2020, the Albuquerque MSA economy is forecasted to add 27,717 jobs for 1.5% average annual growth (AAG). Most of the growth over the period will be concentrated in the private sector (1.8%); however, the government sector will also contribute (0.5%).

An overview of the general demographics and economic conditions in the Albuquerque MSA can be found in the statistical section of this report.

### ***Long-term financial planning***

The Water Authority uses a ten-year financial plan that takes into account resources, expenses, capital needs and debt service requirements. The financial plan provides the Water Authority with the ability to compare the impact of future financial activity and issues to determine the most appropriate method of maintaining the Water Authority's financial stability. The Water Authority reviews water and wastewater rates bi-annually to insure that inter and intra class equity is maintained.

In order to plan for the future and to ensure financial stability, an amendment to the Water Authority's Rate Ordinance was approved by the Board which increased rate revenue by 5% in fiscal years 2014, 2015, and 2016 and will again increase the rate revenue in fiscal year 2018. The Water Authority has operated since fiscal year 2004 with one rate increase of 6% in fiscal year 2007 and one rate increase of 5% in fiscal year 2012.

Effective July 1, 2007, the Water Authority Board approved new policies that will impact financial planning for the future. A Rate Stabilization Fund was established to help offset fluctuations in revenue in the future and mitigate the need for rate increases. An annual adjustment to the Utility Expansion Charge (UEC) and the Water Supply Charge (WSC) based on the building cost or construction cost indices was implemented. This adjustment will allow the Water Authority's capital program to maintain constant dollars with inflationary increases in the future. The Water Supply Charge was established to provide the resources for the Water Authority to begin the planning, acquisition and development of new water sources to meet the demands of new customers outside the established service area without impacting existing customers.

The Water Authority also develops a Decade Plan every two years that guides the Capital Implementation Program (CIP). The projects included in the plan are identified for near-term and future work, and include both rehabilitation needs and growth-related activities. The Water Authority's financial planning considers basic program needs as part of its revenue requirements, and by policy requires financing fifty percent of Basic program rehabilitation CIP work from water and wastewater rate revenues. The balance of capital funding is obtained through revenue bond or loan financing. Growth-related projects are funded through UEC revenues, either by reimbursing capital investments made under the terms of a Developer Agreement, or by direct appropriations to CIP projects. The development of a Decade Plan allows for long-term planning for both initial construction and rehabilitation costs as well as additional operating costs to operate and maintain new water and wastewater facilities.

The Water Authority budgets for operations and capital implementation and is driven by Water Authority Board approved five year goals and one year objectives.

### ***Relevant Financial Policies***

Written long-term financial policies are contained in state statute and Water Authority Ordinances that serve as a basic framework for the financial management of the Water Authority. These policies are intended to assist members of the Water Authority's governing board and Water Authority staff to evaluate current financial activities. These policies are to be reviewed on an annual basis in conjunction with the annual budget.

The budget and accounting basis for the Water Authority is on an accrual basis. Revenues are recognized when earned, and expenses are recognized as they are incurred. The Water Authority is operated as an enterprise fund, which is an accounting entity with a self-balancing set of accounts established to record the financial position and results that pertain to a specific governmental activity. Appropriations are at the fund level, the level at which expenses may not legally exceed appropriations. Budgetary control is maintained by a formal appropriation and encumbrance system. Appropriations may be made or modified during the year by resolution. Appropriations revert to fund/working capital balance to the extent they have not been expended or encumbered at fiscal year-end.

In developing and maintaining the Water Authority's accounting system, consideration is given to the adequacy of the internal control structure. We believe that the Water Authority's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The Water Authority has maintained a conservative approach to financial matters, which includes a twelve year or less debt term for basic capital financing, an average of fifty percent cash financing for basic capital projects and a minimum of 133% annual debt service coverage for senior lien debt.

### ***Major Initiatives***

The operational cornerstone of the Water Resources Management Strategy (WRMS) is the San Juan-Chama Drinking Water Project (DWP), which will continue to have a major positive impact on the ground water resources in the Middle Rio Grande. After eight years of operation, the DWP – along with conservation and other resource management efforts – has resulted in rising aquifer levels throughout the service area as documented by the U.S. Geological Survey. Over the last six years of drought, the water supply has been increasing in the Middle Rio Grande. A video documenting this success is available for viewing at: <https://www.youtube.com/watch?v=Z6stQZw2L1M&feature=youtu.be>

Building on accomplishments such as these, Water Authority staff and leadership will continue to pursue new operational efficiencies and improvements in FY17. The Operations groups have completed documentation for shift procedures and standard operating procedures and are implementing and measuring key performance indicators for the water, wastewater and ground water plant facilities. In addition, we will continue to implement mobile technology to document and complete work assignments in the various groups including field operations. Previous backlogs of work have been reduced significantly and preparation for implementation of new maintenance programs is underway.

Wastewater Collections continues to implement the Capacity Management Operations and Maintenance (CMOM) program. The expanded closed circuit television (CCTV) inspection of 5.0 percent of the small diameter system provides for better maintenance and identification of specific rehab needs. Communication with entities potentially impacted by public or private sewage spills continues to be enhanced and documented in the Overflow Emergency Response Plan (OERP) which is a portion of the CMOM.

The Water Authority's certification training programs continue to develop employees' knowledge and skills in various positions, including water and wastewater operations and maintenance, dispatch, and customer service. Major updates to the Treatment Plant Operator Program was implemented and will continue into FY17. Committees to update the Utility Technician Programs are formed and expected to finish a recommendation in FY17. Each fiscal year, there has been an increase in the number of utility operators obtaining their State of New Mexico Operator certification. In addition to traditional classroom and on-the-job training, employees will be able to access various training subjects online, making training more accessible to employees working non-traditional schedules (i.e. graveyard shift).

The Water Authority "Authority Fit" challenge continues to offer wellness challenges for individuals and departments in conjunction with the Solutions Group as part of our health insurance. At least two (2) fitness challenges per quarter will be offered this year and will include nutrition, physical activity and weight loss tips as well as disease and injury prevention topics to employees. In addition, Authority Fit will be developing some signs that can be posted at Water Authority worksites to offer employees quick ways to exercise and mark out walking paths with distances for them to use around the premises. Downtown, walking routes with distances will be mapped out and distributed for employees to walk during their breaks and lunches.

One of the major projects in the basic rehabilitation program is the Solids Dewatering Facility (SDF). During FY15, an evaluation was completed to determine if it would be more cost effective in terms of life-cycle costs to rehab the existing SDF or construct a brand new facility. The results of this evaluation determined that a rehab alternative is the most efficient and cost effective method in moving forward with this project. Design for this project and advertising is scheduled during FY16 with construction to begin in early FY17. Funding will be used to design and construct improvements to the SDF. The improvements will provide a safer work environment, better and more reliable solids dewatering performance, and reduce maintenance costs.

Another significant project is the replacement of the Water Authority's wells. Over 40 percent of the wells are older than fifty years. Sixty years is the typical maximum life of a well before replacement is required. Funding will be used to contract with a consultant to recommend the location of replacement wells. An estimate for each well replacement is \$2.0 million.

### ***Awards and Acknowledgements***

The Government Finance Officers Association of the United States and Canada (GFOA) awarded the Certificate of Achievement for Excellence in Financial Reporting to the Water Authority for its Comprehensive Annual Financial Report for the Fiscal Year ended June 30, 2015. This was the second year since 2008 that the Water Authority received this prestigious award. In order to be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that satisfied both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is only valid for a period of one year. Staff believes that its current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and will submit it to the GFOA to determine its eligibility for another certificate.

In addition, the Water Authority received the GFOA's Distinguished Budget Presentation Award for its annual budget document for Fiscal Year 2016 and for the first time, the Popular Annual Financial Reporting Award for the Fiscal Year ended June 30, 2015.

The preparation of this report could have not been accomplished without the efficient and dedicated services of the entire staff of the Water Authority's Financial/Business Services Division. We would like to express our appreciation to all members of the Water Authority who assisted and contributed to the preparation of this report. Due credit also should be given to the Water Authority Board members for their unfailing support for maintaining the highest standards of professionalism in the management of the Water Authority's finances.

Respectfully submitted,

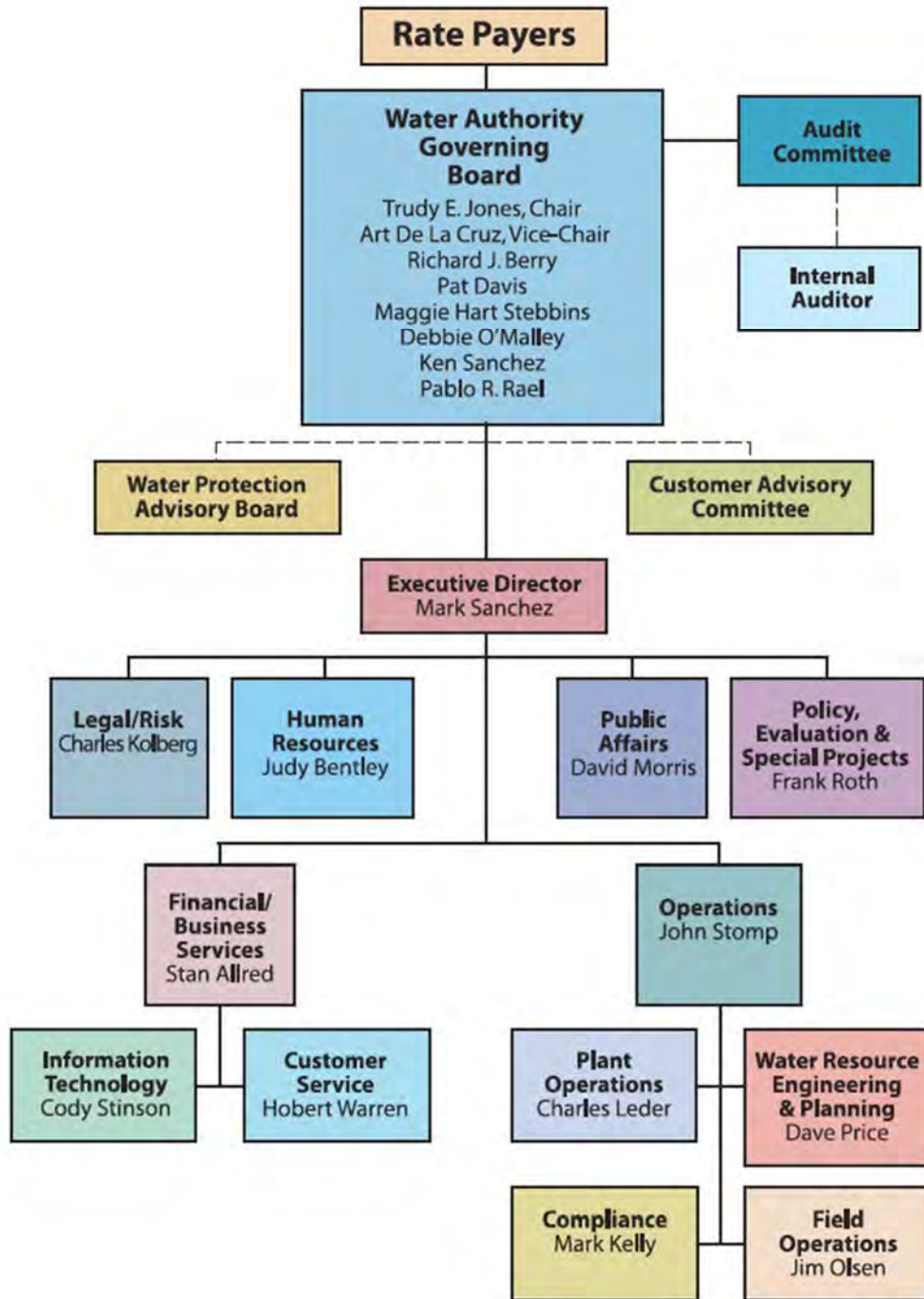


Mark S. Sanchez  
Executive Director



Stanley Allred  
Chief Financial Officer

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
ORGANIZATIONAL CHART**







Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Albuquerque Bernalillo County  
Water Utility Authority, New Mexico**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2015**

Executive Director/CEO

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
SYSTEM OFFICIALS

**Governing Board Members:**

**Trudy E. Jones**, Chair

**Art De La Cruz**, Vice Chair

**Richard R. Berry**, Member

**Pat Davis**, Member

**Maggie Hart Stebbins**, Member

**Debbie O'Malley**, Member

**Ken Sanchez**, Member

**Pablo R. Rael**, Ex-Officio

**Administrative Management Members:**

**Mark S. Sanchez**, Executive Director

**Stanley R Allred**, Chief Financial Officer

**John M. Stomp**, Chief Operating Officer

**Charles W. Kolberg**, General Counsel

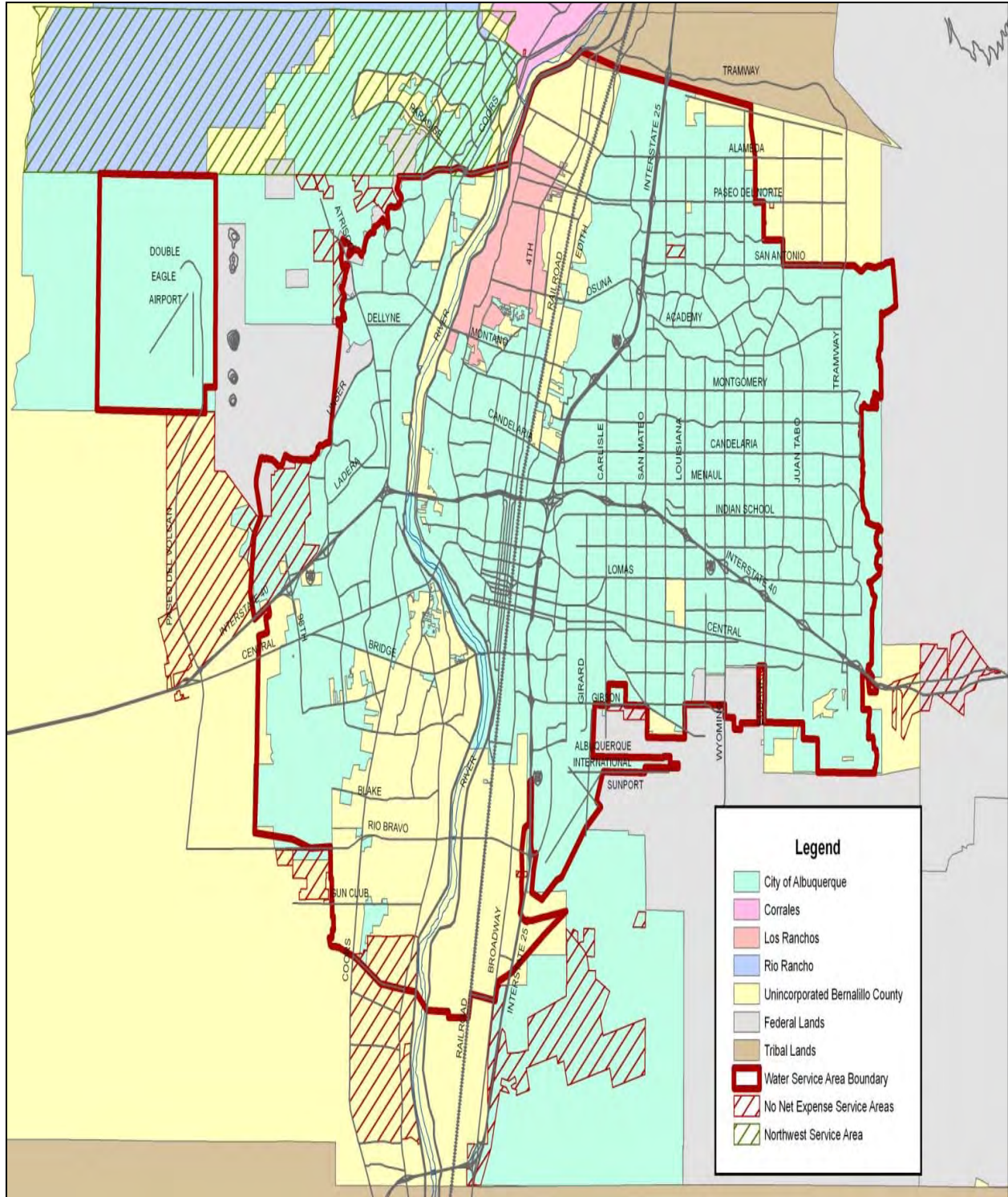
**Judy M. Bentley**, Human Resources Manager

**Frank J. Roth**, Senior Policy Manager

**David R. Morris**, Public Affairs Manager



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
SERVICE AREA MAP**



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# ***FINANCIAL SECTION***

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## Independent Auditor's Report

The Board of Directors of the Albuquerque  
Bernalillo County Water Utility Authority  
and  
Mr. Timothy Keller  
New Mexico State Auditor

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Water Authority"), as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Water Authority's basic financial statements as listed in the table of contents. We also have audited the budgetary comparison presented as supplementary information, as defined by the Government Accounting Standards Board, for the year ended June 30, 2016, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Authority as of June 30, 2016 and 2015, and the changes in its financial position and cash flows thereof for the years

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7425 Jefferson St NE  
Albuquerque, NM 87109  
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F 505.998.3333

**Phoenix**  
5353 N 16th St, Suite 200  
Phoenix, AZ 85016  
P 602.730.3600  
F 602.730.3699

then ended in accordance with accounting principles generally accepted in the United States of America. In addition, in our opinion, the Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual, presented as supplementary information, present fairly, in all material respects, the budgetary comparison of the Water Authority for the year ended June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, the Schedule of Funding Progress for Life Insurance Benefit Plan, and the Schedule of Net Pension Liability and Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the Water Authority’s financial statements and the budgetary comparison schedule. The other schedules required by 2.2.2 NMAC and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the Schedule of Vendor Information, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other schedules required by 2.2.2 NMAC, except for the Schedule of Vendor Information, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections and the Schedule of Vendor Information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2016 on our consideration of the Water Authority’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Authority’s internal control over financial reporting and compliance.



Albuquerque, New Mexico  
November 16, 2016



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

As management of the Albuquerque Bernalillo County Water Utility Authority (Water Authority), we offer readers of the Water Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2016. Readers are encouraged to consider the information presented here in conjunction with our audited financial statements and additional information that we have furnished in our letter of transmittal, which can be found on pages 3-7 of this report.

**FINANCIAL HIGHLIGHTS**

The Water Authority's financial position, measured by the change in net position, increased 3.54 percent during fiscal year 2016, compared to (1.52) percent during fiscal year 2015.

- The assets of the Water Authority exceeded its liabilities at the close of the fiscal year by \$621.7 million (net position). The portion of net position that can be used to meet the Water Authority's on-going obligations to customers and creditors, unrestricted net position, is \$53.4 million.
- Operating revenues increased from \$192.3 million in 2015 to \$218.1 million in 2016, largely attributed to a rate increase that went into effect in July 2015 and an increase in consumption levels.
- Capital contributions were \$5.5 million in 2016 compared to \$7.3 million in 2015, a decrease of \$1.8 million.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Water Authority's basic financial statements. The Water Authority's basic financial statements contain four components: 1) statement of net position, 2) statement of revenues, expenses, and changes in net position, 3) statement of cash flows, and 4) notes to the financial statements. This Comprehensive Annual Financial Report also contains other supplementary and statistical information in addition to the basic financial statements themselves.

The Water Authority, for financial statement reporting purposes, is a special purpose government engaged only in a business-type activity. As such, it does not include in its financial statements financial information for individual general ledger funds that are used for internal accounting purposes.

The Water Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Water Authority's principal ongoing operations which are the provision of water and wastewater services to customers within the Water Authority's service area. The principal operating revenues result from exchange transactions in which each party receives and gives up essentially equal values.

**Measurement Focus / Basis of Accounting:**

The Water Authority's financial statements included herein present financial information using a recognition concept comprised of two elements, measurement focus and basis of accounting. Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements.

Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied. In general, a specific measurement focus is matched with the corresponding basis of accounting that supports the measurement focus.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

For governments to achieve the objective of accountability, financial information must be both relevant and reliable for reasonably informed users. Financial reports must satisfy numerous and diverse needs or objectives, including short-term financial position and liquidity, budgetary and legal compliance, and issues having a long-term focus such as capital budgeting and maintenance. Additionally, differences exist in the amount of detail that various users need. Presentations using different measurement focus/basis of accounting formats are required to meet these complex objectives.

The flow of economic resources measurement focus combined with the accrual basis of accounting is the most expansive perspective and recognizes any transaction which adds or subtracts economic resources from the entity. This measurement focus is used with the accrual basis of accounting so that revenues are recognized in the accounting period in which they are earned and become measurable without regard to availability and expenses are recognized in the period incurred, if measurable.

The budgetary basis of accounting can be any comprehensive basis of accounting chosen by the entity including hybrids of the accrual, modified accrual or the cash basis of accounting. The Water Authority's budgetary basis is consistent with the accrual basis of accounting with the exception of the accounting for debt service, which includes debt service principal payments, certain cash transfers, capital contributions and capital outlay.

**Basic Financial Statements**

The Water Authority's financial statements are designed to provide readers with a broad overview of the Water Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Water Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equal net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the Water Authority is improving or deteriorating, absent extraordinary events.

The statement of revenues, expenses, and changes in net position presents information detailing the changes in the Water Authority's net position for the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from operating activities, capital and related financing activities, noncapital financing activities, and investing activities for the fiscal year.

**Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements, which can be located starting on page 35.

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary and statistical information including other supplementary information related to the Water Authority's employee pension funding and Other Post Employment Benefit Obligations (OPEB).

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

**Net Position**

The net position of the Water Authority is reported in the following three categories:

*Net investment in capital assets* – This category reflects the portion of net position that is associated with capital assets less outstanding capital asset related debt.

*Restricted net position* – Restricted net position result from constraints placed on the use of net position when externally imposed by creditors, grantors, laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, it is the Water Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

*Unrestricted net position* – This category reflects net position of the Water Authority that is not restricted for any project or other purpose.

**FINANCIAL ANALYSIS**

Table 1 presents a summarized comparative statement of net position for the last three fiscal years.

**Table 1**  
**Condensed Statement of Net Position**  
**(In thousands of dollars)**

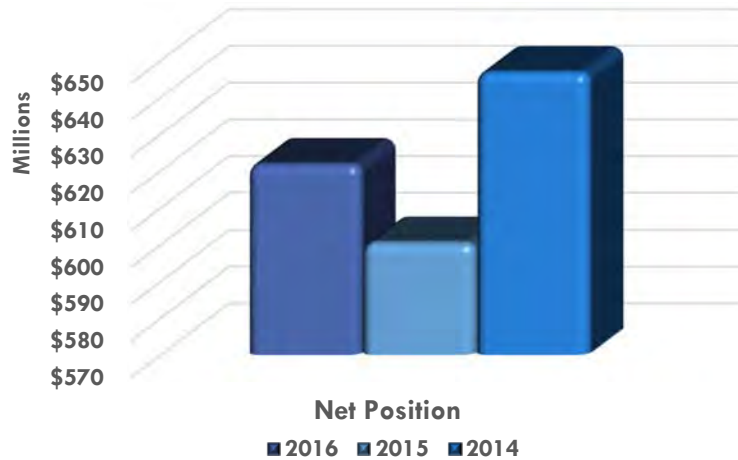
	<b>Variance</b>				
	<b>FY2016</b>	<b>FY2015</b>	<b>FY2014</b>	<b>2016 v 2015</b>	<b>2015 v 2014</b>
<b>Assets</b>					
Current assets	\$121,366	\$85,288	\$78,784	\$36,078	\$6,504
Other assets	50,489	81,668	36,613	(31,179)	45,055
Capital assets, net	1,187,301	1,220,391	1,245,562	(33,090)	(25,171)
<b>Total assets</b>	<b>1,359,156</b>	<b>1,387,347</b>	<b>1,360,959</b>	<b>(28,191)</b>	<b>26,388</b>
<b>Deferred outflow of resources</b>	<b>34,627</b>	<b>32,304</b>	<b>-</b>	<b>2,323</b>	<b>32,304</b>
<b>Liabilities</b>					
Current liabilities	81,583	74,294	66,823	7,289	7,471
Long-term liabilities	680,942	733,412	647,414	(52,470)	85,998
<b>Total liabilities</b>	<b>762,525</b>	<b>807,706</b>	<b>714,237</b>	<b>(45,181)</b>	<b>93,469</b>
<b>Deferred inflow of resources</b>	<b>9,588</b>	<b>11,503</b>	<b>-</b>	<b>(1,915)</b>	<b>11,503</b>
<b>Net Position</b>					
Net investment in capital assets	568,245	576,678	595,695	(8,433)	(19,017)
Unrestricted	53,425	23,764	51,027	29,661	(27,263)
<b>Total Net Position</b>	<b>\$621,670</b>	<b>\$600,442</b>	<b>\$646,722</b>	<b>\$21,228</b>	<b>\$(46,280)</b>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
June 30, 2016  
(With Comparative Amounts for Year Ended June 30, 2015)**

As would be expected for a utility, the largest portion of the Water Authority’s net position is the net investment in capital assets (91.4 percent). This category reflects the Water Authority’s total investment in capital assets (e.g., infrastructure, buildings, machinery, and equipment); less any related outstanding debt used to acquire those assets. Capital assets are used to provide services to customers; consequently, these assets are not available for future spending. Although the Water Authority’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.

- Current and non-current assets in FY2016 decreased \$28.1 million from FY2015, down \$1.8 million from FY2014. The decrease was primarily due to the decrease in restricted cash and new capital acquisitions offset by retirements and current year depreciation of \$80.3 million.
- Current liabilities in FY2016 increased \$7.3 million from FY2015 and \$14.8 million from FY2014. The increase was primarily related to an increase in accounts and claims payable and debt obligations.
- Long-term liabilities in FY2016 decreased \$52.5 million from FY2015 and \$33.5 million from FY2014. The decrease was primarily due the reduction of long term debt obligations and the net change in net pension liability.

**Change in NET POSITION**



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

Table 2 presents a summarized comparative statement of revenues, expenses, and changes in net position for the last three fiscal years.

**Table 2**  
**Condensed Statement of Revenues, Expenses, and Changes in Net Position**  
**(In thousands of dollars)**

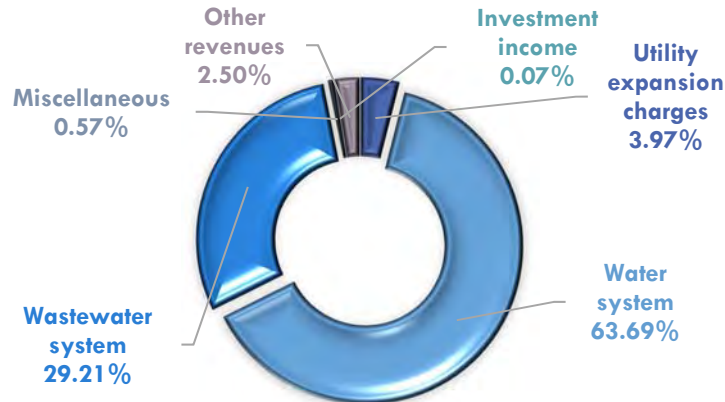
	Variance				
	FY2016	FY2015	FY2014	2016 v 2015	2015 v 2014
<b>Operating Revenues</b>					
Water system	\$148,623	\$126,818	\$119,791	\$21,805	\$7,027
Wastewater system	68,166	64,171	61,327	3,995	2,844
Miscellaneous	1,339	1,323	1,232	16	91
<b>Total Operating Revenues</b>	<b>218,128</b>	<b>192,312</b>	<b>182,350</b>	<b>25,816</b>	<b>9,962</b>
<b>Non-Operating Revenues</b>					
Investment income	155	44	160	111	(116)
Utility expansion charges	9,257	7,541	7,872	1,716	(331)
Other non-operating revenues	5,828	2,157	8,245	3,671	(6,088)
<b>Total Non-Operating Revenues</b>	<b>15,240</b>	<b>9,742</b>	<b>16,277</b>	<b>5,498</b>	<b>(6,535)</b>
<b>Total Revenues</b>	<b>233,368</b>	<b>202,054</b>	<b>198,627</b>	<b>31,314</b>	<b>3,427</b>
<b>Operating Expenses</b>					
General and administrative	67,982	61,107	61,696	6,875	(589)
Source of supply, pumping, treatment and distribution	46,986	46,525	46,538	461	(13)
Non-capitalized major repair	4,285	6,429	5,642	(2,144)	787
Depreciation	80,357	83,094	84,788	(2,737)	(1,694)
<b>Total Operating Expenses</b>	<b>199,610</b>	<b>197,155</b>	<b>198,664</b>	<b>2,455</b>	<b>(1,509)</b>
<b>Non-Operating Expenses</b>					
Interest expense	18,034	19,857	27,546	(1,823)	(7,689)
Other non-operating expenses	-	2,272	812	(2,272)	1,460
<b>Total Non-Operating Expenses</b>	<b>18,034</b>	<b>22,129</b>	<b>28,358</b>	<b>(4,095)</b>	<b>(6,229)</b>
<b>Total Expenses</b>	<b>217,644</b>	<b>219,284</b>	<b>227,022</b>	<b>(1,640)</b>	<b>(7,738)</b>
<b>Income (Loss) Before Capital</b>					
Contributions	15,724	(17,230)	(28,395)	32,954	11,165
Capital Contributions	5,504	7,348	9,388	(1,844)	(2,040)
Change in Net Position	21,228	(9,882)	(19,007)	31,110	9,125
<b>Net Position, beginning of year</b>	<b>600,442</b>	<b>610,324</b>	<b>665,729</b>	<b>(9,882)</b>	<b>(55,405)</b>
<b>Net Position, end of year</b>	<b>\$621,670</b>	<b>\$600,442</b>	<b>\$646,722</b>	<b>\$21,228</b>	<b>\$(46,280)</b>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
June 30, 2016  
(With Comparative Amounts for Year Ended June 30, 2015)**

While the statement of net position displays the Water Authority’s assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end, the statement of revenues, expenses, and changes in net position provide information on the sources of the change in net position during the year. As shown in Table 2, Income before Capital Contributions was \$15.7 million, an increase of \$32.9 million from FY2015 and \$44.1 million from FY2014.

The Water System provides water services to approximately 658,238 residents comprising approximately 95% of the residents of the County. About one-third of unincorporated County residents are customers of the Water System. As of January 1, 2016, service is provided to approximately 208,945 customers, including 181,317 residential and 27,628 multi-family, commercial, institutional and industrial accounts. Approximately 50% of the water sales are for residential uses.

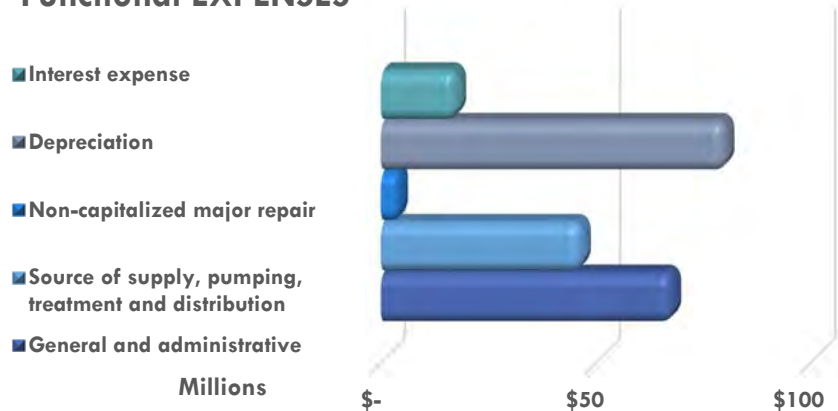
Table 2 shows operating revenues increased \$25.8 million from FY2015 and \$35.8 million from FY2014 primarily related to the implementation of a 5.0 % rate revenue increase on July 1, 2014 and 2015. Changes in water consumption from year to year are generally directly related to changes in temperature, and inversely related to changes in precipitation. Longer term changes in consumption are the result of changes in conversation habits on the part of customers and the customer base.



**Source of REVENUES**

FY2016 operating expenses (exclusive of depreciation) increased by \$5.2 million from FY2015 and increased \$5.3 million from FY2014. The primary factors are related to an annual 2.0% cost of living adjustment for employees, adjustments to the OPEB life insurance and pension expense, and savings in utility expense from a reduced capacity in surface water plant operations. Non-capitalized major repairs decreased primarily due to a decrease in meters valued under the capitalization threshold.

**Functional EXPENSES**



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
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**BUDGETARY HIGHLIGHTS**

The fiscal year 2016 budget represents the Water Authority's coordinative effort to bring a financial plan that will provide the necessary funding to perform all the varied operational and administrative functions, to provide customers with quality water and wastewater service, and address the Water Authority's priorities for the improvement of the level of service and gain operating efficiencies. Some of the significant highlights include:

- *Water and Wastewater Revenues.* A water and wastewater revenue rate adjustment was approved. Budgeted operating revenues were projected using a 5-year historical trend based upon growth and consumption. The trend was structured by class of customer as well as by service size of each class. This revenue projection also takes into account water conservation efforts.
- *System Growth.* System growth is based on a 2.0 percent growth factor, however, this growth is offset by estimated water conservation of 1.0 percent.
- *Utility Expansion Charges (UEC).* UECs increased \$1.7 million for fiscal year 2016, reflecting the current trend in the development of residential housing.
- *Wage Adjustments.* There was a 2.0 percent cost of living adjustment for fiscal year 2016 and the addition of net 2 new positions.
- *Fringe Benefits.* Fringe benefits were calculated at 54.67 percent of gross wages.
- *Target Working Capital Balance.* The target working capital balance for the General Operating Fund will be maintained at a minimum of \$10.0 million.

The final budget variances between budget and actual revenues and expenditures for the general operating fund can be briefly summarized as follows:

- The Water Authority implemented a 5.0 percent revenue rate adjustment in fiscal year 2016 which resulted in \$218.1 million actual revenue compared to \$192.3 million in fiscal year 2015, an increase of \$25.8 million. At the same time, customers decreased their conservation efforts, resulting in higher water consumption which caused revenues to rise above projections.
- Overall, expenses were under budget by \$1.3 million primarily related to a reduction in the transfer from the general fund to the debt service fund. Other additional savings occurred in Water Resources Management due to a decrease in conservation rebates and in Compliance and Water Resources Management operations due to personnel savings from vacancies and contract savings for outside laboratory usage.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**CAPITAL ASSETS**

The Water Authority's Capital program is comprised of different categories of projects, each with its own funding rules. The Basic Program is funded by recurring revenues generated from the water/wastewater rate structure. Special Projects are done outside of the Basic Program but are funded from the same revenue stream that funds the Basic Program. Since the Basic Program is the first in line to get this revenue, the size and scope of these Special Projects depend upon the availability of resources. Dedicated revenue projects have a revenue element in the rate structure dedicated for that specific purpose and accordingly, their size and scope are dependent upon the revenue stream generated. The Water Authority has increased in recent years its utilization of state and federal grants to fund some capital projects in part or in whole.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
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The Rate Ordinance states that, on average, 50 percent of the cost of capital projects which constitute the normal (Basic) capital program of the water and wastewater system shall be paid with cash rather than from borrowed funds. The balance of capital funding is obtained through revenue bond or loan financing. The rate structure is designed to provide sufficient revenue to meet the cash requirement and to meet the debt service obligations incurred to finance the remainder of the Basic Program. System growth projects are funded through Utility Expansion Charge (UEC) revenues, either by reimbursing capital investments made under the terms of a Developer Agreement, or by direct appropriation to Water Authority capital projects. UEC revenue is considered cash for purposes of meeting the cash test. The current Rate Ordinance requires no less than \$30.0 million for Basic rehabilitation program. Additionally, \$2.0 million is budgeted annually for the Automated Meter Infrastructure (AMI) program.

The blueprint for the Water Authority’s Basic Program is its Decade Plan, a ten-year capital plan required to be updated biennially in even numbered fiscal years with two, four, six, eight and ten-year planning elements. The Decade Plan includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Water Authority Board with at least one public hearing and due deliberation. In those fiscal years where the Decade Plan must be updated, the new Decade Plan must be approved by the Water Authority’s Board before that year’s Capital Program budget can be approved. This policy ensures there is always an approved two-year planning element in place for every approved annual Basic Program budget. Fiscal Year 2016 is the second year of the two-year planning element included in the 2015-2024 Decade Plan approved by the Board in April, 2015.

Table 3 presents the Water Authority’s capital assets at June 30, 2016 and 2015.

**Table 3**  
**Condensed Capital Assets**  
**(In thousands of dollars)**

	<b>FY2016</b>	<b>FY2015</b>	<b>Variance 2016 v 2015</b>
<b>Capital Assets Not Being Depreciated:</b>			
Land	\$25,170	\$25,724	\$(554)
Construction work in progress	3,792	42,579	(38,787)
Purchased water rights	48,863	48,240	623
<b>Total Capital Assets Not Being Depreciated</b>	<b>77,825</b>	<b>116,543</b>	<b>(38,718)</b>
<b>Capital Assets Being Depreciated (Net):</b>			
Buildings	279	324	(45)
Improvements other than buildings	1,099,516	1,094,474	5,042
Machinery and equipment	9,681	9,051	630
<b>Total Capital Assets Being Depreciated (Net)</b>	<b>1,109,476</b>	<b>1,103,849</b>	<b>5,627</b>
<b>Total Capital Assets</b>	<b>\$1,187,301</b>	<b>\$1,220,392</b>	<b>\$(33,091)</b>

Major capital asset additions for the current fiscal year included:

- \$17.1 million – Southside Water Reclamation Plant and collection system improvements
- \$ 4.4 million – Sanitary wastewater pipeline renewal
- \$ 5.1 million – Drinking water pipeline renewal
- \$ 2.1 million – Drinking water plant treatment systems renewal
- \$ 5.4 million – Private developer and grant funded infrastructure improvements



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

The Water Authority's capital assets as of June 30, 2016 total \$1.187 billion, net of accumulated depreciation. This investment in capital assets includes land, buildings, water and wastewater distribution systems, furniture and fixtures and vehicles. The majority of the basic rehabilitation program was comprised of smaller emergency and non-emergency projects done by the Water Authority's on-call contractors for small diameter water and wastewater line repair and the repair of a large diameter wastewater line collapse. Other significant work areas were water pump station and well rehabilitation, upgrading the SCADA (system control and data acquisition) system computer servers and workstations that control the surface and groundwater pumping and treatment systems, and making improvements at the Surface Water Treatment Plant.

More detailed information can be found in Note III.C. on page 41.

**DEBT ADMINISTRATION**

At June 30, 2016, the Water Authority had \$733.0 million in long-term debt liabilities outstanding, a net decrease of \$48.7 million, or 6.2 percent from the prior year. Long-term debt liabilities consist of bonds payable, loans payable, water rights contract payable, net pension liability, claims payable, post-employment life insurance benefit, and accrued compensated absences. The amount of debt due within one year totaled \$52.1 million.

Table 4 presents a summary of the Water Authority's outstanding long-term liabilities at June 30, 2016 and 2015.

**Table 4**  
**Condensed Long-term Liabilities**  
**(In thousands of dollars)**

	<b>Variance</b>		
	<b>FY2016</b>	<b>FY2015</b>	<b>2016 v 2015</b>
Claims payable	\$2,423	\$1,752	\$671
Compensated absences	3,387	3,553	(166)
Loan agreements	57,789	67,213	(9,424)
Net pension liability	38,165	29,352	8,813
Post-employment life insurance	390	416	(26)
Revenue bonds	622,197	669,677	(47,480)
Water rights contract	8,715	9,817	(1,102)
<b>Total Long-term Liabilities</b>	<b>\$733,066</b>	<b>\$781,780</b>	<b>\$(48,714)</b>

The Water Authority issues debt in compliance with its formally-adopted debt policy. This policy includes general management, financial management, and debt and capital management. It documents the Water Authority's goals for the use of debt for financing the Water Authority infrastructure and project needs. The following table is the most recent rating received for the Water Authority.

<b>Rating Agency</b>	<b>Rating</b>	<b>Rating Reflects</b>
Moody's	Aa2	Excellent Financial Position; Bonds Maintain Positive Investment Qualities
Fitch	AA	Strong Financial Performance; Strong Capacity to Meet Financial Commitments; Significant Capital Reserves
Standard & Poors	AA+	Strong Capacity to Meet Financial Commitments; Strong Financial Reserves

More information about the Water Authority's long-term liabilities is presented in Note III.D. on page 42.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The adopted fiscal year 2017 budget is a balanced budget and identifies resources to provide quality water in sufficient quantity, to collect and treat wastewater to acceptable standards, provide professional utility engineering services, and provide utility customer services. The budget also establishes the Water Authority's financial plan and uses the Goals, Objectives, and Performance Plan as guides for the appropriation of funds. Certain assumptions are also used that are related to the economic climate and system growth with Bernalillo County and the City of Albuquerque.

- **Water and Wastewater Revenues.** Budgeted total operating revenues are projected using a 5-year historical trend based upon growth and consumption. The trend was structured by class of customer as well as by service size of each class. The projections also take into account the Water Authority's continued conservation efforts.
- **System Growth.** System growth is based on a 2 percent growth factor; however, this growth is offset by estimated water conservation of 1 percent.
- **Utility Expansion Charges.** Utility Expansion Charges remain at prior year budgeted levels, reflecting the current trend in the development of residential housing.
- **Wage Adjustments.** There is a 2 percent cost of living adjustment for 2017.
- **Fringe Benefits.** Fringe benefits are calculated at 55.67 percent of gross wages.
- **Target Working Capital Balance.** The target working capital balance for the operating fund is equal to 1/12<sup>th</sup> of the annual budgeted operating expenditures.
- **Conservative Projection of Revenue and Expenditures.** The budget is based on conservative revenue and expenditure estimates.

The fiscal year 2017 budget reflects the Water Authority's governing board approval of the latest in a series of planned rate increases aimed at increasing the utility's investment in infrastructure renewal. The change will add about \$4 per month to the average residential water/wastewater bill in winter time, and a little under \$5 per month in the summer. This rate adjustment is in effect as of July 1, 2015. This rate adjustment is necessary to ensure that the Water Authority can remain on track with plans to increase its reinvestment in aging infrastructure. Infrastructure renewal backlog must be addressed over the coming years in order to maintain service levels and protect the health, safety, and economic viability of our community.

The Water Authority will continue to spend \$250 million to upgrade its wastewater treatment plant and add an additional \$36 million per year to Capital Improvement Program (CIP) funding to cover the costs of routine replacement of aging pipes, pumps and other infrastructure as recommended in the most recent asset management study commissioned by the Water Authority.

A key initiative during this fiscal year is the update to the 2007 Water Resources Management Strategy (WRMS), which will go into effect during the fiscal year. The new WRMS will incorporate the latest science regarding the effect of climate change on the availability of surface water supplies. Using climatic hydrologic simulation models from the Office of the State Engineer, Sandia National Laboratories and the U.S. Bureau of Reclamation and Geological Survey, among other agencies, it will take climate variability into account and will for the first time look at a 100-year time horizon for the greater Albuquerque area. Three different demand scenarios along with three supply alternatives will be used to examine the need for new supplies while maintaining a ground water resource for future generations. A portfolio of supply options will be used to fill the gaps to meet future demand over the next 100 years.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Albuquerque Bernalillo County Water Utility Authority's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Executive Director, Room 5012, One Civic Plaza NW Albuquerque, New Mexico 87102.

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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**STATEMENTS OF NET POSITION**  
**June 30, 2016**  
**(With Comparative Amounts for June 30, 2015)**

**ASSETS**

	<b>2016</b>	<b>2015</b>
<b>CURRENT ASSETS:</b>		
Cash	\$ 101,195,934	\$ 68,886,433
Accounts receivable, net of allowance for uncollectible accounts	18,981,742	14,678,230
Notes receivable, current portion	740,459	790,870
Due from other governments	447,969	932,227
Total current assets	\$121,366,104	85,287,760
<b>NONCURRENT ASSETS:</b>		
Long-term notes receivable	3,958,777	3,754,006
Restricted assets:		
Cash	46,529,971	77,114,772
Post-employment life insurance benefit trust	-	798,900
Total other noncurrent assets	50,488,748	81,667,678
Capital assets, net of accumulated depreciation:		
Buildings and improvements	279,395	323,612
Improvements other than buildings	1,099,515,341	1,094,473,803
Machinery and equipment	9,680,793	9,050,760
Net depreciable capital assets	1,109,475,529	1,103,848,175
Capital assets, not being depreciated:		
Land	25,170,378	25,724,125
Purchased water rights	48,862,906	48,240,385
Construction work in progress	3,791,893	42,578,965
Total capital assets	1,187,300,706	1,220,391,650
Total noncurrent assets	1,237,789,454	1,302,059,328
<b>TOTAL ASSETS</b>	<b>1,359,155,558</b>	<b>1,387,347,088</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred amounts related to pensions	11,512,312	6,425,778
Deferred amounts on refunding	23,114,769	25,878,691
Total deferred outflows of resources	34,627,081	32,304,469

**The accompanying notes are an integral part of these financial statements.**

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**STATEMENTS OF NET POSITION, continued**  
**June 30, 2016**  
**(With Comparative Amounts for June 30, 2015)**

**LIABILITIES**

	<b>2016</b>	<b>2015</b>
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 12,910,228	\$ 10,500,449
Accrued payroll	2,582,062	2,129,109
Claims payable, current portion	993,586	563,865
Accrued compensated absences, current portion	3,019,584	2,663,822
Deposits	687,857	727,676
Debt obligations, current portion:		
Revenue bonds	37,265,000	35,530,000
Loan agreements	9,710,054	8,508,529
Water rights contract	1,135,776	1,102,203
Accrued interest for debt obligations	13,278,888	12,568,850
Total current liabilities	81,583,035	74,294,503
<b>NONCURRENT LIABILITIES:</b>		
Debt obligations, net of current portion:		
Revenue bonds	584,931,928	634,147,215
Loan agreements	48,078,533	58,704,590
Water rights contract	7,579,189	8,714,965
Total long-term debt obligations	640,589,650	701,566,770
Other non-current liabilities:		
Claims payable, net of current portion	1,429,794	1,188,165
Net pension liability	38,165,167	29,351,538
Post-employment life insurance benefit obligation	389,848	415,763
Accrued compensated absences, net of current portion	367,674	889,528
Total other noncurrent liabilities	40,352,483	31,844,994
Total noncurrent liabilities	680,942,133	733,411,764
<b>TOTAL LIABILITIES</b>	<b>762,525,168</b>	<b>807,706,267</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred amounts related to pensions	9,587,585	11,502,989
Total deferred inflows of resources	9,587,585	11,502,989
<b>NET POSITION</b>		
Net investment in capital assets	568,244,966	576,677,611
Unrestricted	53,424,920	23,764,690
<b>TOTAL NET POSITION</b>	<b>\$ 621,669,886</b>	<b>\$ 600,442,301</b>

The accompanying notes are an integral part of these financial statements.

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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION**  
**Year ended June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

	<b>2016</b>	<b>2015</b>
<b>OPERATING REVENUES:</b>		
Charges for services:		
Water system	\$ 148,622,758	\$ 126,817,517
Wastewater system	68,166,636	64,171,110
Miscellaneous	1,339,000	1,323,000
Total operating revenues	218,128,394	192,311,627
<b>OPERATING EXPENSES:</b>		
General and administrative	67,982,206	61,106,551
Source of supply, pumping, treatment and distribution	46,986,703	46,524,899
Non-capitalized major repair	4,285,103	6,428,665
Depreciation	80,357,265	83,094,979
Total operating expenses	199,611,277	197,155,094
<b>OPERATING INCOME (LOSS)</b>	18,517,117	(4,843,467)
<b>NON-OPERATING REVENUES (EXPENSES):</b>		
Investment income	155,431	44,453
Interest expense	(18,034,371)	(19,856,948)
Utility expansion charges	9,256,938	7,541,201
Debt issuances costs	-	(2,272,566)
Lease of stored water income	1,615,215	99,627
Other revenues	4,212,925	2,057,745
Total non-operating revenues (expenses), net	(2,793,862)	(12,386,488)
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS</b>	15,723,255	(17,229,955)
Developer contributions	4,593,806	5,565,223
Other contributions	910,524	1,782,346
Total capital contributions	5,504,330	7,347,569
<b>CHANGE IN NET POSITION</b>	21,227,585	(9,882,386)
<b>NET POSITION:</b>		
Net position, beginning of year	600,442,301	610,324,687
Net position, end of year	\$621,669,886	\$ 600,442,301

The accompanying notes are an integral part of these financial statements.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**STATEMENTS OF CASH FLOWS**  
**Year ended June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from customers	\$ 213,824,882	\$ 192,146,746
Cash payments to employees for services	(49,750,641)	(48,584,321)
Cash payments to suppliers for goods and services	(63,590,524)	(67,242,706)
Other operating income	3,906,144	2,157,372
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>104,389,861</b>	<b>78,477,091</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of capital assets, net	(43,238,648)	(52,359,208)
Principal payments of long-term debt obligations	(45,140,732)	(44,680,132)
Proceeds from refunding revenue bonds	-	457,560,968
Proceeds from loan agreements	-	640,000
Defeasance of revenue bonds	-	(314,601,391)
Defeasance of loan agreements	-	(59,805,713)
Interest paid on debt obligations	(27,426,701)	(20,914,409)
Payment of debt issuance costs	-	(2,272,566)
Proceeds from sale of assets	2,488,129	-
Capital grants, net	1,394,782	3,466,475
Utility expansion charges	9,102,578	7,760,966
<b>NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>(102,820,592)</b>	<b>(25,205,010)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment income	155,431	44,453
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>155,431</b>	<b>44,453</b>
<b>NET INCREASE IN CASH</b>	<b>1,724,700</b>	<b>53,316,534</b>
<b>CASH, BEGINNING OF YEAR</b>	<b>146,001,205</b>	<b>92,684,671</b>
<b>CASH, END OF YEAR</b>	<b>\$ 147,725,905</b>	<b>\$ 146,001,205</b>
<b>FINANCIAL STATEMENT PRESENTATION:</b>		
Cash	\$ 101,195,934	\$ 68,886,433
Restricted cash	46,529,971	77,114,772
	<b>\$ 147,725,905</b>	<b>\$ 146,001,205</b>

The accompanying notes are an integral part of these financial statements.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**STATEMENTS OF CASH FLOWS, continued**  
**Year ended June 30, 2016**  
**(With Comparative Amounts for Year Ended June 30, 2015)**

	<b>2016</b>	<b>2015</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating income (loss)	\$ 18,517,117	\$ (4,843,467)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	80,357,265	83,094,979
Other non-operating income (expenses), net	3,906,144	2,157,372
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable	(4,303,512)	(164,881)
Increase (decrease) in deposits	(39,819)	(38,743)
Increase (decrease) in accounts payable	2,409,779	(360,258)
Increase (decrease) in accrued payroll, employee benefits, and pension related expenses	3,708,979	(348,503)
Increase (decrease) in compensated absences payable	(166,092)	(1,019,408)
<b>TOTAL ADJUSTMENTS</b>	<b>85,872,744</b>	<b>83,320,558</b>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 104,389,861</b>	<b>\$ 78,477,091</b>
<b>DISCLOSURE ON NON-CASH TRANSACTIONS:</b>		
Amortization of deferred amounts on refunding	\$(2,763,922)	-
Amortization of premium on revenue bonds	12,866,290	15,631,430
Capital contributions received from private developers	4,593,806	5,565,223

The accompanying notes are an integral part of these financial statements.

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**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**  
**(With Comparative Information of June 30, 2015)**

**I. Summary of Significant Accounting Policies**

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Albuquerque Bernalillo County Water Utility Authority (Water Authority) and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Wastewater Systems (System) would be transferred from the City of Albuquerque, New Mexico, (City) to the Water Authority. The legislation also provided that the debts of the City payable from Net Revenues of the System shall be debts of the Water Authority and that the Water Authority shall not impair the rights of holders of outstanding debts of the System. The legislation also required that the New Mexico Public Regulation Commission audit the System prior to the transfer of money, assets and debts of the System to the Water Authority; the audit was completed in December 2003. By operation of law, functions, appropriations, money records, equipment and other real and personal property pertaining to the System have been transferred to the Water Authority. All policy-making for the System resides with the Water Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Water Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Water Authority as a political subdivision of the state.

The accompanying financial statements present the financial position of the Water Authority at June 30, 2016 and 2015, and the results of its operations for the years ended June 30, 2016 and 2015 in conformity with accounting principles generally accepted in the United States of America.

A Memorandum of Understanding (MOU) between the Water Authority and the City is in effect for fiscal years 2014 through 2018 with an expiration date of June 30, 2018. This MOU confirmed a significantly altered business relationship between the two parties. With the establishment by the Water Authority of its own financial and human resource systems effective July 1, 2013, the Water Authority initiated a deliberate and planned business strategy to internally assume or contract with third parties for nearly all of the services that had been previously provided by the City. The only remaining services provided to the Water Authority by the City are for 1) administration of the Water Authority's group insurance program, and 2) administration of the joint OPEB trust established during fiscal year 2014. In addition, the City leases space of City owned buildings to the Water Authority.

**A. Reporting entity**

As a political subdivision of the state, the Water Authority is governed by an eight-member board consisting of three Albuquerque City Councilors, three Bernalillo County Commissioners, the Mayor of Albuquerque, and a non-voting member from the Village of Los Ranchos. The Water Authority has the primary accountability for fiscal matters, therefore the Water Authority is a reporting entity as defined by GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB 61. As of June 30, 2016, the Water Authority does not have any component units.

The financial statements of the Water Authority have been prepared in accordance with generally accepted accounting principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this note.

**B. Measurement focus, basis of accounting, and financial statement presentation**

The Water Authority accounts for all activities to provide water and wastewater services for the residents of the City of Albuquerque and outlying areas. These activities include, but are not limited to, administration, operation, maintenance, financing and related debt service, billing and collection. This proprietary type fund provides services, which are intended to be financed primarily through user charges, or activities where periodic determination of net income is appropriate.

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The Water Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Water Authority's principal ongoing operations. The principal operating revenues, such as charges for services, result from exchange transactions in which each party receives and gives up essentially equal values. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues or expenses. These include investment earnings, interest expense, and transactions that result from non-exchange transactions or ancillary activities.

The Water Authority is accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow occurs.

**C. Assets, liabilities, and net position**

**1. Accounts receivable**

Accounts receivable include water and wastewater billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Consequently, the Water Authority rarely has an allowance for uncollectible accounts. Any accounts that are subject to bankruptcy are directly written off when the court order is received.

**2. Capital assets**

State of New Mexico Administrative Code (Section 12-6-10 NMSA 1978) requires state and local governmental agencies to capitalize capital assets costing in excess of \$5,000. Currently, the Water Authority defines capital assets as assets with an initial individual cost of more than \$5,000 and estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if historical cost information is not available. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

Construction costs of water and wastewater lines that are reimbursed by users or that are financed directly or indirectly by developers, property owners and granting agencies are capitalized and recorded as capital contributions.

Depreciation on capital assets is provided using the straight-line method over the estimated useful lives of the assets as follows:

<i>Buildings</i>	<i>50 years</i>
<i>Improvements other than buildings</i>	<i>25 years</i>
<i>Machinery and equipment</i>	<i>5 – 12.5 years</i>

Interest expense is capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings. The amount of capitalized interest is determined using the interest cost of the borrowings less any interest earned on investments acquired with the proceeds of the related tax-exempt borrowings from the date of the borrowings until the assets are ready for their intended use.

**3. Accounts payable**

Accounts payable include both trade and construction contracts that are recorded as the liability is incurred. Trade payables represent payables from daily operations. Construction contracts payable are for the acquisition of new capital projects or for rehabilitation of existing water and wastewater lines and facilities. These contracts are funded by operational revenues, utility expansion charge revenues, and long-term debt proceeds.

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**4. *Accrued compensated absences***

The employees of the Water Authority may accumulate limited amounts of vacation pay that is payable to the employee upon termination or retirement. Vacation costs are recognized as a liability when earned by the employee. The amount reported in the current liabilities section is approximately equal to the amount of vacation leave paid in the current fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net position.

The employees of the Water Authority may accumulate limited amounts of sick leave that is payable to the employee upon termination or retirement. Sick leave costs are recognized when vested or taken, whichever occurs first. The amount reported in the current liabilities section is the amount recognized for those employees who are currently eligible to retire as of the end of the fiscal year. The balance is reported in the noncurrent liabilities section of the statement of net position.

**5. *Long-term obligations***

Long-term obligation proceeds are used to finance capital improvements, construction activities, expansions, renovations, and other costs as specified in bond indenture and loan agreements. The long-term obligations are payable from the Water Authority's revenues and are recorded in the Water Authority's statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method by CUSIP number. Bonds payable are reported net of the applicable bond premium or discount. Amortization expense during fiscal years 2016 and 2015 was \$12,866,290 and \$13,631,430, respectively. Bond issuance costs are expensed as incurred.

**6. *Deferred outflows/inflows of resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Water Authority has two items that qualify for reporting in this category. The first is a deferred loss on refunding which resulted from the difference in the carrying value of refunded debt and its reacquisition price. This amount is shown as deferred and amortized over the shorter of the life of the refunded or refunding debt. The other deferred outflow of resources is related to pensions.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Water Authority's deferred inflow of resources is related to pensions. See note III. F. for cumulative change and for details of deferred outflows and inflows of resources related to pensions.

**7. *Net position***

The net position of the Water Authority is reported in the following three components: (1) net investment in capital assets; (2) restricted; and (3) unrestricted.

***Net investment in capital assets*** - The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent

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amount is not included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources is included in the same net position component (restricted or unrestricted) as the unspent amount.

**Restricted net position** - The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Net position is reported as restricted when constraints placed on an assets use are either:

- a. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or
- b. Imposed by law through constitutional provisions or enabling legislation.

The basic concept is that restrictions are not unilaterally established by the reporting government itself, and cannot be removed without the consent of those imposing the restrictions. This category of net position is intended to identify resources that were received or earned by the Water Authority with an explicit understanding between the Water Authority and the resource providers that the funds would be used for a specific purpose.

For example, grants, contributions, and donations are often given under those kinds of conditions. Bond indentures similarly limit the use of proceeds. When both restricted and unrestricted resources are available for use, it is the Water Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

**Unrestricted net position** - The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted net position may be used to meet the Water Authority's obligations to its customers and its creditors.

#### **8. *Statement of cash flows***

For the purposes of the statement of cash flows, the Water Authority considers all cash and investments with an original maturity of three months or less to be cash equivalents.

#### **9. *Estimated amounts reported in financial statements***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates.

#### **10. *New accounting pronouncements***

The following GASB pronouncements have been issued, but are not yet effective, at June 30, 2016.

- GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 75 – *Accounting for Financial Reporting for Postemployment Benefits Other Than Pensions*

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- GASB Statement No. 77 – *Tax Abatement Disclosures*
- GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*
- GASB Statement No. 80 – *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*
- GASB Statement No. 81 – *Irrevocable Split-Interest Agreements*
- GASB Statement No. 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Water Authority will implement the new GASB pronouncements in the fiscal year no later than the required effective date. GASB Statement No. 75 will likely have a significant financial impact to the Water Authority, but not until fiscal year 2018. Management is still evaluating the financial impact that these pronouncements will have.

**II. Stewardship, Compliance and Accountability**

The budgetary data is prepared consistent with the basis of accounting described in Note I.B with these exceptions; debt service principal payments, certain cash transfers, capital contributions and capital outlay. The annual budget is formulated by the Water Authority’s Management and submitted to the Water Authority Board by April 1 for the fiscal year commencing July 1. Public hearings are conducted to obtain citizen comments on the proposed budget. By June 1, the budget is legally adopted through passage of an appropriation resolution by the Water Authority Board and is subject to approval by the New Mexico Department of Finance and Administration (DFA). Once approved notification is received from DFA, a formal appropriation and encumbrance system to control expenditures is maintained by the Water Authority’s financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Water Authority’s budget by program. For fiscal year 2016, expenses may not exceed budgetary appropriations at the general ledger fund level. The Water Authority uses general ledger funds for internal accounting purposes. However, since the Water Authority is accounted for similar to an enterprise fund, it does not include in its financial statements financial information for individual general ledger funds.

**III. Detailed Notes**

**A. Cash**

At June 30, 2016, the carrying amount of the Water Authority’s deposits was \$147,721,455 and the bank balance was \$149,012,583. The difference represents outstanding checks, deposits, and other reconciling items. In addition, the Water Authority has \$4,450 cash on hand. Cash, including restricted and unrestricted balances, were comprised of the following at June 30, 2016 and 2015:

	June 30, 2016	June 30, 2015
Restricted:		
Cash	\$46,529,971	\$77,114,772
Unrestricted:		
Cash	101,195,934	68,886,433
Total cash reported in statements of net position	\$147,725,905	\$146,001,205

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*Custodial credit risk – Deposits.* Custodial credit risk is the risk that in the event of the bank failure, the Water Authority’s deposits may not be returned. The Water Authority is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2016, there were no bank balances exposed to custodial credit risk.

*Pledged collateral by bank.* The FDIC provides insurance of \$250,000 per depositor, per insured bank. The pledged collateral by bank at June 30, 2016 is as follows:

	Rio Grande Credit Union	First National Rio Grande	Wells Fargo Bank	Bank of Albuquerque
Total amount on deposit	\$ 249,092	\$ 25,073,903	\$ 122,963,001	\$ 726,587
Less FDIC coverage	(249,092)	(250,000)	(250,000)	(250,000)
Total uninsured public funds	-	24,823,903	122,713,001	476,587
50% collateral requirement	-	12,411,952	61,356,501	238,294
Pledged securities, fair value	-	25,350,000	134,863,599	6,700,148
Pledged in excess of requirement	-	\$ 12,938,048	\$ 73,507,098	\$ 6,461,854

**B. Accounts receivable, notes receivable, and due from other governments**

Accounts receivable are primarily revenues earned from the Water Authority’s water and wastewater utility billing system. These are considered 100 percent collectible since a lien can be placed on the customer’s property. They also include some miscellaneous receivables for other services. Accounts receivable at June 30, 2016 and 2015 were \$18,981,742 and \$14,678,230, respectively, net of an allowance for doubtful accounts of \$628,092 and \$98,214.

Notes receivable are for utility expansion charges. The borrower is allowed to pay the Water Authority for the extension of water and wastewater lines over a ten-year period at 7 percent interest. Notes receivable at June 30, 2016 and 2015 were \$4,699,236 and \$4,544,876, respectively.

Due from other governments are primarily Federal and State grants that related to capital improvement projects and the Water Authority also has various miscellaneous receivables. Due from other governments as of June 30, 2016 and 2015 were \$447,969 and \$932,227, respectively.



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**C. Capital assets**

Capital asset activity of the Water Authority for the years ended June 30, 2016 and 2015, are as follows:

	<b>Balance at June 30, 2015</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance at June 30, 2016</b>
Capital assets not being depreciated:				
Land	\$25,724,125	\$584	\$(554,331)	\$25,170,378
Construction work in progress	42,578,965	3,417,695	(42,204,767)	3,791,893
Purchased water rights	48,240,385	622,521	-	48,862,906
Total capital assets not being depreciated	<u>116,543,475</u>	<u>4,040,800</u>	<u>(42,759,098)</u>	<u>77,825,177</u>
Capital assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	2,138,753,470	40,133,489	45,832,005	2,224,718,964
Machinery and equipment	48,779,592	3,658,165	(4,022,390)	48,415,367
Total capital assets being depreciated	<u>2,189,743,898</u>	<u>43,791,654</u>	<u>41,809,615</u>	<u>2,275,345,167</u>
Less accumulated depreciation:				
Buildings	(1,887,224)	(44,217)	-	(1,931,441)
Improvements other than buildings	(1,044,279,667)	(77,296,717)	(3,627,239)	(1,125,203,623)
Machinery and equipment	(39,728,832)	(3,016,331)	4,010,589	(38,734,574)
Total accumulated depreciation	<u>(1,085,895,723)</u>	<u>(80,357,265)</u>	<u>383,350</u>	<u>(1,165,869,638)</u>
Total capital assets being depreciated, net	<u>1,103,848,175</u>	<u>(36,565,611)</u>	<u>42,192,965</u>	<u>1,109,475,529</u>
Total capital assets, net	<u>\$1,220,391,650</u>	<u>\$(32,524,811)</u>	<u>\$(566,133)</u>	<u>\$1,187,300,706</u>
	<b>Balance at June 30, 2014</b>	<b>Additions</b>	<b>Transfers/ Deletions</b>	<b>Balance at June 30, 2015</b>
Capital assets not being depreciated:				
Land	\$ 25,702,293	\$ 21,832	\$ -	\$ 25,724,125
Construction work in progress	16,202,781	26,486,977	(110,793)	42,578,965
Purchased water rights	45,116,733	3,123,652	-	48,240,385
Total capital assets not being depreciated	<u>87,021,807</u>	<u>29,632,461</u>	<u>(110,793)</u>	<u>116,543,475</u>
Capital assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	2,107,743,115	27,826,348	3,184,007	2,138,753,470
Machinery and equipment	53,191,185	576,416	(4,988,009)	48,779,592
Total capital assets being depreciated	<u>2,163,145,136</u>	<u>28,402,764</u>	<u>(1,804,002)</u>	<u>2,189,743,898</u>
Less accumulated depreciation:				
Buildings	(1,843,007)	(44,217)	-	(1,887,224)
Improvements other than buildings	(961,734,864)	(79,360,796)	(3,184,007)	(1,044,279,667)
Machinery and equipment	(41,026,874)	(3,689,967)	4,988,009	(39,728,832)
Total accumulated depreciation	<u>(1,004,604,745)</u>	<u>(83,094,980)</u>	<u>1,804,002</u>	<u>(1,085,895,723)</u>
Total capital assets being depreciated, net	<u>1,158,540,391</u>	<u>(54,692,215)</u>	<u>-</u>	<u>1,103,848,175</u>
Total capital assets, net	<u>\$1,245,562,198</u>	<u>\$(25,059,755)</u>	<u>\$(110,793)</u>	<u>\$1,220,391,650</u>

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**D. Long-term liabilities**

Long-term liabilities of the Water Authority for the years ended June 30, 2016 and 2015, are as follows:

	<b>Balance at June 30, 2015</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2016</b>	<b>Amounts Due In One Year</b>
Revenue bonds	\$601,985,000	-	(\$35,530,000)	\$566,455,000	\$37,265,000
Loan agreements	63,327,060	-	(8,508,529)	54,818,531	9,710,054
Water rights contract	9,817,168	-	(1,102,203)	8,714,965	1,135,776
Total Long-term debt	675,129,228	-	(45,140,732)	629,988,496	48,110,830
Unamortized premiums	71,578,274	-	(12,866,290)	58,711,984	
Total Long-term debt, net	746,707,502	-	(58,007,022)	688,700,480	-
Accrued compensated absences	3,553,350	2,760,525	(2,926,617)	3,387,258	3,019,584
Total Long-term liabilities	<u>\$750,260,852</u>	<u>\$2,760,525</u>	<u>(\$60,933,639)</u>	<u>\$692,087,738</u>	<u>\$51,130,414</u>
	<b>Balance at June 30, 2014</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance at June 30, 2015</b>	<b>Amounts Due In One Year</b>
Revenue bonds	\$515,450,000	\$396,215,000	(\$309,680,000)	\$601,985,000	\$35,530,000
Loan agreements	131,514,553	640,000	(68,827,493)	63,327,060	8,508,529
Water rights contract	10,886,790	-	(1,069,622)	9,817,168	1,102,203
Total Long-term debt	657,851,343	396,855,000	(379,577,115)	675,129,228	45,140,732
Unamortized premiums	23,863,736	61,345,968	(13,631,430)	71,578,274	
Total Long-term debt, net	681,715,079	458,200,968	(393,208,545)	746,707,502	-
Accrued compensated absences	4,572,759	1,898,172	(2,917,581)	3,553,350	2,663,822
Total Long-term liabilities	<u>\$686,287,838</u>	<u>\$460,099,140</u>	<u>(\$396,126,126)</u>	<u>\$750,260,852</u>	<u>\$47,804,554</u>

**1. Senior Lien Obligations**

Water Authority senior lien obligations are secured by a pledge of net revenues derived from the operations of the Water Authority's water and wastewater system. In ordinances pursuant to the issuance of these bonds, the Water Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all outstanding senior lien obligations. If the annual net revenues are less than 133% of the annual debt service requirements, the Water Authority shall either promptly increase rates in order to produce sufficient net revenues or employ a consultant or manager to make recommendations to revise the Water Authority's rate structure and other charges in order to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2016, the net revenues were 222% of the annual debt service on all outstanding senior lien obligations.

On September 24, 2014, the Water Authority issued senior and subordinate lien debt for the purpose of 1) achieving cash flow and present value savings, and 2) restructure senior lien and subordinate lien debt to better align with policy goals and objectives.

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All outstanding subordinate lien obligations have a 1.20% rate covenant while senior lien obligations remain with a 1.33% rate covenant. The net present value (NPV) savings equals \$20,591,710 or 10.22 percent. The average interest rate is 4.75 percent with an average life of 6.871 years.

The Series 2014 bonds sold at a purchase price equal to \$214,805,786 (representing the \$184,275,000 par amount, plus a net original issue premium of \$30,957,566, and less an underwriter's discount of \$426,780).

- The \$97,270,000 Series 2014A Senior Lien Refunding Revenue Bonds proceeds were used to advance refund 1) the 2005 NMFA Public Project Revolving Fund Loan (\$15,385,000), maturing on and after May 1, 2016, and 2) Series 2006A Bonds (\$89,940,000) maturing on or after July 1, 2017.
- The \$87,005,000 Series 2014B Subordinate Lien Refunding Revenue Bonds proceeds were used to advance refund 1) Series 2005 (\$90,180,000) maturing on and after July 1, 2016, and the current refunding of the 2) NMED Loan (\$5,987,789), dated June 18, 2002.

On April 27, 2015, the Water Authority issued senior lien debt to provide funds for 1) the advance refunding of certain Senior Obligations which include: (a) 2007 NMFA Public Project Revolving Fund Loan (\$37,625,000) maturing on and after May 1, 2018, (b) Series 2008A (\$55,630,000) maturing on and after July 1, 2026, and (c) Series 2009A-1 (\$49,195,000) maturing on and after July 1, 2020, and 2) acquiring additional water and wastewater assets through regular system improvements, expansion, maintenance, and upgrades.

The Series 2015 bonds sold at a purchase price equal to \$241,814,482 (representing the \$211,940,000 par amount, plus a net original issue premium of \$30,388,402, and less an underwriter's discount of \$513,920). Deposit proceeds of the Series 2015 Bonds were placed in an escrow fund, resulting in the defeasance of the 2007 NMFA Loan, Series 2008A Bonds and Series 2009 Bonds. The net present value (NPV) savings equals \$11,866,156 or 8.33 percent. The average interest rate is 4.23 percent with an average life of 10.646 years.

## ***2. Subordinate Lien Obligations***

Water Authority subordinate lien obligations are secured by a pledge of net revenues derived from the operations of the Water Authority's water and wastewater system. In ordinances pursuant to the issuance of these loan agreements, the Water Authority has agreed to charge all users of the system such reasonable rates as are sufficient to produce net revenues annually to pay 120% of the annual debt service requirements on all outstanding subordinate lien obligations. If the annual net revenues are less than 120% of the annual debt service requirements, the Water Authority shall either promptly increase rates in order to produce sufficient net revenues or employ a consultant or manager to make recommendations to revise the Water Authority's rate structure and other charges in order to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2016, the net revenues were 203% of the annual debt service on all outstanding subordinate lien obligations.

## ***3. Super Subordinate Lien Obligations***

Water Authority super subordinate lien obligations are secured by a pledge of net revenues derived from the operations of the Water Authority's water and wastewater system. While super subordinate lien obligations are secured by a pledge or a lien on net revenues, this lien is subordinate to the lien on net revenues from senior lien and subordinate lien obligations. In addition, there is no minimum debt service coverage requirement established for super subordinate lien obligations.

The Water Authority's only super subordinate lien obligations are obligations with the New Mexico Finance Authority / Water Trust Board. These agreements are a combination of loan paired with either a grant or a subsidy. The final amount for the loan / grant / subsidy is determined at the end of the related project for which the funds were expended. The funds are not provided up front to the Water Authority. The Water Authority enters into approved contracts for the related work

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project, pays the vendors, and submits invoices to the New Mexico Finance Authority / Water Trust Board for reimbursement. Normally such arrangements would be treated as lines of credit until project completion because debt service on the loan portion would not begin until the line of credit is converted to a loan agreement.

**4. Revenue bonds and loan agreements outstanding**

<b><u>Revenue Bonds:</u></b>	<b><u>June 30, 2016</u></b>	<b><u>June 30, 2015</u></b>
\$132,985,000 Senior Lien Joint Water & Wastewater System Improvement Revenue Bonds, Series 2005, due in annual installments of \$1,780,000 to \$11,080,000 through 7/1/2025; interest at 3.50% to 5.00%; call provisions of 100% beginning 7/1/2015	-	\$10,355,000
\$133,390,000 Senior Lien Joint Water & Wastewater System Improvement Revenue Bonds, Series 2006A, due in annual installments of \$1,245,000 to 11,000,000 through 7/1/2026; interest at 4.25% to 5.165%; call provision of 100% beginning 7/1/2016	6,910,000	13,505,000
\$135,990,000 Senior Lien Joint Water & Wastewater System Improvement Revenue Bonds, Series 2009A-1, due in annual installments of \$250,000 to \$9,285,000 through 7/1/2034; interest at 3.00% to 5.50%; call provision of 100% beginning 7/1/2019	58,655,000	65,695,000
\$62,950,000 Senior Lien Joint Water & Wastewater System Improvement Revenue Bonds, Series 2013A, due in annual installments of \$715,000 to \$5,840,000 through 7/1/2038; interest at 3.00% to 5.00%, call provision of 100% beginning 7/1/2023	57,465,000	60,950,000
\$55,265,000 Senior Lien Joint Water & Wastewater System Improvement Revenue Bonds, Series 2013B, due in annual installments of \$2,420,000 to \$9,455,000 through 7/1/2024; interest at 5.00%; no call provision	47,660,000	55,265,000
\$97,270,000 Senior Lien Joint Water & Wastewater System Refunding Revenue Bonds, Series 2014A, due in annual installments of \$1,090,000 to \$11,385,000 through 7/1/2026; interest at 2.00% to 5.00%; call provision of 100% beginning 7/1/2024	97,270,000	97,270,000
\$87,005,000 Subordinate Lien Joint Water & Wastewater System Refunding Revenue Bonds, Series 2014B, due in annual installments of \$450,000 to \$10,695,000 through 7/1/2025; interest at 1.00% to 5.00%; call provision of 100% beginning 7/1/2024	86,555,000	87,005,000
\$211,940,000 Senior Lien Joint Water & Wastewater System Refunding and Improvement Revenue Bonds, Series 2015, due in annual installments of \$3,210,000 to \$18,765,000 through 7/1/2033; interest at 2.85% to 5.00%; call provision of 100% beginning 7/1/2025	211,940,000	211,940,000
Total revenue bonds outstanding:	<u>\$566,455,000</u>	<u>\$601,985,000</u>

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<u>Loan Agreements:</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
\$3,600,000 Senior Lien Drinking Water State Revolving Fund Loan (2003), due in annual installments of \$268,339 to \$333,826 through 7/1/2015; interest at 1.75%; no prepayment provision	-	\$333,826
\$77,005,000 Senior Lien New Mexico Finance Authority Public Project Revolving Fund Loan (2007), due in annual installments of \$1,550,000 to \$6,705,000 through 5/1/2025; interest at 4.00% to 5.00%; prepayment provision of 100% beginning 5/1/2015	5,540,000	9,720,000
\$10,426,232 Subordinate Lien New Mexico Finance Authority Drinking Water Revolving Fund Loan (2008), due in annual installments of \$218,951 to \$638,537 through 5/1/2030; interest at 1.75%; prepayment provision of 100% beginning 11/7/2009	7,882,496	8,366,094
\$1,000,000 Senior Lien New Mexico Finance Authority Drinking Water Revolving Fund Loan (2009), due in annual installments of \$45,415 to \$54,869 through 7/1/2031; interest at 0.75%; no prepayment provision	815,597	862,388
\$50,000 Super Subordinate Lien New Mexico Finance Authority Water Trust Board Loan No. 51 (2009), due in annual installments of \$1,445 to \$2,613 through 6/1/2029; interest at 0.00%; no prepayment provision	33,470	36,000
\$100,000 Super Subordinate Lien New Mexico Finance Authority Water Trust Board Loan No. 79 (2009), due in annual installments of \$2,745 to \$5,234 through 6/1/2029; interest at 0.00%; no prepayment provision	67,042	72,109
\$200,000 Super Subordinate Lien New Mexico Finance Authority Water Trust Board Loan No. 177 (2010), due in annual installments of \$9,765 to \$10,239 through 6/1/2030; interest at 0.00%; no prepayment provision	141,045	150,932
\$53,400,000 Senior Lien New Mexico Finance Authority Public Project Revolving Fund Loan (2011), due in annual installments of \$605,000 to \$4,770,000 through 6/1/2036; interest at 3.00% to 5.00%; prepayment provision of 100% beginning 6/1/2021	39,410,000	42,800,000
\$452,000 Super Subordinate Lien New Mexico Finance Authority Water Trust Board Loan No. 205 (2011), due in annual installments of \$22,067 to \$23,141 through 7/1/2031; interest at 0.00%; no prepayment provision	363,399	385,632
\$640,000 Super Subordinate Lien New Mexico Finance Authority Water Trust Board Loan No. 206 (2011), due in annual installments of \$31,246 to \$32,764 through 7/1/2031; interest at 0.00%; no prepayment provision	514,547	546,028
\$63,354 Super Subordinate Lien New Mexico Finance Authority Water Trust Board Loan No. 207 (2011), due in annual installments of \$3,093 to \$3,245 through 7/1/2031; interest at 0.00%; no prepayment provision	50,935	54,051
Total loan agreements outstanding:	<u>\$54,818,531</u>	<u>\$63,327,060</u>

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Future maturities of revenue bonds and loan agreements as of June 30, 2016 are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$46,975,054	\$28,193,254	\$75,168,308
2018	42,290,606	25,984,454	68,275,060
2019	49,886,358	23,772,324	73,658,682
2020	52,062,317	21,330,665	73,392,982
2021	48,463,491	18,943,891	67,407,382
2022-2026	230,297,742	59,564,336	289,862,078
2027-2031	92,368,944	21,435,398	113,804,342
2032-2036	55,254,019	6,200,827	61,454,846
2037-2039	3,675,000	281,625	3,956,625
Total	<u>\$621,273,531</u>	<u>\$205,706,774</u>	<u>\$826,980,305</u>

**5. Water Rights Contract**

A Water Rights Contract with the United States Government was entered into by the Water Authority during the fiscal year ended June 30, 1963, to pay a portion of the construction, operation, and maintenance costs of the San Juan Chama diversion project in return for a portion of the water rights resulting from the project. The contract provides for payment in fifty annual installments with final maturity in 2022, and has an interest rate of 3.046%. The amount of the contract outstanding at June 30, 2016 and 2015, is \$8,714,965 and \$9,817,168, respectively.

Future water rights contract maturities as of June 30, 2016 are as follows:

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$1,135,776	\$265,458	\$1,401,234
2018	1,170,372	230,862	1,401,234
2019	1,206,021	195,213	1,401,234
2020	1,242,757	158,477	1,401,234
2021	1,280,611	120,623	1,401,234
2022-2023	2,679,428	123,035	2,802,463
Total	<u>\$8,714,965</u>	<u>\$1,093,668</u>	<u>\$9,808,633</u>

**E. Defined benefit pension plan – Public Employees Retirement Association**

**Summary of Significant Accounting Policies**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the New Mexico Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA, on the economic resources measurement focus and accrual basis of accounting. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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**General Information about the Pension Plan**

**Plan description.** The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. This fund has six divisions of members, including State General, State Police/Adult Correction Officer, Municipal General, Municipal Police/Detention Officers, Municipal fire, and State Legislative Divisions, and offers 24 different types of coverage within the PERA plan. All assets accumulated may be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of this plan. Certain coverage plans are only applicable to a specific division. Eligibility for membership in the PERA Fund is set forth in the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). Except as provided for in the Volunteer Firefighters Retirement Act (10-11A-1 to 10-11A-7, NMSA 1978), the Judicial Retirement Act (10-12B-1 to 10-12B-19, NMSA 1978), the Magistrate Retirement Act (10-12C-1 to 10-12C-18, NMSA 1978), and the Educational Retirement Act (Chapter 22, Article 11, NMSA 1978), and the provisions of Sections 29-4-1 through 29-4-11, NMSA 1978 governing the State Police Pension Fund, each employee and elected official of every affiliated public employer is required to be a member of the PERA Fund.

PERA issues a publicly available financial report and a comprehensive annual financial report that can be obtained at using the Audit Report Search function for agency 366.

**Benefits provided.** For a description of the benefits and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at:  
[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2015.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf).

**Contributions.** The contribution requirements of defined benefit plan members and the Water Authority are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature. For the employer and employee contribution rates in effect for FY 2015 for the various PERA coverage options, for both Tier I and Tier II, see the tables available in the note disclosures on pages 29 through 31 of the PERA FY2015 annual report at [http://osanm.org/media/audits/366\\_Public\\_Employees\\_Retirement\\_Association\\_2015.pdf](http://osanm.org/media/audits/366_Public_Employees_Retirement_Association_2015.pdf). The PERA coverage options that apply to the Water Authority are: 4.04%, 10.61% and 9.55%. Statutorily required contributions to the pension plan from the Water Authority were \$3,020,667 and employer paid member benefits that were “picked up” by the employer were \$3,355,945 for the year ended June 30, 2016.

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** The PERA pension liability amounts, net pension liability amounts, and sensitivity information were based on an annual actuarial valuation performed as of June 30, 2014. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ended June 30, 2014, using generally accepted actuarial principles. Therefore, the employer’s portion was established as of the measurement date June 30, 2015.

The assets of the PERA fund are held in one trust, but there are six district membership groups (municipal general members, municipal police members, municipal fire members, state general members, state police members and legislative members) for whom separate contribution rates are determined each year pursuant to Chapter 10, Article 11 NMSA 1978. Therefore, the calculations of the net pension liability, pension expense and deferred inflows and outflows were performed separately for each of the membership groups: municipal general members; municipal police members; municipal fire members; state general members; state police members and legislative members. The Water Authority’s proportion of the net pension liability for each membership group that the employers participates in is based on the employer contributing entity’s percentage of that membership group’s total employer contributions for the fiscal year ended June 30, 2015. Only employer contributions for the pay period end dates that fell within the period of July 1, 2014 to June 30, 2015 were included in the total contributions for a specific employer. Regular and any adjustment contributions that applied to FY 2015 are included in the total contribution amounts. In the event that an employer is behind in reporting to PERA its required contributions, an estimate (receivable) was used to project unremitted employer contributions.

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This allowed for fair and consistent measurement of the contributions with the total population. This methodology was used to maintain consistent measurement each year in determining the percentages to be allocated among all the participating employers.

For Municipal General Division Members, at June 30, 2016, the Water Authority reported a liability of \$38,165,167 for its proportionate share of the net pension liability. At June 30, 2015 and 2014, the Water Authority's proportion was 3.7432 percent and 3.7625 percent, respectively.

For the year ended June 30, 2016, the Water Authority recognized PERA Fund Division Municipal General Division Members pension expense of \$8,447,710. At June 30, 2016, the Water Authority reported PERA Fund Division Municipal General deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Net Deferred Outflow of Resources</b>
Differences between expected and actual experience	\$ -	\$845,376	\$(845,376)
Changes of assumptions	52	14,920	(14,868)
Net difference between projected and actual earnings on pension plan investments	8,491,593	8,612,322	(120,729)
Changes in proportion and differences between Water Authority contributions and proportionate share of contributions	-	114,967	(114,967)
Water Authority contributions subsequent to the measurement date	3,020,667	-	3,020,667
<b>Total</b>	<b>\$11,512,312</b>	<b>\$ 9,587,585</b>	<b>\$1,924,727</b>

\$3,020,667 reported as deferred outflows of resources related to pensions resulting from Water Authority contributions subsequent to the measurement date June 30, 2015 will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$1,982,644
2018	(1,038,023)
2019	(1,038,023)
2020	2,024,380
2021	(6,251)



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*Actuarial assumptions.* As described above, the PERA Fund member group pension liabilities and net pension liabilities are based on actuarial valuations performed as of June 30, 2014 for each of the membership groups. Then each PERA Fund member group pension liability was rolled forward from the valuation date to the Plan year ending June 30, 2015 using generally accepted actuarial principles. There were no significant events or changes in benefit provisions that required an adjustment to the roll-forward liabilities as of June 30, 2015. These actuarial methods and assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

<b>Actuarial valuation date:</b>	June 30, 2014
<b>Actuarial cost method:</b>	Entry age normal
<b>Amortization method:</b>	Level percentage of pay, Open
<b>Amortization period:</b>	Solved for based on statutory rates
<b>Asset valuation method:</b>	Fair value
<b>Actuarial assumptions:</b>	
Investment rate of return	- 7.75% annual rate, net of investment expense
Projected benefit payment	- 100 years
Payroll growth	- 3.50% annual rate
Projected salary increases	- 3.50% to 14.25% annual rate
Includes inflation at	- 3.00% annual rate
Mortality Assumption	- RP-2000 Mortality Tables (Combined table for healthy post-retirees, Employee table for active members, and Disabled table for disabled retirees before retirement age) with projection to 2018 using Scale AA.
Experience Study Dates	- July 1, 2008 to June 30, 2013

The long-term expected rate of return on pension plan investments was determined using a statistical analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighed the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>ALL FUNDS – Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	21.1%	5.00%
International Equity	24.8	5.20
Private Equity	7.0	8.20
Core and Global Fixed Income	26.1	1.85
Fixed Income Plus Sectors	5.0	4.80
Real Estate	5.0	5.30
Real Assets	7.0	5.70
Absolute Return	4.0	4.15
Total	<u>100%</u>	

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**Discount rate:** The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that future contributions will be made in accordance with statutory rates. On this basis, the pension plan's fiduciary net position together with the expected future contributions are sufficient to provide all projected future benefit payments of current plan members as determined in accordance with GASBS 67. Therefore, the 7.75% assumed long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the Water Authority's proportionate share of the net pension liability to changes in the discount rate.** The following tables show the sensitivity of the net pension liability to changes in the discount rate. In particular, the tables present the Water Authority's net pension liability in each PERA Fund Division that the Water Authority participates in, under the current single rate assumption, as if it were calculated using a discount rate one percentage point lower (6.75%) or one percentage point higher (8.75%) than the single discount rate.

<b>PERA Fund Municipal General Division</b>	<b>1% Decrease (6.75%)</b>	<b>Current Discount Rate (7.75%)</b>	<b>1% Increase (8.75%)</b>
Water Authority's proportionate share of the net pension liability	<u>\$ 64,980,136</u>	<u>\$ 38,165,167</u>	<u>\$ 15,870,343</u>

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued FY2015 PERA financial report. The report is available at <http://www.pera.state.nm.us/publications.html>.

**F. Defined contribution retirement plan**

On March 31, 2004, the Water Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Water Authority employees. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for all participating employees. A mandatory employee participation contribution is required with employees to make a one-time election to contribute one of 3.29%, 5%, 7%, 10% for employees scheduled to work 20 hours or more per week for the plan year. Temporary, seasonal and student employees are not eligible for this benefit. Total contributions to the plan were \$275,297 in fiscal year 2016, of which \$212,224 were from employer contributions and \$63,073 was from employee contributions.

**G. Post-employment benefits**

In addition to providing pension benefits described in Notes E and F, the Water Authority provides certain health care and life insurance benefits for retired employees. The Water Authority has changed the life insurance coverage for all future Water Authority employees hired after June 30, 2013, and a reduction in the life insurance face amount for Water Authority employees hired prior to July 1, 2013 and retiring after December 31, 2013. There were no changes made to the Water Authority's participation in the New Mexico Retiree Health Care Act.

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**1. Post-employment Life Insurance Benefit Plan**

*Plan Description.* The Water Authority, as of the fiscal year ended June 30, 2016, participated in the City of Albuquerque's Life Insurance Benefit Plan (the City Plan). The City Plan is a single employer defined benefit plan administered by the City which includes coverage for the employees of the Water Authority. Upon retirement, an eligible Water Authority employee will continue to be covered by the City Plan at no cost to the employee. Employees who were hired before July 1, 2013 and retire on or after December 31, 2013 from the Water Authority will receive an employer paid life insurance premium in the amount of \$5,000. Retirees prior to January 1, 2014 will receive the original insurance coverage up to \$25,000. New employees hired after July 1, 2013 will no longer be offered employer paid life insurance in any amount after they retire. The number of Water Authority retired employees covered under the City Plan at June 30, 2016 was 177. The number of active employees at June 30, 2016 was 498. Normal retirement eligibility conditions are defined as a retirement eligible for a PERA benefit.

*Funding Policy.* In fiscal year 2014, the City and the Water Authority created the City of Albuquerque Pooled Other Post-Employment Benefit (OPEB) Trust Fund. Prior to July 1, 2013, the City and the Water Authority had been contributing only the amount required to pay retiree life insurance premiums each year. The City has set the contribution rate each year based on an actuarial valuation. The contributions are expected to match or exceed the annual required contribution (ARC) calculated in the actuarial study in accordance with in the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the plan for the remainder of the 30 year closed period. Total contributions made for the fiscal years ended June 30, 2016 and 2015 exceeded the annual required contributions.

Monthly invoices for retiree life insurance premiums will be paid out of the trust. When expected benefit claims exceed retiree premiums, the City is allowed to treat the implicit subsidy as a contribution towards the OPEB liability. The Water Authority's contributions to the trust for the years ended June 30, 2016 and 2015 were \$64,311 and \$13,394, respectively.

*Annual OPEB Cost and Net OPEB Obligation.* The Water Authority's annual OPEB cost is calculated based on the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Water Authority's annual OPEB cost as of June 30, 2016, 2015 and 2014, the amount actually contributed to the City Plan, and the changes in the Water Authority's net OPEB obligation to the City Plan.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net OPEB obligation at beginning of year	\$ 415,763	\$ 390,711	\$1,108,722
<i>Plus:</i> Projected annual OPEB costs:			
Interest on net OPEB obligation at beginning of year	19,649	19,536	55,436
Annual required contribution (ARC) for current fiscal year	41,530	40,771	79,538
ARC adjustment for current fiscal year	<u>(22,783)</u>	<u>(21,861)</u>	<u>(59,980)</u>
	<u>38,396</u>	<u>38,446</u>	<u>74,994</u>
<i>Less:</i> Net Employer contribution	<u>(64,311)</u>	<u>(13,394)</u>	<u>(793,005)</u>
Expected net OPEB obligation at end of year	<u>\$ 389,848</u>	<u>\$ 415,763</u>	<u>\$ 390,711</u>

The Water Authority's net OPEB obligation is \$389,848, \$415,763, and 390,711 at June 30, 2016, 2015, and 2014, respectively, and is reported in the accompanying financial statements as a non-current liability.

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*Funding Status and Funding Progress.* As of July 1, 2015, the most recent actuarial valuation date, the City Plan was 62.3% funded using the criteria established by GASBS 45. The Water Authority actuarial accrued liability for benefits was \$1,282,408 (\$108,257 for active employees and \$1,174,151 for retired employees). The Water Authority plan assets as of June 30, 2016 totaled \$798,900. The covered payroll (annual payroll of active employees covered by the Plan) was \$27,106,082 and the ratio of the Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll was 1.8%. The ARC as a percent of payroll is 0.2% of which 0.1% is the normal cost as a percent of payroll. The ARC per active employee is \$83. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and changes in life expectancies. Amounts determined regarding the funded status of the Plan and the annual required contributions of the Water Authority are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress is presented as other supplementary information following the notes to the financial statements.

*Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the City Plan as understood by the Water Authority and the City Plan members and include the types of benefits provided at the time of each valuation and the Water Authority's historical pattern of paying for the City Plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the July 1, 2015, actuarial valuation, the Entry Age Normal (EAN) funding method was used where, for each plan member, the actuarial present value of benefits is levelly spread over the City Plan member's earnings or service from entry age to assumed exit age. The EAN cost method is generally regarded by actuaries as the most stable of the funding methods. The goal of GASBS 45 is to match recognition of retiree life expense with the periods during which the benefit is earned and the Water Authority's actuary believes that EAN funding method effectively meets that goal in most circumstances. Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs.

The Water Authority pays the same insurance premium rates for both active and retired employees, because the retired employees are on average older than active employees, there is an implicit subsidy of retiree coverage by active employee costs, which GASBS 45 generally requires be attributed to the retiree liability. The actuarial assumptions included a 5.0 percent investment rate of return on expected long-term returns on the City's Trust investments calculated on the funded level of the City Plan at the valuation date.

The schedule of funding progress for the OPEB life insurance benefit plan is demonstrated in the Required Supplemental Information Section on page 57.

## **2. State Retiree Health Care Plan**

*Plan Description.* The Water Authority contributes to the New Mexico Retiree Health Care Fund, a cost-sharing multiple employer defined benefit postemployment healthcare plan administered by the New Mexico Retiree Health Care Water Authority (RHCA). The RHCA provides health care insurance and prescription drug benefits to retired employees of participating New Mexico government agencies, their spouses, dependents, and surviving spouses and dependents. The RHCA Board was established by the Retiree Health Care Act (Chapter 10, Article 7C, NMSA 1978). The Board is responsible for establishing and amending benefit provisions of the healthcare plan and is also authorized to designate optional and/or voluntary benefits like dental, vision, supplemental life insurance, and long-term care policies.

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Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the RHCA plan on the person's behalf, unless that person retires before the employer's RHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing Water Authority members who served at least four years.

The RHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained by writing to the Retiree Health Care Water Authority at 4308 Carlisle Blvd, NE, Suite 104, Albuquerque, New Mexico 87107.

*Funding Policy.* The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing Water Authority member. Former legislators and governing Water Authority members are required to pay 100% of the insurance premium to cover their claims and the administrative expenses of the plan. The monthly premium rate schedule can be obtained from the RHCA or viewed on their website at [www.nmrhca.state.nm.us](http://www.nmrhca.state.nm.us).

The employer, employee, and retiree contributions are required to be remitted to the RHCA on a monthly basis. The statutory requirements for the employer and employee contributions can be changed by the New Mexico State Legislature. Employers that choose to become participating employers after January 1, 1998, are required to make contributions to the RHCA fund in the amount determined to be appropriate by the board.

The Retiree Health Care Act (Section 10-7C-15 NMSA 1978) is the statutory Water Authority that establishes the required contributions of participating employers and their employees. For employees that were members of an enhanced retirement plan (state police and adult correctional officer member coverage plan 1: municipal police member coverage plans 3, 4, or 5; municipal fire member coverage plan 3, 4, or 5; municipal detention officer member coverage plan 1; and members pursuant to the Judicial Retirement Act) during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.5% of each participating employee's annual salary; and each participating employee was required to contribute 1.25% of their salary. For employees that were not members of an enhanced retirement plan during the fiscal year ended June 30, 2015, the statute required each participating employer to contribute 2.0% of each participating employee's annual salary; each participating employee was required to contribute 1% of their salary. In addition, pursuant to Section 10-7C-15(G) NMSA 1978, at the first session of the Legislature following July 1, 2013, the legislature shall review and adjust the distributions pursuant to Section 7-1-6.1 NMSA 1978 and the employer and employee contributions to the Water Authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Water Authority's contributions (employer and employee) to the RHCA for the years ended June 30, 2016, 2015, and 2014, were \$948,912, \$931,393 and \$913,779, respectively, which equal the required contributions for each year.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**  
**(With Comparative Information of June 30, 2015)**

**H. Risk management**

The Water Authority is exposed to various risks of loss related to torts and civil claims including: employment related exposures; theft, damage and destruction of its real and personal assets and contract disputes; worker's compensation losses; errors and omissions of its officers and officials; and natural disasters. As a New Mexico governmental entity, the Water Authority's risk of loss associated with the actions of its employees resulting in personal injury to members of the community or damage to the property of others is subject to the limitations of the New Mexico Tort Claims Act. The Tort Claims Act extends sovereign immunity to all but a defined set of possible tort claims from third parties and places a maximum cap on the damages available to those who prevail on a tort claim. For those tort claims for which immunity is waived, the maximum third party liability from any single occurrence cannot exceed \$750,000 plus medical related damages. Because the liability cap for all medical related damages is \$300,000 per occurrence, the total aggregate tort damage liability for any single occurrence cannot exceed \$1,050,000. Through its Risk Management Office, the Water Authority purchases various commercial insurance policies to manage and transfer the impact of all its loss exposure. As a further risk transfer measure, the Water Authority requires all of its major vendors and contractual partners to be fully insured and to include the Water Authority as an additionally insured party on the contractor's insurance policies.

In fiscal year 2016, the Water Authority was insured for general liability and auto liability up to \$5,000,000 per occurrence with a \$6,000,000 general liability aggregate subject to a \$100,000 retention per loss/auto accident. Other liability insurance coverage included errors and omissions with a \$5,000,000 per occurrence and aggregate limit subject to a \$100,000 deductible. The Water Authority also carried \$1,000,000 coverage for cyber liability (\$25,000 deductible) and \$5,000,000 coverage (with a \$50,000 deductible) for pollution exposures. Water Authority property was insured up to \$500,000,000 per loss with a self-insured retention of \$100,000 per loss. For worker's compensation coverage, the Water Authority retained the risk of losses up to \$750,000 and purchased an excess liability insurance policy which will pay the cost of any loss above the \$750,000 self-insured retention. Crime (Employee Theft/Computer Crime/Forgery/Robbery & Burglary) coverage carries a limit of \$1,000,000 per loss subject to a retention of \$10,000. The Water Authority transferred claims liability risk by the purchase of commercially available insurance beginning in fiscal year 2014. All claims accrued prior to June 30, 2013, are the sole responsibility of the City of Albuquerque Risk Management Program.

The claims liabilities reported are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Liabilities include estimated amounts for claims that have been incurred but not reported (IBNRs) as of June 30, 2016 and 2015.

The amounts and change in claims liability in fiscal years 2016 and 2015 were:

	<u>2016</u>	<u>2015</u>
Claims liability at July 1	\$ 1,752,030	\$ -
Current year claims/adjustments	2,015,626	3,265,515
Claims liquidated	<u>(1,344,276)</u>	<u>(1,513,485)</u>
Claims liability at June 30	<u>\$2,423,380</u>	<u>\$1,752,030</u>

The components of the claims liability at June 30 are:

Current portion	993,586	563,865
Noncurrent portion	<u>1,429,794</u>	<u>1,188,165</u>
Total claims liability	<u>\$ 2,423,380</u>	<u>\$ 1,752,030</u>

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**  
**(With Comparative Information of June 30, 2015)**

**I. Commitments and contingencies**

Construction Commitments. At June 30, 2016, the uncompleted construction and other commitments for construction improvements and replacements was \$42,181,619. This amount will be paid from unspent bond proceeds used for construction, improvements and replacements, or from operating revenues.

Federal and State Grant Commitments. The Water Authority has received a number of federal and state grants for specific purposes. These grants are subject to audit, which may result in requests for reimbursements to granting agencies for expenditures disallowed under the terms of the grants. Based on prior experience, Water Authority management believes that such disallowances, if any, will not be material.

Contingencies. In the normal course of business, the Water Authority is subject to certain contingent liabilities and unasserted claims. These contingencies are evaluated in light of their probability of being asserted and the estimability of the claims. Those claims that are probable and estimable have been accrued in the accompanying financial statements. Claims that are possible and/or not estimable are disclosed herein. Remote claims are monitored until such time as they are resolved, disclosed, or accrued. It is the opinion of Water Authority management that the ultimate resolution of other litigation will not have a material effect on the financial position of the Water Authority.

On May 17, 2011, the United States Environmental Protection Agency (EPA) issued Administrative Order CWA-06-2012-1777 to the Water Authority for violations of its permit to discharge effluent into the Rio Grande River at its Southside Water Reclamation Plant. The permit is obtained under the National Pollutant Discharge Elimination System (NPDES) program. The Water Authority responded to the AO and provided supplemental information regarding the violations and also presented a draft Corrective Action Plan (CAP) that committed the Water Authority to rehabilitation and new construction at its Southside Water Reclamation Plant totaling \$250 million over the next ten years.

On July 22, 2014, the EPA issued Administrative Order CWA-06-2014-1817 to the Water Authority for violations that were identified during a compliance file review of the Southside Water Reclamation Plant's NPDES compliance between October 2012 and September 2013. The Water Authority responded to the AO and provided an update to the CAP that was previously submitted, the new Capacity Management Operation and Maintenance (CMOM) plan, the new Sewer Use and Wastewater Control Ordinance, and revised Technically Based Local Limits (TBLL's).

On June 9, 2015, the EPA issued Administrative Complaint, CWA-06-2015-1777 to the Water Authority for violations that were identified during a compliance file review of the Southside Water Reclamation Plant. The Complaint listed NPDES violations that occurred between May 2011 and March 2015. The Water Authority responded to the Complaint and provided an update on the activities accomplished since the submittal in May 2011 including providing an update on the substantial construction and rehabilitation which had occurred or was planned under the CAP that was previously submitted. In September of 2015, the Water Authority resolved the Complaint through negotiation and recommitment to the previous CAP.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2016**  
**(With Comparative Information of June 30, 2015)**

**J. Subsequent events**

On August 1, 2016, the Water Authority redeemed in full, with cash on hand, all current outstanding Super Subordinate Loan long-term liabilities with the New Mexico Finance Authority (NMFA) to include:

- \$33,470 – NMFA Loan No. 51 (2009)
- \$67,042 – NMFA Water Trust Board Loan No. 79 (2009)
- \$141,045 – NMFA Water Trust Board Loan No. 177 (2010)
- \$363,399 – NMFA Water Trust Board Loan No. 205 (2011)
- \$514,547 – NMFA Water Trust Board Loan No. 206 (2011)
- \$50,935 – NMFA Water Trust Board Loan No. 207 (2011)

On September 30, 2016, the Water Authority secured funding in the amount of \$1,673,874 from the NMFA Water Trust Board for its Water Storage, Conveyance and Delivery Project by submitting the Readiness to Proceed (RTP) items. Once the RTP items are approved the NMFA will finalize the funding agreement.



**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF FUNDING PROGRESS FOR LIFE INSURANCE BENEFIT PLAN  
June 30, 2016**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability Entry Age Normal</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL Percentage of Covered Payroll</b>
6/30/2013	\$ -	\$5,100,685	\$5,100,685	0.00%	\$25,842,595	19.74%
6/30/2014	818,273	1,212,912	394,639	67.5%	28,661,693	1.38%
7/01/2015	798,900	1,282,408	483,508	62.3%	27,106,082	1.79%

Note: This schedule represents the funding progress for the Water Authority portion of the City of Albuquerque's total unfunded actuarial accrued liability.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE WATER AUTHORITY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
OF PERA FUND MUNICIPAL GENERAL DIVISION  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN  
LAST 10 FISCAL YEARS (\*)**

	<b>2016</b>	<b>2015</b>
Water Authority's proportion of the net pension liability (asset)	0.8958%	0.8842%
Water Authority's proportionate share of the net pension liability	38,165,167	29,351,538
Water Authority's covered-employee payroll	31,630,023	30,541,919
Water Authority's proportionate share of the net pension liability (asset) as percentage of its covered-employee payroll	120.66%	96.10%
Plan fiduciary net position as a percentage of the total pension liability	76.99%	81.29%

(\*) The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, the Water Authority will present information for those years for which information is available.

***Changes of benefit terms.***

The PERA Fund COLA and retirement eligibility benefits changes in recent years are described in Note 1 of the PERA FY2015 audit available at:

[http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366\\_Public\\_Employees\\_Retirement\\_Association\\_2015.pdf](http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf).

***Changes of assumptions.***

This Public Employees Retirement Association (PERA) of New Mexico Annual Actuarial Valuation as of June 30, 2014 report is available at:

[http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report\\_FINAL.pdf](http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf).

The summary of Key Findings for the PERA Fund (on page 2 of the report) states "based on a recent experience study for the five-year period ending June 30, 2013, the economic and demographic assumptions were updated for this valuation. The changes in assumptions resulted in a decrease of \$30.8 million to Fund liabilities and an increase of 0.13% to the funded ratio. For details about changes in the actuarial assumptions, see Appendix B on page 60 of the report.

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE OF THE WATER AUTHORITY'S CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA) PLAN  
PERA MUNICIPAL GENERAL DIVISION  
LAST 10 FISCAL YEARS (\*)**

	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$3,020,667	\$6,425,778
Contributions in relation to the contractually required contribution	(3,020,667)	(6,425,778)
Contribution deficiency (excess)	-	-
Water Authority's covered-employee payroll	\$31,630,023	\$30,541,919
Contributions as a percentage of covered-employee payroll	9.55%	21.04%

(\*) The amounts presented were determined as of June 30. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, the Water Authority will present information for those years for which information is available.

## APPENDIX B

### CUSIP Numbers

Bond Issue name	D/S Month & Year	CUSIP	Principal
Joint Water and Sewer 2009A-1	July 2017	013493CT6	2,000,000
	July 2017	013493DL2	5,660,000
	July 2018	013493CU3	1,645,000
	July 2018	013493DM0	6,370,000
	July 2019	013493CV1	3,000,000
	July 2019	013493DN8	5,395,000
Joint Water and Sewer 2013A	July 2017	013493DX6	3,735,000
	July 2018	013493DY4	3,925,000
	July 2019	013493DZ1	4,120,000
	July 2020	013493EA5	4,325,000
	July 2021	013493EB3	4,540,000
	July 2022	013493EC1	4,770,000
	July 2023	013493ED9	5,005,000
	July 2024	013493EE7	5,255,000
	July 2025	013493EF4	5,520,000
	July 2026	013493EG2	715,000
	July 2027	013493EH0	750,000
	July 2028	013493EJ6	790,000
	July 2029	013493EK3	830,000
	July 2030	013493EL1	870,000
	July 2031	013493EM9	915,000
	July 2032	013493EN7	960,000
July 2033	013493EP2	1,005,000	
Joint Water and Sewer 2013B	July 2017	013493ET4	4,720,000
	July 2018	013493EU1	5,010,000
	July 2019	013493EV9	5,320,000
	July 2020	013493EW7	5,635,000
	July 2021	013493EX5	5,980,000
	July 2022	013493EY3	6,330,000
	July 2023	013493EZ0	2,790,000
	July 2024	013493FA4	2,420,000
Joint Water and Sewer 2014A	July 2017	013493FL0	7,910,000
	July 2018	013493FM8	8,275,000
	July 2019	013493FN6	8,640,000
	July 2020	013493FC0	1,575,000

July 2020	013493FJ5	7,450,000
July 2021	013493FD8	9,415,000
July 2022	013493FE6	2,185,000
July 2022	013493FK2	7,785,000
July 2023	013493FF3	10,395,000
July 2024	013493FG1	10,910,000
July 2025	013493FH9	11,385,000
July 2026	013493FP1	5,000,000
July 2026	013493FQ9	5,255,000

Joint Water and Sewer 2014B

July 2017	013493GB1	10,695,000
July 2018	013493FT3	2,005,000
July 2018	013493GC9	6,080,000
July 2019	013493FU0	2,090,000
July 2019	013493GD7	6,115,000
July 2020	013493FV8	2,235,000
July 2020	013493GE5	6,045,000
July 2021	013493FW6	8,235,000
July 2022	013493FX4	8,435,000
July 2023	013493FY2	8,505,000
July 2024	013493FZ9	8,570,000
July 2025	013493GA3	8,635,000

Joint Water and Sewer 2015

July 2017	013493GF2	\$3,210,000
July 2018	013493GG0	12,020,000
July 2019	013493GH8	12,615,000
July 2020	013493GJ4	16,215,000
July 2021	013493GK1	17,380,000
July 2022	013493GL9	11,785,000
July 2023	013493GM7	16,595,000
July 2024	013493GN5	17,275,000
July 2025	013493GP0	15,510,000
July 2026	013493GQ8	17,875,000
July 2027	013493GR6	18,765,000
July 2028	013493GS4	11,150,000
July 2029	013493GT2	11,495,000
July 2030	013493GU9	7,060,000
July 2031	013493GV7	7,295,000
July 2032	013493GW5	7,660,000
July 2033	013493GX3	8,035,000

Joint Water and Sewer 2017

July 2018	013493GY1	\$3,880,000
July 2019	013493GZ8	4,040,000
July 2020	013493HA2	4,245,000

July 2021	013493HB0	4,455,000
July 2022	013493HC8	4,680,000
July 2023	013493HD6	4,910,000
July 2024	013493HE4	5,160,000
July 2025	013493HF1	5,415,000
July 2026	013493HG9	5,685,000
July 2027	013493HH7	5,970,000
July 2028	013493HJ3	6,270,000
July 2029	013493HK0	6,585,000
July 2030	013493HL8	4,830,000
July 2031	013493HM6	5,070,000
July 2032	013493HN4	5,320,000
July 2033	013493HP9	5,590,000
July 2034	013493HQ7	5,865,000