

COUNTY OF BERNALILLO NEW MEXICO
Management's Discussion and Analysis
June 30, 2010

As management of the County of Bernalillo (County), we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on pages i-v of this report.

Financial Highlights

- The government-wide assets of the County exceed its liabilities as of June 30, 2010 by \$606,793,430, an increase of \$32,323,437 or a 5.6% increase. Of this amount, \$355,609,898 is invested in capital assets, net of related debt. Of the remaining balance, \$139,516,367 is restricted for specific purposes and \$111,667,165 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.
- As of June 30, 2010, the County's governmental activities and business type activities have net assets of \$602,362,216 and \$4,431,214 respectively.
- The fund balance in the County's general fund increased from \$175,658,155 in FY09 to \$194,118,410 in FY10, an increase of \$18,460,255 or a 10.5% increase. Of this amount, \$65,240,072 or 33.6% of the general fund is for the DFA required reserve and \$45,632,530 or 23.5% is for subsequent years' expenditures.
- The County was able to maintain adequate reserves in the amount of \$65,240,072 as required by the State of New Mexico Department of Finance and Administration, Local Government Division – 3/12 of the General Fund Budget for FY11.
- The funds that account for the Regional Correction Center and the Bernalillo County Housing Authority are classified as governmental and proprietary major funds respectively and the TRAN Debt Service fund is now classified as non-major governmental fund as the County did not issue a TRAN in June 2010.
- During the year, the County sold \$10,750,000 of General Obligation Bonds, Series 2009A, which included \$3,500,000 for storm drains, \$2,500,000 for parks and recreation and \$4,750,000 for public safety. Also, the County issued \$15,105,000 of General Obligation Refunding Bonds, Series 2010, with an average interest rate of 3.16% to partially refund the County's outstanding General Obligation Bonds, Series 2001 and 2002. In addition, the County issued Gross Receipts Tax Revenue Bonds, taxable series 2009A, and Series 2010A, for \$9,000,000 respectively and issued \$1,650,000 of Gross Receipts Tax Revenue Refunding Bonds, Series 2010B, with an average interest rate of 3.368% to advance refund the Multifamily Housing Refunding and Improvement Revenue Bond, Series 1999.
- The County has \$487,249,187 in available bonding capacity or 82.18% of allowable bonding capacity per the New Mexico State Constitution (see page 166).

- The County property valuations increased 6.1% from \$13.97 billion in FY09 to \$14.82 billion in FY10 (see page 157).
- The County managed and expended \$24,322,558 in Federal Funds in FY10 (see page 175).
- The County's 2010 General Obligation Bonds were rated "AAA" by both Fitch Ratings and Standard & Poor's and rated "Aaa" by Moody's Investors Service. In addition, the County's 2010 Gross Receipts Tax Revenue Bonds were rated "AAA" by Standard & Poor's, "Aa2" by Moody's Investors Service and "AA+" by Fitch Ratings.
- In addition to its "AAA" bond rating, Standard and Poor's awarded Bernalillo County its highest rating – "STRONG" on its financial management assessment criteria. The County continues its effort to incorporate comprehensive financial planning in its long-range vision in order to remain solvent during the current economic downturn.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

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

Both of the government-wide financial statements differentiate functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public works, public safety, health and welfare, culture and recreation and interest on long-term debt. The business-type activities of the County include Solid Waste, Bernalillo County Housing Authority, Seybold Village Handicapped Project, Regional Juvenile Detention Center, and El Centro Familiar. The government-wide financial statements can be found on pages 32-33 of this report.

Fund financial statement. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. For this purpose, the County considers revenues to be available if they are collected within 60 days of the current fiscal period. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

In addition to the General fund, the County maintains thirty-two other individual governmental funds of which seventeen are classified as Special Revenue funds, twelve are classified as Debt Service funds, and three are classified as Capital Projects funds. Information for the General fund, the Grants fund, the Regional Correction Center fund and the Capital Construction fund, all of which are considered to be major funds, are presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The County adopts an annual appropriated budget for its General fund and Regional Correction Center fund. A budgetary comparison statement for the General fund and Regional Correction Center fund is presented on pages 38-40. In addition, the County adopts an annual budget for other non-major funds. A budgetary comparison statement is presented in the aggregate and individually for all those funds.

The basic governmental fund financial statements can be found on pages 34-40 of this report.

Proprietary funds. The County maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for Solid Waste, Bernalillo County Housing Authority, Seybold Village Handicapped Project, Regional Juvenile Detention Center, and El Centro Familiar. An *Internal service fund* is used to account for operations that provide services to other departments or agencies of the County on a cost-reimbursement basis. The County's internal service fund is the Risk Management fund, which is used to account for its risk management activities. Because the services provided by the Risk Management fund predominantly benefit governmental rather than business-type functions, this fund is included within *governmental activities* in the government-wide financial statements. The basic proprietary fund financial statements can be found on pages 41-43 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary funds financial statements can be found on page 44 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 46-77 of this report.

Other information. The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the Notes to the Financial Statements. Combining and individual fund statements and schedules can be found on pages 78-126 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The County's governmental-wide net assets exceed liabilities by \$606,793,430 for the fiscal year ending June 30, 2010. By far the largest portion of the County's net assets (59 percent) reflects its investment in capital assets (e.g., infrastructure, land, buildings, machinery, and equipment) less any debt used to acquire those assets, which is still outstanding. In the prior year, the County's investment in capital assets was 62% of net assets. The County uses these capital assets to provide services to the citizens; consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

County of Bernalillo Net Assets

| | Governmental Activities | | Business-type Activities | | Total | |
|---|----------------------------|-----------------------|-----------------------------|---------------------|-----------------------|-----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Assets: | | | | | | |
| Current and other assets | \$ 423,212,218 | \$ 451,853,691 | \$ 3,699,056 | \$ 3,727,388 | \$ 426,911,274 | \$ 455,581,079 |
| Capital assets | 563,826,219 | 550,648,172 | 3,994,799 | 4,682,057 | 567,821,018 | 555,330,229 |
| Total assets | <u>987,038,437</u> | <u>1,002,501,863</u> | <u>7,693,855</u> | <u>8,409,445</u> | <u>994,732,292</u> | <u>1,010,911,308</u> |
| Liabilities: | | | | | | |
| Long-term liabilities | 281,001,858 | 310,277,990 | 757,105 | 2,620,741 | 281,758,963 | 312,898,731 |
| Other liabilities | 103,674,363 | 122,112,025 | 2,505,536 | 1,430,559 | 106,179,899 | 123,542,584 |
| Total liabilities | <u>384,676,221</u> | <u>432,390,015</u> | <u>3,262,641</u> | <u>4,051,300</u> | <u>387,938,862</u> | <u>436,441,315</u> |
| Net Assets: | | | | | | |
| Invested in capital assets, net of related Debt | 353,608,399 | 356,558,834 | 2,001,499 | 2,358,904 | 355,609,898 | 358,917,738 |
| Restricted | 139,516,367 | 127,980,308 | - | - | 139,516,367 | 127,980,308 |
| Unrestricted | 109,237,450 | 85,572,706 | 2,429,715 | 1,999,241 | 111,667,165 | 87,571,947 |
| Total net assets | <u>\$ 602,362,216</u> | <u>\$ 570,111,848</u> | <u>\$ 4,431,214</u> | <u>\$ 4,358,145</u> | <u>\$ 606,793,430</u> | <u>\$ 574,469,993</u> |

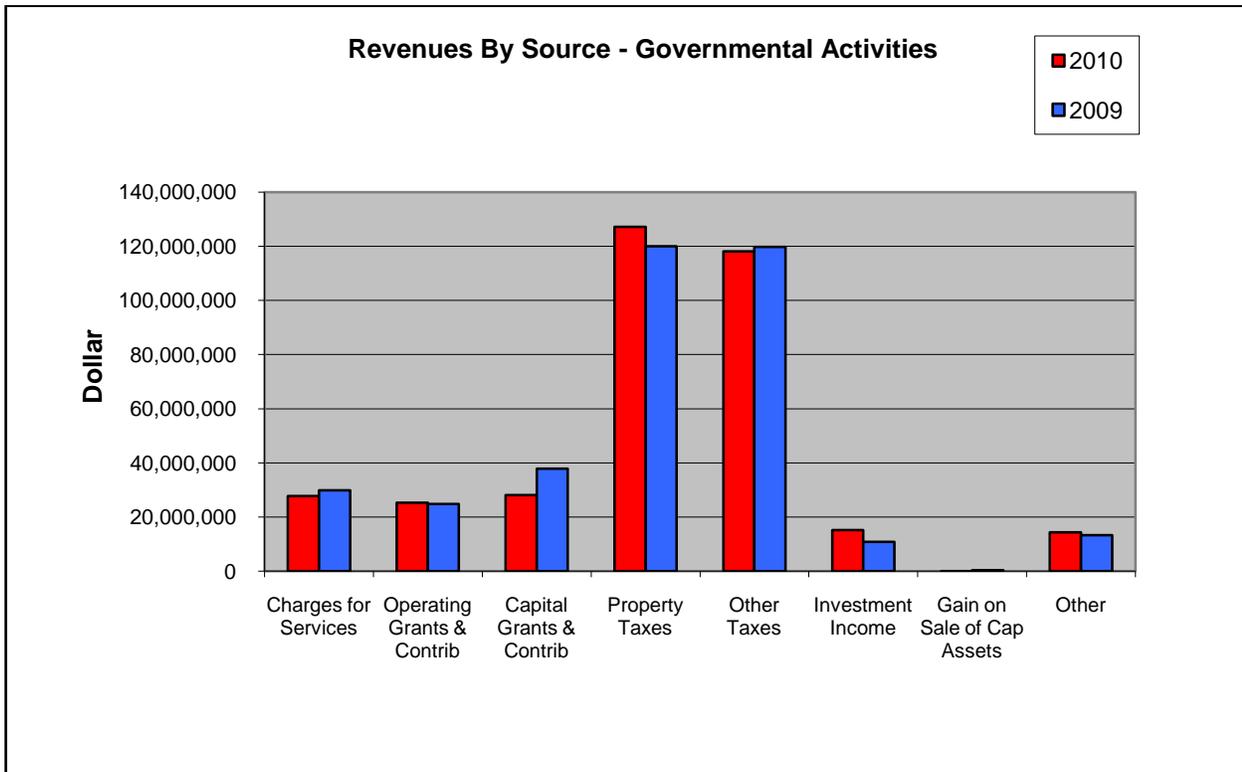
Restricted net assets in the amount of \$139,516,367 represent resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$111,667,165 may be used to meet the government's ongoing obligations to citizens and creditors.

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

Governmental activities. Governmental activities during the year increased the County's net assets by \$32,250,368 in FY10 as compared to \$20,915,112 in FY09.

County of Bernalillo's Changes in Net Assets

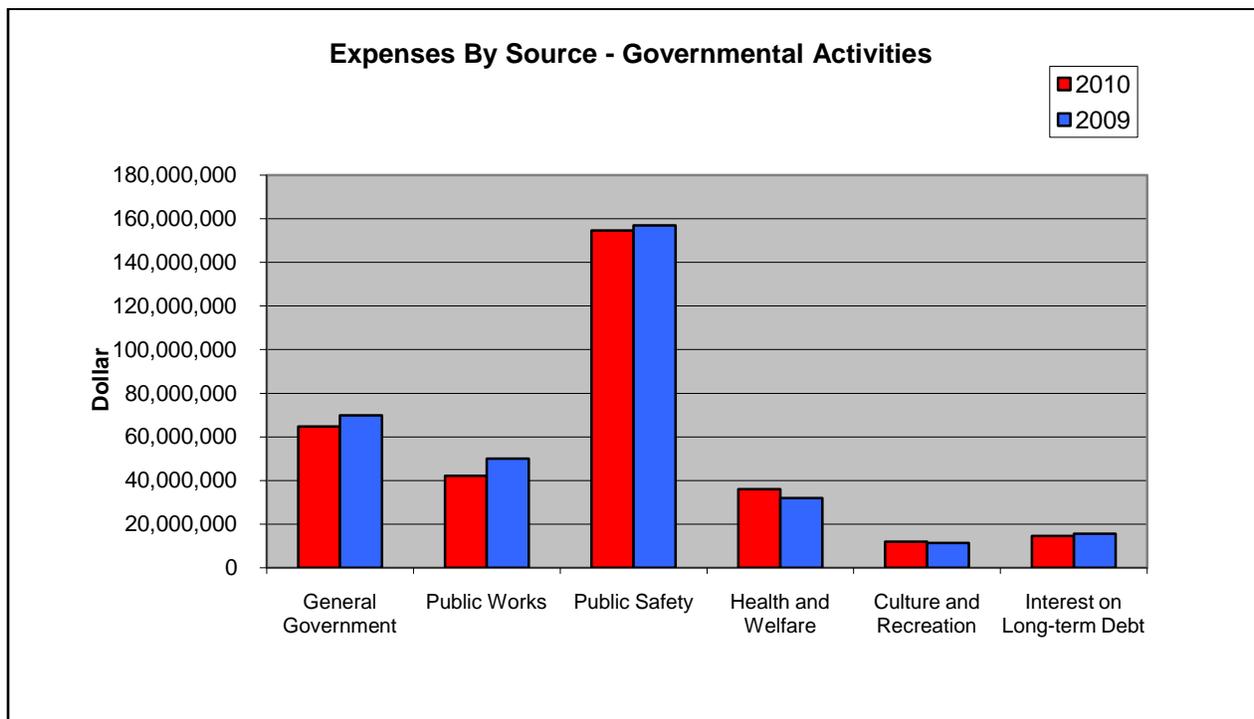
| | Governmental Activities | | Business-type Activities | | Total | |
|--|----------------------------|----------------------|-----------------------------|--------------------|----------------------|----------------------|
| | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> | <u>2010</u> | <u>2009</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$27,821,557 | \$29,818,073 | \$6,414,846 | \$6,332,394 | \$34,236,403 | \$36,150,467 |
| Operating grants and contributions | 25,361,263 | 24,751,326 | 780,587 | 327,781 | 29,940,194 | 25,079,107 |
| Capital grants and contributions | 28,113,701 | 37,884,782 | 107,712 | 482,179 | 24,423,069 | 38,366,961 |
| General revenues: | | | | | | |
| Property taxes | 127,201,067 | 120,069,963 | - | - | 127,201,067 | 120,069,963 |
| Other taxes | 118,157,209 | 119,743,475 | - | - | 118,157,209 | 119,743,475 |
| Investment income | 15,249,566 | 10,865,039 | 124,819 | 45,191 | 15,374,385 | 10,910,230 |
| Gain on sale of capital assets | 48,972 | 296,236 | 4,100 | 33,858 | 53,072 | 330,094 |
| Other | 14,375,434 | 13,317,702 | 614,416 | 712,172 | 14,989,850 | 14,029,874 |
| Total revenues | <u>356,328,769</u> | <u>356,746,596</u> | <u>8,046,480</u> | <u>7,933,575</u> | <u>364,375,249</u> | <u>364,680,171</u> |
| Expenses: | | | | | | |
| General government | 64,791,762 | 69,898,098 | - | - | 64,791,762 | 69,898,098 |
| Public works | 42,122,694 | 50,092,431 | - | - | 42,122,694 | 50,092,431 |
| Public safety | 154,622,588 | 156,911,320 | - | - | 154,622,588 | 156,911,320 |
| Health and welfare | 36,053,345 | 31,911,866 | - | - | 36,053,345 | 31,911,866 |
| Culture and recreation | 11,957,736 | 11,426,758 | - | - | 11,957,736 | 11,426,758 |
| Interest on long-term debt | 14,530,276 | 15,591,011 | - | - | 14,530,276 | 15,591,011 |
| Solid Waste | - | - | 4,817,057 | 5,215,029 | 4,817,057 | 5,215,029 |
| Housing Authority | - | - | 1,083,960 | 1,576,798 | 1,083,959 | 1,576,798 |
| Seybold Village | - | - | 349,467 | 320,744 | 349,467 | 320,744 |
| Juvenile Detention Center | - | - | 1,084,886 | 960,180 | 1,084,886 | 960,180 |
| El Centro Familiar | - | - | 646,387 | 450,958 | 646,387 | 450,958 |
| Total expenses | <u>324,078,401</u> | <u>335,831,484</u> | <u>7,981,757</u> | <u>8,523,709</u> | <u>332,060,158</u> | <u>344,355,193</u> |
| Increase (decrease) in net assets before transfers | 32,250,368 | 20,915,112 | 64,723 | (590,134) | 32,315,091 | 20,324,978 |
| Transfers in (out) | - | - | - | - | - | - |
| Capital contributions | - | - | 8,346 | - | 8,346 | - |
| Increase (decrease) in net assets | <u>32,250,368</u> | <u>20,915,112</u> | <u>73,069</u> | <u>(590,134)</u> | <u>32,323,437</u> | <u>20,324,978</u> |
| Net assets –beginning | 570,111,848 | 549,196,736 | 4,358,145 | 4,948,279 | 574,469,993 | 554,145,015 |
| Net assets – ending | <u>\$602,362,216</u> | <u>\$570,111,848</u> | <u>\$4,431,214</u> | <u>\$4,358,145</u> | <u>\$606,793,430</u> | <u>\$574,469,993</u> |



Governmental Activities revenues decreased by \$418 thousand from \$356.7 million in FY09 to \$356.3 million in FY10, a decrease of 0.12%. Key elements in the decrease of governmental activities revenues are as follows:

- Program revenues charges for services decreased by \$2.0 million from \$29.8 million in FY09 to \$27.8 million in FY10, a 6.7% decrease. The majority of the decrease was attributed to \$913 thousand less in license and permit fees collected with construction permits down \$818 thousand and barricading permits down \$95 thousand. In addition, the decrease can also be attributed to \$312 thousand less in impact fees collected and \$589 thousand less in fees collected for housing inmates at the Regional Correctional Center. Also, \$391 thousand less in fees were collected at the Metropolitan Detention Center (MDC) for the state “feed and care of prisoners” program of \$124 thousand and for the community custody program (CCP) of \$267 thousand.
- Program revenues operating grants and contributions increased by \$610 thousand from \$24.8 million in FY09 to \$25.4 million in FY10, a 2.5% increase. A portion of the increase was attributed to \$300 thousand in donation revenue received from the University of New Mexico Hospital for the Department of Substance Abuse program and \$225 thousand in federal direct SAFER grant revenue received to fund fire fighters in support of transferring the Village of Los Ranchos fire service operation to Bernalillo County. In addition, in FY10 operating revenue for the High Intensity Drug Trafficking Area (HIDTA) increased by \$250 thousand and operating revenue for the Fire Districts increased by \$250 thousand.

- Program revenues capital grants and contributions decreased by \$9.8 million from \$37.9 million in FY09 to \$28.1 million in FY10, a 25.9% decrease. A significant portion of the decrease was attributed to a decrease of \$3.5 million in revenue received from the New Mexico Department of Economic Development for the Fidelity project at Mesa Del Sol as \$7.5 million was received in FY09 and only \$4.0 million was received in FY10. Also, in FY09 reimbursement revenue of \$1.6 million was received from the federal government to pay principle and interest on a state loan for construction projects that was not received in FY10 because the loan was paid off in FY09. In addition, there was a decrease in revenue for the South Valley Drinking Water Phase III project, the Edith Phase II project, the Amistad Youth Crisis Shelter project, and the South Valley Health project of \$5.7 million, \$4.4 million, \$1.3 million, and \$500 thousand respectively as the majority of these projects were completed in FY09. The decrease in revenue was offset by an increase in revenue in FY10 of \$5.6 million for the Eubank Road project and \$3.4 million for the South Valley Multi-Purpose Center project.
- General revenues property taxes increased \$7.1 million from \$120.1 million in FY09 to \$127.2 million in FY10, a 5.9% increase. The increase was attributed to an increase in the taxable valuation within the County of \$847 million from \$13.976 billion in FY09 to \$14.823 billion in FY10 and an increase in the County's operational residential mill levy from 6.184 to 6.340 per \$1,000 of assessed taxable value. The increase in revenue was slightly offset by a decrease in the current property tax collection rate from 95.39% in FY09 to 94.49% in FY10.
- General revenues other taxes decreased \$1.6 million from \$119.7 million in FY09 to \$118.1 million in FY10, a 1.3% decrease. The decrease was primarily attributed to a decrease of \$1.6 million in gross receipts tax revenue as a result of the continued decline in the state economy. In addition, there was an increase in motor vehicle tax revenue of \$200 thousand and a decrease in gasoline tax revenue of \$200 thousand.
- General revenues investment income increased \$4.4 million from \$10.9 million in FY09 to \$15.3 million in FY10, a 40.4% increase. The increase was primarily attributed to the market value of the County's investments at the end of FY10 versus the market value in FY09. In FY09 the market value of the County's investments decreased by \$2.8 million and in FY10 the value of investments increased by \$1.6 million for a net increase change of \$4.4 million. The net change is reflected in the mark to market entry made to investment income at the end of FY10.
- Other revenues increased \$1.1 million from \$13.3 million in FY09 to \$14.4 million in FY10, an 8.3% increase. The increase is primarily attributed to \$2.4 million recognized as miscellaneous revenue to capitalize non-cash donations of land, building, machinery and equipment, art, and infrastructure.

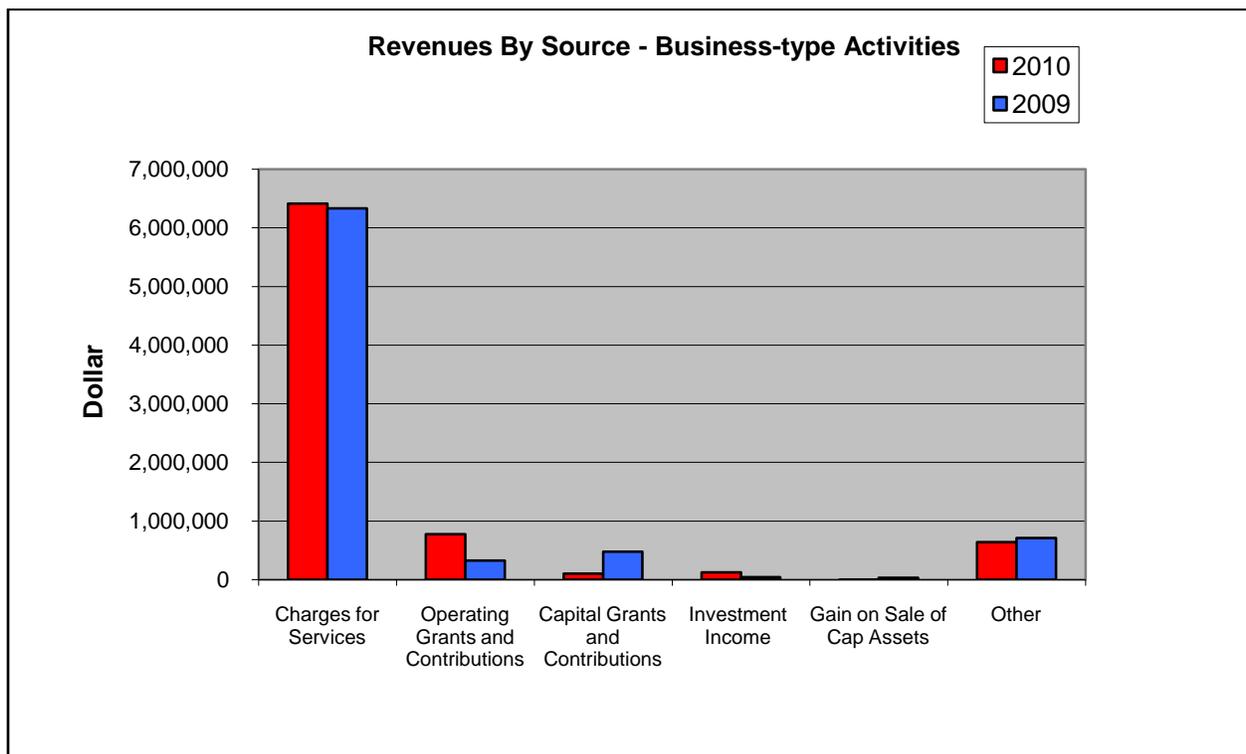


Governmental activities expenses decreased by \$11.7 million from \$335.8 million in FY09 to \$324.1 million in FY10, a decrease of 3.5%. Key elements in the decrease in governmental activities expenses are as follows:

- General government expenses decreased by \$5.1 million from \$69.9 million in FY09 to \$64.8 million in FY10, a 7.3% decrease. A portion of the decrease was attributed to a decrease of \$1.9 million in expenses incurred in FY10 to maintain the ERP financial system that was implemented in FY08 and was “go live” at the beginning of FY09. Also, there was a decrease of \$5.7 million in FY10 due to a decrease of \$2.2 million in compensated absences expenses and \$3.5 million in the reclassification of capital outlay for others expenses to general government expenses (in FY09 \$7.5 million in capital outlay for others expenses incurred for the Fidelity project at Mesa Del Sol and in FY10 \$4.0 million in capital outlay for others expenses incurred for the Fidelity project). In addition, the decrease was offset by an increase in FY10 of \$2.2 million for depreciation expense.
- Public works expenses decreased by \$8.0 million from \$50.1 million in FY09 to \$42.1 million in FY10, a 16.0% decrease. The decrease was attributed to less in capital outlay for others expenses in FY10 for the South Valley Drinking Water project and the North Valley Area I Phase II and J SAS project.
- Public safety expenses decreased by \$2.3 million from \$156.9 million in FY09 to \$154.6 million in FY10, a 1.5% decrease. The decrease was attributed to a decrease in compensated absences expenses of \$6.1 million and a decrease in depreciation expense of \$600 thousand. The decrease was offset by an increase of \$4.4 million in public safety grant expenses for E911 communications, High Intensity Drug Trafficking Area (HIDTA), and detoxification.

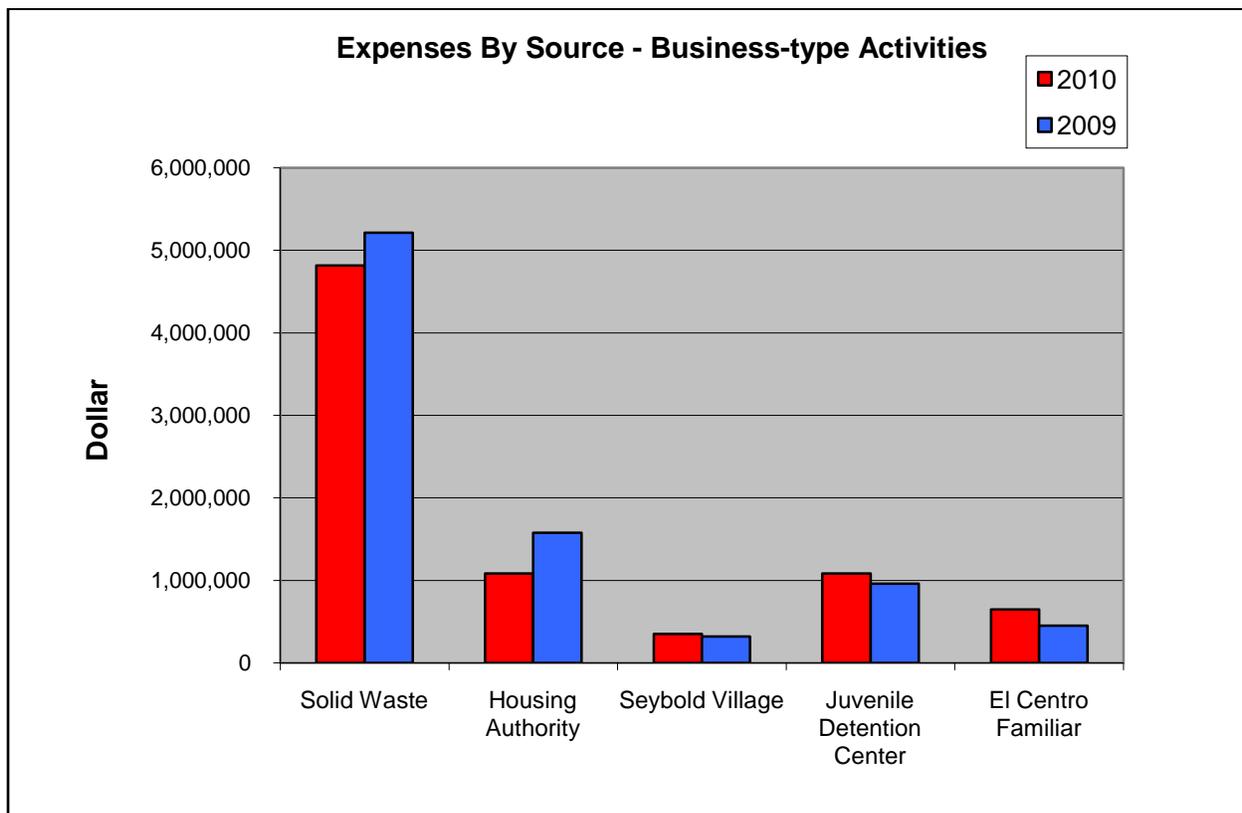
- Health and welfare expenses increased by \$4.1 million from \$31.9 million in FY09 to \$36.0 million in FY10, a 12.9% increase. The increase was primarily attributed to \$2.3 million in expenses incurred in the Health Care GRT fund for social services and \$1.5 million incurred in the County Indigent fund for indigent services.
- Interest on long-term debt expenses decreased by \$1.1 million from \$15.6 million in FY09 to \$14.5 million in FY10, a 7.1% decrease. The decrease was primarily attributed to a decrease in accrued interest payable recognized as expense at the end of FY10.

Business-type activities. Business-type activities net assets increased by \$73,069 during the current fiscal year. During the year, the Solid Waste fund, the Seybold Village Handicapped Project fund, and the El Centro Familiar fund had more program revenues than program expenses resulting in an increase in net assets of \$111,661, \$75,309, and \$78,322 respectively. The Bernalillo County Housing Authority fund and the Regional Juvenile Detention Center fund incurred losses of \$169,560 and \$22,663 respectively. These losses represent the degree to which ongoing program expenses have outstripped ongoing program revenues. Overall, the business-type activities experienced an \$822,968 operating loss (program revenues less expenses) before non-operating revenues of \$887,691 and capital contributions of \$8,346.



Business-type activities revenue increased from \$7.933 million in FY09 to \$8.046 million in FY10, a 1.4% increase. Key elements in the increase of business-type activities revenue are as follows:

- Revenue program charges for services increased from \$6.3 million in FY09 to \$6.4 million in FY10, a 1.6% increase. The increase was primarily attributed to \$123 thousand more in solid waste fee collections in FY10 than in FY09 and \$239 thousand more in rental revenue generated at the El Centro Familiar. This was offset by a decrease of \$283 thousand in administrative fees collected at the Housing Authority in FY10.
- Revenue program operating grants and contributions increased from \$327,781 in FY09 to \$780,587 in FY10, an increase of 138.1%. The majority of the increase was attributed to \$406 thousand in operating grant subsidy for the Housing Authority classified in the capital grants category in error in FY09 and classified correctly in this category in FY10. The amount of the subsidy in FY10 was \$451 thousand.
- Revenue program capital grants and contributions decreased from \$482,179 in FY09 to \$107,712 in FY10, a decrease of 77.7%. The decrease was primarily attributed \$406 thousand in operating grant subsidy for the Housing Authority classified in this category in error in FY09 and classified correctly in the operating grants and contributions category in FY10. In addition, the Seybold Village Handicapped Project HUD-PHA capital grant increased by \$32 thousand in FY10.
- General revenues investment income increased from \$45,191 in FY09 to \$124,819 in FY10, an increase of 176.2%. The increase was primarily attributed to an increase of \$112 thousand in investment income recognized in the El Centro Familiar based on amounts held in restricted investments from money received from rental income by tenants to help pay the debt owed on the 1999 Refunding Bond which was refunded in June 2010. The increase was offset by a decrease of \$31 thousand in investment income earned in the Housing Authority in FY10.
- Gain on sale of capital assets decreased from \$33,858 in FY09 to \$4,100 in FY10, a decrease of 87.9%. The decrease was attributed to a lower gain realized in the Housing Authority for the sale of lease to purchase program homes in FY10 than in FY09.
- Other revenues decreased from \$712,172 in FY09 to \$614,416 in FY10, a decrease of 13.7%. The decrease was primarily attributed to \$313 thousand less in “rent forfeited by tenants” revenue recognized as miscellaneous revenue for tenants who fail to meet program requirements in the Housing Authority. In addition, the decrease was offset by an increase of \$145 in miscellaneous revenue recognized in the Seybold Village Handicapped Project in FY10.



Business-type activities expenses decreased from \$8.524 million in FY09 to \$7.982 million in FY10, a 6.4% decrease. Key elements in the decrease are as follows:

- Solid Waste expenses decreased from \$5.2 million in FY09 to \$4.8 million in FY10, a 7.7% decrease. A significant portion of the decrease was attributed to a decrease of \$280 thousand in salaries and wages as some administrative salaries were paid by the General fund and the Environmental Services GRT fund in FY10. In addition, fees paid to Waste Management to bill and collect for solid waste services decreased by \$45 thousand, depreciation expense decreased by \$44 thousand and other charges and services decreased by \$42 thousand.
- Housing Authority expenses decreased from \$1.6 million in FY09 to \$1.1 million in FY10, a 31.3% decrease. A significant portion of the decrease was attributed to a decrease of \$500 thousand in other services and charges for building repairs for home rehabilitation project expenses of \$100 thousand, for occupancy miscellaneous operating expenses of \$301 thousand and for other miscellaneous expenses of \$90 thousand. In addition, the decrease can also be attributed to a decrease of \$35 thousand in depreciation expense and a decrease of \$10 thousand in materials and supply expenses.
- Seybold Village expenses increased from \$321 thousand in FY09 to \$349 thousand in FY10, an 8.7% increase. The increase was primarily attributed to an increase in salaries and wages expense in FY10.
- Juvenile Detention Center expenses increased from \$960 thousand in FY09 to \$1.1 million in FY10, a 14.6% increase. The increase was primarily attributed to an increase of \$98 thousand in

contractual services and an increase of \$32 thousand in multiline insurance and resident care services.

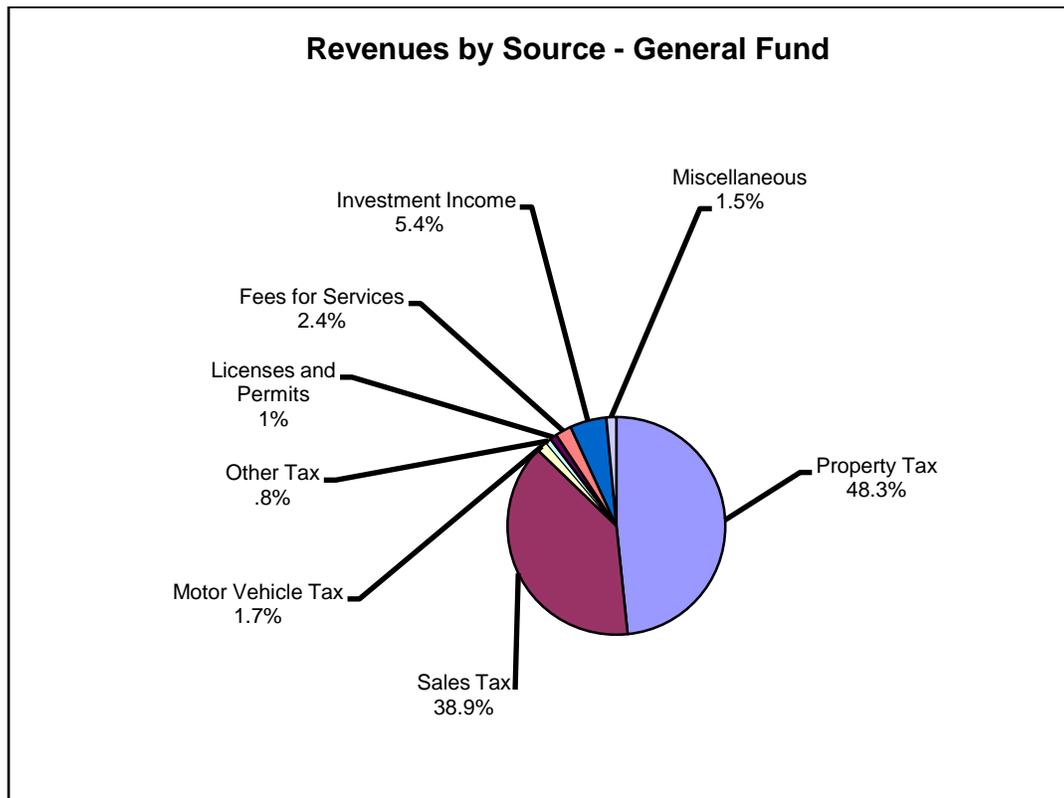
- El Centro Familiar expenses increased from \$451 thousand in FY09 to \$646 thousand in FY10, a 43.2% increase. The increase was primarily attributed to an increase of \$110 thousand in salaries and wages and an increase of \$94 thousand in other services and charges.

Financial Analysis of the County’s Funds

Governmental Funds. The focus of the County’s governmental funds is to provide information on near-term inflows, and balances of spendable resources. Such information is useful in assessing the County’s financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government’s net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County’s governmental funds reported combined ending fund balances of \$373,371,031, an increase of \$25.1 million. Approximately 71.3% of this total, \$266,391,461 constitutes unreserved fund balance, which is available for spending at the County’s discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: 1) to DFA 3/12 reserve requirement \$65,240,072, 2) \$20,451,583 in encumbrances to liquidate contracts and purchase orders of the prior period, 3) \$18,926,125 to pay debt service, and 4) \$2,361,790 for a variety of other restricted purposes.

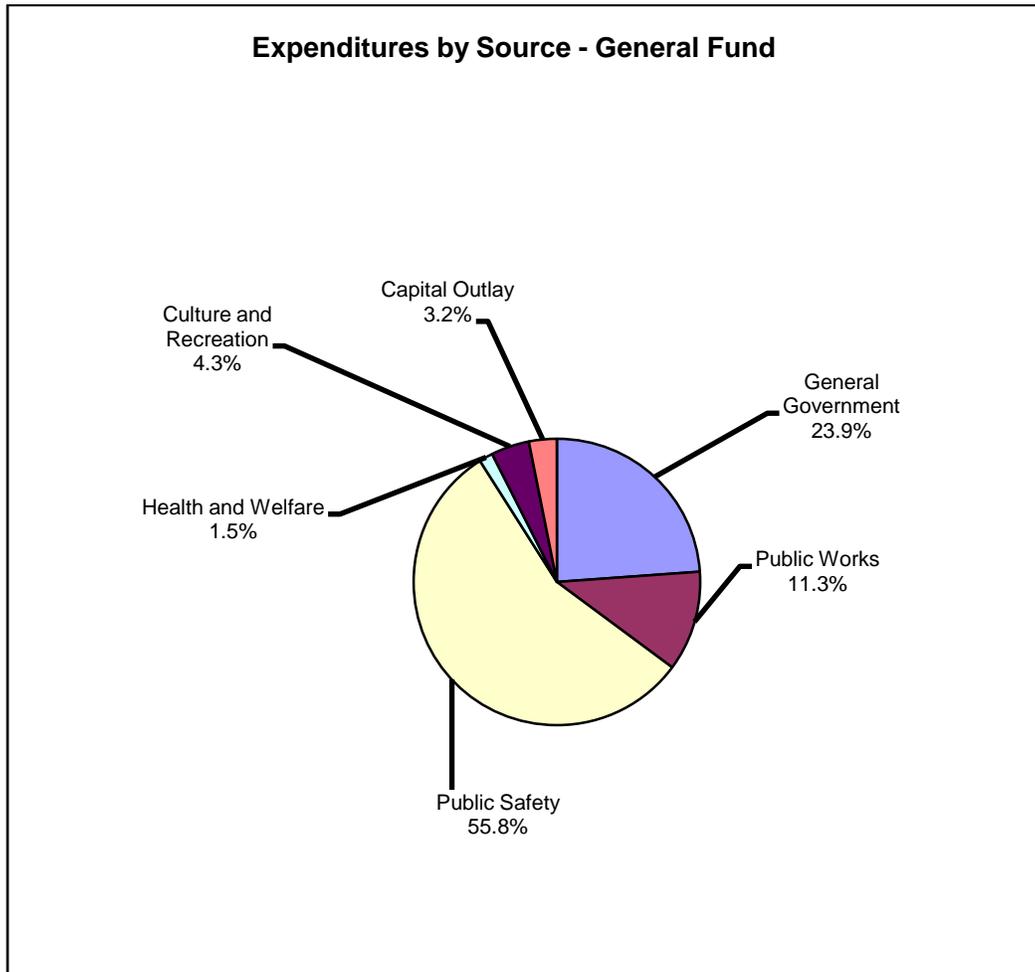
General Fund. The County’s general fund balance increased \$18,460,255 during the current fiscal year. Key factors in this growth are based on the increase in local taxes and investment income from the previous year combined with less than expected incurred expenditures during the year.



General Fund revenues increased \$2.8 million from \$226.4 million in FY09 to \$229.2 million in FY10, an increase of 1.2%. Key elements in the growth of General Fund revenues are as follows:

- Property tax revenue increased by \$6.1 million or 5.8% from \$104.7 million in FY09 to \$110.8 million in FY10. The increase was attributed to an increase in the taxable valuation within the County of \$847 million from \$13.976 billion in FY09 to \$14.823 billion in FY10 and an increase in the County's operational residential mill levy from 6.184 to 6.340 per \$1,000 of assessed taxable value. The increase in revenue was slightly offset by a decrease in the current property tax collection rate from 95.39% in FY09 to 94.49% in FY10.
- Gross receipts tax revenue (GRT) decreased by \$2.6 million from \$91.7 million in FY09 to \$89.1 million in FY10, a 2.8% decrease. The decrease was attributed to a decline in the state economy. As was the case for the state, the County slipped into a recession in FY09 and it continued well into FY10. This is reflected by an overall decrease of 3.6% in taxable gross receipts reported by the state for Bernalillo County during the year from \$30.8 billion in FY09 to \$29.7 billion in FY10.
- Licenses and permits revenue decreased by \$827 thousand from \$3.2 million in FY09 to \$2.4 million in FY10, a 25.8% decrease. The decrease was primarily attributed to a decrease of \$819 thousand in construction permits in FY10.
- Investment income revenue increased by \$4.2 million from \$8.2 million in FY09 to \$12.4 million in FY10, an increase of 51.2%. The increase was primarily attributed to the market value of the County's investments at the end of FY10 versus the market value in FY09. In FY09 the market value of the County's investments decreased by \$2.8 million and in FY10 the value of investments increased by \$1.6 million for a net increase change of \$4.4 million. The net change is reflected in the mark to market entry made to investment income at the end of FY10.
- Miscellaneous revenue decreased by \$3.5 million from \$6.9 million in FY09 to \$3.4 million in FY10, a decrease of 50.7%. The decrease was primarily attributed \$1.7 "due from" the Housing Department and reported in the miscellaneous revenue category in FY09 and 1.7 million "due from" the Housing Department and reported in the cash category in FY10.

General Fund expenditures decreased \$2.4 million from \$206.9 million in FY09 to \$204.5 million in FY10, a 1.2% decrease. Key elements in the decrease in General Fund expenditures are as follows:



- General government expenditures decreased by \$842 thousand from \$49.6 million in FY09 to \$48.8 million in FY10, a 1.7% decrease. The decrease was primarily attributed to a decrease of \$1.7 million in Bureau of Election expenditures in FY10 as additional expenditures were incurred in FY09 as a result of a major general election.
- Capital outlay expenditures decreased by \$2.5 million from \$8.5 million in FY09 to \$6.0 million in FY10, a decrease of 29.4%. The decrease was primarily attributed to decrease of \$1.5 million in expenditures for vehicles and heavy equipment vehicles in FY10. In addition, expenditures for the Downtown Public Safety Complex Renovation Project decreased by \$1.0 million in FY10 as the majority of the renovations of the facility were completed in FY09.

Grants Fund. The Grants Fund accounts for various federal, state and other grant funding sources received by the County. The grants are restricted to specific purposes as agreed to between the County and the funding source as enumerated in the grant agreement/contract. Grants related to the County's Housing Department are accounted for in the Housing Funds.

In FY09 the County, as part of its ERP implementation, consolidated its grant funds into one fund which is now designated as a major fund on its financial statements.

The Grants Fund balance decreased \$44,535 during the current fiscal year. The fund balance decrease was attributed to a transfer of \$44,535, designated as "donations", to the General Fund.

Grants Fund revenues increased \$4.1 million from \$37.3 million in FY09 to \$41.4 million in FY10, an increase of 11.0%. Key elements in the growth of the Grants Fund revenues are as follows:

- Intergovernmental revenues increased \$4.1 million from \$37.3 million in FY09 to \$41.4 million in FY10, an increase of 11.0%. The increase was primarily attributed to an increase in legislative appropriation capital grant revenue reimbursements and state direct grant revenue reimbursements of \$2.9 million and \$2.6 million respectively.

Grants Fund expenditures increased \$4.2 million from \$37.2 million in FY09 to \$41.4 million in FY10, an increase of 11.29%. Key elements in the growth of the Grants Fund expenditures are as follows:

- Public safety expenditures increased \$4.4 million from \$10.0 million in FY09 to \$14.4 million in FY10, an increase of 44.0%. This increase was primarily attributed to an increase of \$2.8 million in expenditures for the E911 Communications grant, an increase of \$474 thousand in expenditures for the Sheriff's miscellaneous grants, and an increase of \$155 thousand in expenditures for the detoxification grant.
- Capital outlay expenditures increased \$6.5 million from \$12.8 million in FY09 to \$19.3 million in FY10, an increase of 50.8%. The increase was attributed to an increase in grant expenditures of \$5.4 million for the Eubank Road project and \$3.4 million in grant expenditures for the South Valley Multi-Purpose project. The increases were offset by decreases in grant expenditures for the Edith Phase II project and the Amistad Youth Crisis Shelter project of \$2.1 million and \$1.3 million respectively, with the majority of work completed in FY09.
- Capital outlay-other entities expenditures decreased \$6.2 million from \$12.7 million in FY09 to \$6.5 million in FY10, a decrease of 48.8%. The decrease was primarily attributed to a \$3.5 million decrease in expenditures for the Fidelity project at Mesa Del Sol of 7.5 million in FY09 to \$4.0 million in FY10. In addition, the decrease is attributed to a \$4.2 million decrease in expenditures in FY10 for the Edith Phase II project and for the North Valley Area I Phase II and J SAS project of \$1.9 million and \$2.3 million respectively.

Regional Correction Center Fund. The Regional Correction Center is used to account for monies received from the U.S. Marshall Service, the Justice Prisoner & Alien Transportation System (JPATS), and the Federal Bureau of Prisons through a Cooperative Agreement Program and Intergovernmental Agreement for the lease of the County owned jail facility under the authority of Section 33-3-27 NMSA, 1978.

The Regional Correction Center Fund balance increased \$1,771,542 during the current fiscal year. The increase was attributed to rental revenue received from Cornell Companies for the lease of the facility. Both revenues and expenditures decreased from FY09 to FY10 and were attributed to a decrease of inmates housed at the facility in FY10 versus FY09.

Construction Fund. The Construction Fund accounts for various construction projects related to road projects, storm sewer systems, acquiring of library books and library resources, remodeling required by the Americans with Disabilities Act, acquisition of land for expanding parks and recreational facilities, constructing and equipping sheriff's sub-stations, improvement of facilities for the County Public Health Department, and other projects. Financing for these projects is provided by general obligation bonds, gross receipts tax revenue bonds and earnings from the investment of those monies.

In FY09 the County, as part of its ERP implementation, consolidated a majority of its capital construction funds into one fund which is now designated as a major fund on its financial statements.

The Construction Fund balance increased \$6,268,527 in the current fiscal year. The increase was attributed to the County's sale of \$10,750,000 of General Obligation Bonds, Series 2009A, in December 2009. This included \$3,500,000 for storm drains, \$2,500,000 for parks and recreation and \$4,750,000 for public safety. In addition, the County issued \$9,000,000 of Gross Receipts Tax Revenue Bonds, taxable Series 2009A, in August 2009 to appropriate funds to provide economic assistance to Solar Array Ventures for a portion of the cost of land acquisition, constructing and equipping a building at the Cordero Mesa Business Park. Also, during the year, expenditures exceeded revenues by \$9.9 million and cash transfers out of \$3.8 million occurred.

Construction Fund revenues decreased \$9.2 million from \$12.8 million in FY09 to \$3.6 million in FY10, a decrease of 71.9%. Key elements in the decline of Construction Fund revenues are as follows:

- Intergovernmental revenues decreased \$9.7 million from \$11.4 million in FY09 to \$1.7 million in FY 10, a decrease of 85.1%. The majority of the decrease is attributed to a decrease in reimbursable contract revenue of \$7.2 million from the Albuquerque Bernalillo County Utility Authority for reimbursements on costs related to County water projects. In addition, revenue of \$1.6 million received from the federal government in FY09 to pay principal and interest on a loan from the state was not received in FY10 because the loan was paid off in FY09.

Construction Fund expenditures decreased \$9.5 million from \$23.0 million in FY09 to \$13.5 million in FY10, a decrease of 41.3%. Key elements in the decline of Construction Fund expenditures are as follows:

- Capital outlay expenditures decreased \$1.9 million from \$9.8 million in FY09 to \$7.9 million in FY10, a decrease of 19.4%. The majority of the decrease was attributed to a decrease in expenditures of \$1.8 million for the Edith Phase II project completed in FY09.

- Capital outlay-other entities expenditures decreased \$5.1 million from \$10.0 million in FY09 to \$4.9 million in FY10, a decrease of 51.0%. The decrease was primarily attributed to a decrease in expenditures of \$6.2 million in FY10 for the South Valley Drinking Water Phase III project completed in FY09.
- Debt service principal and interest expenditures decreased \$1.6 million from \$1.6 million in FY09 to zero in FY10. The decreased was attributed to \$1.6 million principal and interest payment made to pay off a state loan in FY09.

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

Special Revenue funds. As of the end of fiscal year 2010, the County's Special Revenue funds reported combined ending fund balances of \$34,485,722, an increase of \$1,991,630. Of the fund balance, \$11,484 is reserved for inventory, \$1,576,033 is reserved for encumbrances, and the remaining fund balance of \$32,898,205 is unreserved undesignated. Key elements in the growth of the total special revenue fund balance are as follows:

- A significant portion of the increase was attributed to a \$1.8 million increase in the fund balance of the Valuation Fund from \$7.2 million in FY09 to \$9.0 million in FY10, a 25.0% increase. In FY10, this fund generated \$5.4 million in revenues and expenditures of \$3.6 million.
- An additional portion of the increase was attributed to the addition in FY10 of the new Department of Substance Abuse special revenue fund. In FY10, this fund generated \$1.3 million in revenues, \$960 thousand in expenditures and other financing sources of \$184 thousand for an ending fund balance of \$481 thousand.
- The increase was offset by a decrease of \$759 thousand in the Health Care GRT Fund balance from \$16.4 million in FY09 to \$15.6 million in FY10, a decrease of 4.6%. The decrease was a result of \$1.2 million in other financing uses applied to debt service payments for the 2009 GRT Revenue Bond. In addition, revenues exceeded expenditures by \$441 thousand in FY10.

Debt Service funds. As of the end of fiscal year 2010, the County's Debt Service funds reported combined ending fund balances of \$18,926,125, a decrease of \$2,144,470. All of the fund balance was reserved to pay debt service. Key elements of the decrease in the total fund balance are as follows:

- The decrease was attributed to a decrease of \$4.9 million in the Refunding Series 2005 Reserve Debt Service Fund as the fund was closed in FY10 due to the related bonds being paid off in FY10.
- The decrease was offset by an increase of \$1,650,000 which was attributed to the addition of the Series 2010B Debt Service Fund as a result to the advance refunding of the Multifamily Housing Refunding and Improvement Revenue Bond, Series 1999. In addition, there was an increase in the General Obligation Bond Debt Service Fund, the Series 1996B Debt Service

Fund, and the Refunding Series 1998 Debt Service Fund in the amount of \$776,283, \$343,435, and \$280,717 respectively.

Capital Projects funds. As of the end of fiscal year 2010, the County's Capital Project funds reported combined ending fund balances of \$16,381,676, a decrease of \$1,212,248. During the year, as capital projects are completed, the cost of the projects are reclassified as capital assets and removed from the capital project fund. Of the fund balance, \$206,470 is reserved for encumbrances and the remaining fund balance of \$16,175,206 is unreserved undesignated. Key elements of the decrease in the total fund balance are as follows:

- The majority of the decrease was attributed to a decrease of \$971 thousand in the Open Space Fund from \$11.4 million in FY09 to \$10.4 million in FY10, an 8.5% decrease. The majority of the decrease was in large part due to property tax revenue of \$1.4 million and capital outlay expenditures of \$1.7 million. There were also operating expenditures of \$224 thousand in the culture and recreation category and \$436 thousand in the public works category.
- The remainder of the decrease was attributed to a decrease of \$241 thousand in the Impact Fee Fund balance as expenditures exceeded impact fee revenue and interest income in FY10.

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

Budgetary Highlights Original Budget – Final Budget Comparison.

General Fund. General fund total original budgeted revenues increased \$662,500 or by 0.3% from \$221.1 million to \$221.7 million (final). General fund total original budgeted expenditures decreased \$69,251 or by 0.03% from \$265.0 million to \$264.9 million (final). Significant changes between the original budget and the final amended budget are summarized as follows:

- The fees for services original revenue budget increased \$2.1 million from \$4.6 million to \$6.7 million. The increase was primarily attributed to a line item transfer of \$1.8 million to move budget from the miscellaneous income category to this category which was a correction to a cost center and the general ledger account. Also, additional budget of \$300 thousand was established for Waste Disposal/Recycling fees.
- The miscellaneous income original revenue budget decreased \$1.5 million from \$5.3 million to \$3.8 million. The decrease was primarily attributed to a line item transfer of \$1.8 million to move budget from this category to fees for services category which was a correction to a cost center and the general ledger account. The decrease was offset by an increase of \$345 thousand to establish general revenue budget for the Fire and Rescue Department.
- The general county original expenditure budget decreased \$3.5 million from \$45.1 million to \$41.6 million. The decrease was primarily attributed to a \$3.9 million line item transfer to the

capital outlay category for capital outlay costs related to the Cordero MESA Bus Parking project, the 620 Lomas Building Remodel project, the Juvenile Justice Improvement project, and for the purchase of a pumper/ladder.

- The fleet-facilities management original expenditure budget decreased by \$2.3 million from \$16.1 million to \$13.8 million. A majority of the decrease was attributed to a \$1.4 million line item transfer to the general county category to realign the payroll budget originally loaded incorrectly from the payroll system (Empath). In addition, a line item transfer of \$460 thousand was made to the capital outlay category for the Mobil Asset Management project and the City/Fiber project. Also, a line item transfer of \$350 was made to the general county category as a result of vehicle fuel savings.
- The social services original expenditure budget increased by \$445 thousand from \$953 thousand to \$1.4 million. The increase was attributed to line item transfers from the general county category for social services programs.
- The capital outlay original expenditure budget increased by \$4.9 million from \$9.6 million to \$14.5 million. The increase was attributed to the establishment of \$6.9 million in projects resulting in \$1.1 million for Sheriff's Fleet Replacement purchases, \$1.1 million for the Cordero MESA Bus Parking project, \$882 thousand for General Replacement purchases, \$740 thousand for the purchase of an Engine/Ladder, \$650 thousand for the Juvenile Justice Improvement project, \$600 thousand for the 415 Tijeras Sheriff's Training Facility Renovation project, \$600 thousand for the 620 Lomas Building Remodel project, \$528 thousand for IT Hardware and Software purchases, \$399 thousand to replace the HVAC system at the Atrium North Bldg., \$363 thousand for the Public Works Campus Security Improvement project, \$262 thousand for the purchase of busses for community centers, and for other various County projects. In addition, direct asset purchases budget decreased by \$2.0 million due to reclassification to the projects detailed above.

Grants Fund. An original and final budget is not presented for this fund as this is a life-to-date fund and the County does not adopt an annual operating budget during the current fiscal year.

Regional Correction Center Fund. Regional Correction Center fund total original budgeted revenues increased \$1.4 million or by 12.0% from \$11.7 million to \$13.1 million (final). Regional Correction Center fund total original budgeted expenditures increased \$1.4 million or by 11.7% from \$11.8 million to \$13.2 million (final). Significant changes between the original budget and the final amended budget are summarized as follows:

- The fees for services original revenue budget increased by \$1.4 million from \$10.0 million to \$11.4 million. The increase was attributed to \$1.4 million budget adjustment to increase the revenue budget in this category in anticipation of additional revenue in FY10 for housing inmates at the regional correction facility.
- The public safety original expenditure budget increased by \$1.4 million from \$11.8 million to \$13.2 million. The increase was attributed to \$1.4 million budget adjustment to increase the expenditure budget in anticipation of additional expenditures in FY10 for housing inmates at the regional correction facility.

Construction Fund. An original and final budget is not presented for this fund as this is a life-to-date fund and the County does not adopt an annual operating budget during the current fiscal year.

Budgetary Highlights – Budget to Actual

General Fund. General Fund revenues exceeded budgetary estimates by \$3,876,995 or by 1.7%. General Fund expenditures were less than budgetary estimates by \$59,761,145 or by 22.6% thus eliminating the need to draw upon existing fund balance. During the year the County incurred an excess of revenues over expenditures and other financing sources in the amount of \$14,214,858. Individual significant differences between the General Fund final budget and actual amounts are summarized as follows:

- Property tax revenue had a positive variance of \$8,587,104. The budget projections estimated a 95% collection rate of current property taxes within the County as of June 30, 2010. The actual collection rate was 94.2%. The significant reason for the positive variance was that current property tax collections were \$5,349,238 greater than budget (5.5% of budget) which was reflective of the 6.1% increase in the assessed taxable property valuation from the 2009 assessed taxable valuation which was higher than expected. In addition, delinquent tax collections, interest on current and delinquent tax collections, and penalties on current and delinquent tax collections exceeded projections by \$3,237,866.
- Gross receipt tax (GRT) revenue had a negative variance of \$7,793,028. The variance was primarily attributed to the decline in the state economy. As was the case in the state, the County slipped deep into a recession in FY09 and continued well into FY10.
- Motor vehicle revenue had a positive variance of \$895,050. The variance was primarily attributed to more revenue realized in this line item than expected.
- Intergovernmental revenue had a negative variance of \$526,600. The variance was attributed to no intergovernmental revenue recognized in the general fund in FY10.
- Licenses and permits revenue had a negative variance of \$426,125. The variance was primarily attributed to \$839,654 less in construction permit fees collected than budgeted, which was reflective of the weak construction sector in 2010 and the weak housing construction industry in the Albuquerque MSA area. The negative variance was offset by positive variances in the collection of franchise permit fees, building and zoning permit fees, and barricading permit fees.
- Fees for services revenue had a negative variance of \$1,161,174. The decrease was primarily attributed to lower than expected fees collected at the Metropolitan Detention Center (MDC) for the Community Custody Program (CCP) and for miscellaneous charges of \$441 thousand and \$299 thousand respectively. In addition, the Sheriff's Office budgeted fees for services to villages of \$313 thousand that never materialized and there was a less than expected decrease in collection of court security fees of \$366 thousand. Also, the collection of Clerk's fees was lower than budgeted by \$312 thousand. The decrease in revenue was offset by higher than expected revenue from the collection of community center fees of \$120 thousand, sports program fees of \$67 thousand, food and pool fees of \$38 thousand, pool admission and rent

fees of \$48 thousand, before and after school fees of \$52 thousand and fees for other various programs.

- Investment income revenue had a positive variance of \$2,915,289. The increase was in part attributed to a conservative budget estimate made by the County Treasurer as part of the biennial budget process. It can also be attributed to additional revenue to invest as a result of increased property tax revenue in FY10. Even though the economy was still in a recession in FY10, the County was able to exceed its budgeted estimate as a result of excellent investment management performed by the County Treasurer and an investment committee which oversees investment strategy monthly.
- Miscellaneous revenue had a positive variance of \$1,306,664. The increase was attributed to more than expected revenue related to rental revenue, general revenue and non-grant revenue reimbursements.
- Legal expenditures had a positive variance of \$762,274. The variance was primarily attributed to lower than expected expenditures for wages, salaries and fringe benefits of \$286,211 and contractual services of \$327,577.
- Risk Management expenditures had a positive variance of \$2,809,206. The variance was primarily attributed to lower than expected property insurance premiums of \$1,814,041, and less than expected expenditures for Law Enforcement Officer Liability claims in the amount of \$765,113.
- Information Technology expenditures had a positive variance of \$829,603 which was primarily attributed to less than expected expenditures for wages, salaries and fringe benefits.
- General County expenditures had a positive variance of \$32,075,864. The variance was primarily attributed to less than expected expenditures for contingencies of \$15,149,213 and less than expected expenditures for salary contingency of \$10,743,025. Also, there were less than expected expenditures for contractual services and for rental building and land of \$2,611,452 and \$3,445,483 respectively. In addition, there were less than expected expenditures for data processing equipment and repair of \$240,466 and budgeted expenditures of \$100,000 for vehicle gas and oil that did not occur.
- Clerk expenditures had a positive variance of \$960,931 which was primarily attributed to less than expected expenditures for election ballots and equipment maintenance and repair of \$622,114 and \$215,348 respectively.
- Fleet-Facilities Management had a positive variance of \$841,290. The variance was attributed to less than expected costs of \$493,575 for fleet facilities administration which was primarily related to utility costs, less than expected expenditures of \$171,931 for vehicle gas and oil and less than expected costs of \$245,900 for building maintenance and repair. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.

- Metropolitan Detention Center (MDC) expenditures had a positive variance of \$7,159,430. A significant portion of this variance was attributed to \$2,708,930 of budgeted funds for regular salaries, overtime and fringe benefits that did not materialize and less than expected expenditures of \$3,178,327 for professional services. In addition, there were less than expected expenditures for contractual services, multiline insurance, resident care services, and utilities of \$313,632, \$541,015, \$588,473, and \$850,000 respectively. The remaining variance balance pertained to minor adjustments in various other operating categories some of which had a negative variance effect.
- Capital outlay expenditures had a positive variance of \$8,597,561. The variance was primarily attributed to less than expected expenditures of \$1,754,252 for the Renovation of the 415 Tijeras Sheriff's Training Facility project, \$1,099,562 for the Cordero Mesa Trans Line & Pump Station project, \$614,326 for the Juvenile Justice Improvement project, \$583,084 for the 620 Lomas Remodel project, \$507,956 for the Public Works Campus Security Improvement project, \$452,540 for IT Hardware & Software purchases, \$205,165 for the Rio Grande Pool project, and \$200,000 for the Fiber Connection for Public Works Campus project. The remaining variance balance pertained to various other projects with less than expected expenditures than what was budgeted.
- Principal debt service expenditures had a positive variance of \$1,061,727. The variance was attributed to budgeted expenditures for loan payments that did not materialize.

Grants Fund. A budget to actual statement is not presented for this fund as this is a life-to-date fund and the County does not adopt an annual operating budget during the current fiscal year.

Regional Correction Center Fund. Regional Correction Center Fund revenues exceeded budgetary estimates by \$2,253,846 or by 17.2%. Regional Correction Center Fund expenditures were less than budgetary estimates by \$272,529 or by 2.1% thus eliminating the need to draw upon existing fund balance. During the year the County incurred an excess of revenues over expenditures and other financing sources in the amount of \$2,383,391. Individual significant differences between the Regional Correction Center Fund final budget and actual amounts are summarized as follows:

- Fees for services revenue had a positive variance of \$2,264,646. The variance was primarily attributed to more than expected revenue generated as a result of the number of inmates housed at the regional correction facility in FY10.
- Operating expenditures had a positive variance of \$272,529 as a result of less than expected expenditures for housing inmates at the regional correction facility in FY10.

Construction Fund. A budget to actual statement is not presented for this fund as this is a life-to-date fund and the County does not adopt an annual operating budget during the current fiscal year.

Capital Asset and Debt Administration

Capital assets. The County's investment in capital assets for its governmental and business type activities as of June 30, 2010 amounts to \$567,821,018 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, construction in progress, and infrastructure. Each year the Board of County Commissioners updates the Capital Improvements Program (CIP) in order to plan both long and short range financing for the County's capital projects. The CIP process provides for the development and submittal of requests for the annual and six-year requests for the Capital Improvements Program. A wide range of public facilities and equipment is considered in the CIP. There are statutory requirements that provide for design, construction, major repair, reconstruction or replacement of facilities such as buildings, jails, courthouses, roadways, bridges, parks, and some heavy equipment. The County can use several types of funding for the CIP that includes General Obligation Bonds, Revenue Bonds, Special Assessment District Bonds, Federal grants and State grants and appropriations.

Citizen involvement is solicited to determine and prioritize the needs of the County by holding public meetings. The Board of County Commissioners holds periodic advertised meetings at various locations within each commission district to solicit public input and discuss the public's requests. Capital improvement projects selected by the Board and adopted in the CIP that are to be funded by general obligation bonds are placed on the ballot in the next general election. The general obligation bond schedule is based on a two-year cycle and issuance is currently limited to \$25,000,000 dollars by the Board of County Commissioners in order to maintain the same property tax rate. Other Capital improvement projects are included in the State of New Mexico Infrastructure Program for funding consideration. Major capital asset events during the current fiscal year included the following:

- In FY10, renovations continued at the old court house building located at 415 Tijeras. The building now houses the Sheriff's Training Center and various County departments including the Public Information Office, the Accounting Department, the Enterprise Resource Planning (ERP) Team, the Human Resources Training Center, and selected Information Technology staff. Additional County departments will be relocated to this building in FY11.
- Construction commenced on the Eubank Boulevard Reconstruction project in September 2010. The project will include road improvements to Eubank Boulevard from San Antonio Drive to Paseo Del Norte, including widening the roadway from two to five lanes with a center turn lane and providing frontage roads. The project will also provide for sidewalks and trails for pedestrian and bicycle travel. It is scheduled for completion in September 2011.
- Construction was completed on the Peanut Butter and Jelly Facility in FY10. The project consisted of demolishing an existing garage and the addition of 1,198 sq. ft. to the existing building. The facility specializes in the use of interactive parenting and bonding programs as an effective way to prevent child abuse and neglect and as a way to preserve the family unit.
- The South Valley Multi-Purpose Center facility was completed in May 2010. The facility is an 18,500 square feet community center near Atrisco and Larrazolo SW with facilities for entertainment activities for youth and the elderly and also contains a meal site.

- Construction began on the East Mountain Co-Located Sheriff, Fire and Emergency Operation Center. The facility will serve as a full-service public safety facility with joint use area that include a staging area for any emergency responder such as weather, HAZMAT incidents, wildfires, and incidents of search and rescue. The project is scheduled for completion by May 2011.
- Construction commenced on the James McGrane Jr. Public Safety Complex. The East Mountain public safety complex is named in honor of Bernalillo County Deputy James McGrane Jr. who was killed in the line of duty March 22, 2006. The 20,000 square foot complex will house fire and sheriff personnel and provide a secondary emergency operations center. It is scheduled for completion in 2011.
- Renovation commenced on the Juvenile Justice Center facility which houses Children's Court. Moving walls and other obstructions will create more functional space and better utilize existing spaces. The whole interior of the building will be painted, old flooring will be replaced and new fixtures and improved lighting will be installed. Completion is tentatively scheduled for April 2011.
- Property on Wellesley Street NE was acquired to accommodate the Bernalillo County Health Office and La Familia Family Services. The property will accommodate the move of the County Health Office to this new facility and allow the non-profit La Familia Family Services a facility that better serves the varied service that they provide to children and their families. The project is currently in the design phase and construction completion is set for March 2012.
- The construction of the 5,000 square foot Fisher and Smith Gym addition commenced in September 2010. The project will add a life fitness room and a multi use exercise room to the existing Los Vecinos Community Center in the East Mountains. The life fitness room will allow for high and low impact aerobics as well as provide space for the East Mountain Charter School wrestling program and other appropriate activities through the community center programming. Completion is scheduled for May 2011.
- Renovations to the Hiland Theater continued in FY10. Eventually, the theater will be reopened and used for various community and school activities as well as live performances from local theater groups.
- In 2009, the County acquired the Southeast Heights Children's Care Facility property located on San Pablo SE. The design phase for this project has commenced and will provide improvements to the building which will accommodate a non-profit organization that will provide day care and activities for children and their families. The 7,500 square foot facility will have classrooms, activity rooms, a kitchen, playground and administrative space. The completion date is scheduled for July 2011.
- The Bachechi Open Space Park 27 acres site project located on the southeast portion of the intersection of Alameda Boulevard and the Rio Grande River has commenced and will include an educational facility, a parks maintenance yard/building, and caretaker's quarter. Numerous landscape features include a boardwalk across constructed wetlands, nature trails with interpretive signs, plantings for wildlife habitat, and wildlife viewing blinds. Then completion date is scheduled for September 2011.

County of Bernalillo's Capital Assets

(net of accumulated depreciation)

| | Governmental Activities | | Business-type Activities | | Total | |
|--------------------------|----------------------------|---------------|-----------------------------|-------------|---------------|---------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Land | \$134,317,394 | \$128,093,610 | \$ 492,917 | \$ 563,033 | \$134,810,311 | \$128,656,643 |
| Buildings | 179,766,861 | 186,668,203 | 3,328,649 | 3,940,974 | 183,095,510 | 190,609,177 |
| Machinery and equipment | 26,047,511 | 26,205,317 | 129,045 | 178,050 | 26,176,556 | 26,383,367 |
| Land improvements | 770,922 | 606,555 | 44,188 | - | 815,110 | 606,555 |
| Infrastructure | 171,954,336 | 179,640,069 | - | - | 171,954,336 | 179,640,069 |
| Leasehold improvements | 2,144,118 | 2,272,654 | - | - | 2,144,118 | 2,272,654 |
| Construction in progress | 46,399,137 | 24,980,977 | - | - | 46,399,137 | 24,980,977 |
| Art | 2,425,940 | 2,180,787 | - | - | 2,425,940 | 2,180,787 |
| Total | \$563,826,219 | \$550,648,172 | \$3,994,799 | \$4,682,057 | \$567,821,018 | \$555,330,229 |

Additional information on the County's capital assets can be found in note IV-C. on pages 62-63 of this report.

Debt administration. The Bernalillo County Budget and Finance Division has analyzed the existing debt position of the County and has assessed the impact of future financing requirements on the County's ability to service additional debt. Review and analysis of the County's debt position is performed to provide a capital financing plan for infrastructure and other improvements. Long-term financing projections are linked with economic, demographic and financial resources expected to be available to repay the debt. Decisions regarding the use of debt are based upon a number of factors including, but not limited to, the long-term needs of the County and the amount of resources available to repay the debt. The debt policy is not expected to anticipate every future contingency in the County's capital program or future operational needs. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate.

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

General Obligation Bonds. At the end of the current fiscal year, the County had total general obligation debt outstanding of \$105,675,000. The County has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, public safety improvements and park facility improvements. General obligation bonds are backed by the full faith and credit of the County government and are supported by ad valorem taxes. The tax rate depends upon debt service schedules and property valuation and is set by the New Mexico Department of

Finance and Administration. In fiscal year 2010, this tax is approximately \$0.880 per \$1,000 of assessed taxable value in ad valorem taxes to support general obligation bonds, which constitute direct and general obligations of the County. These bonds have retirement dates ranging from June 1, 2011 through August 1, 2027. The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the County's debt position. The State's Constitution provides for a legal debt limit of four percent (4.0%) of taxable valuation. The ratio for the County is less than one percent (0.71%) of the \$14.8 billion taxable value of property within Bernalillo County, as of June 30, 2010. The County may currently issue up to an additional \$487.2 million of general obligation bonds. The net general bonded debt per capita is \$160.88. The lowest per capita amount in the last ten fiscal years was \$112.77 in fiscal year ended June 30, 2002. The County's ratings on uninsured general obligation bonds as of June 30, 2010 were:

- Moody's Investors Service, Inc. - Aaa
- Standard & Poor's Rating Service - AAA
- Fitch Agency - AAA

Revenue Bonds. At the end of the current fiscal year, the County had total revenue bond debt outstanding of \$208,955,000. The County has nine outstanding revenue bonds: the 1996B series, the 1997 series, the 1998 refunding series, the 2002 series, the 2005 partial refunding series, the 2008A series, the 2009A series, the 2010A series, and the 2010B series. These bonds are payable from net pledged gross receipt tax revenues. Although the bonds are general obligations of the County, the County intends to pay the bonds solely from the net pledged revenues. The pledged revenue coverage of gross receipts tax revenues to debt service requirements is 3.41. The lowest pledged revenue coverage in the last nine fiscal years was 2.19 in fiscal year 2002. These bonds have retirement dates ranging from August 1, 2010 through June 15, 2029. The County's ratings on gross receipt tax revenue bonds as of June 30, 2010 were:

- Moody's Investors Service, Inc. – Aa2
- Standard & Poor's Rating Service – AAA
- Fitch Agency – AA+

General Obligation and Revenue Bonds Outstanding

| | Governmental Activities | | Business-type Activities | |
|--------------------------|----------------------------|----------------------|-----------------------------|--------------------|
| | 2010 | 2009 | 2010 | 2009 |
| General obligation bonds | \$ 105,675,000 | \$102,080,000 | \$ - | \$ - |
| Revenue bonds | 208,955,000 | 205,445,000 | - | 1,655,000 |
| Total | \$314,630,000 | \$307,525,000 | \$ - | \$1,655,000 |

As presented above, the County's total outstanding bond debt increased by \$5,450,000 during the current fiscal year. Additional information on the County's long-term debt can be found in note IV.F on pages 65-68 of this report and in the statistical section of this report.

Economic Factors and Next Year's Budgets and Rates

The County's Board of Commissioners and Manager considered many factors when setting the fiscal year 2011 budget. The County's operating budgeted appropriations were reduced approximately 1.9 percent from FY10 levels based on these factors. According to forecasts by the University of New Mexico's Bureau of Business and Economic Research, the outlook for the New Mexico economy is not particularly good. The recession is expected to linger through the fourth quarter of 2010 before beginning a slow climb back. Employment is expected to decline by 1.3 percent in 2010, followed by a 0.6 percent gain in 2011. New Mexico personal income growth will reach 2.6 percent in both 2010 and 2011, and then gradually increase to 5.1 percent by 2015. The unemployment rate will peak at 8.6 percent in 2010 and then gradually decline to 6.8 percent by 2015.

The outlook for the Albuquerque MSA economy is not so good in the near term. The recession is expected to continue through the end of 2010 and is expected to start a recovery in 2011 and reach full stride by the second half of 2012. Nonfarm employment growth will post a decline of 1.4 percent this year and will post a gain of 0.8 percent in 2011 and 1.8 percent in 2012. Growth will slow thereafter reaching 1.4 percent in 2015. Personal income growth will increase from 1.7 percent this year to 3.1 percent in 2011, and will show a pattern of increasing growth through 2015. The unemployment rate in June 2010 was 8.6 percent—slightly lower than the national rate of 9.5 percent but still higher than the statewide rate of 8.2 percent. Forecasts indicate the unemployment rate will hover around 8 percent in the Albuquerque MSA through 2013 before declining to 7 percent by 2015.

The Albuquerque MSA economy lost 4,933 (net) jobs during the second quarter of 2010. Only three of the twelve sectors showed a net increase in jobs, government, educational services & health care and wholesale trade. The Government sector employment rose by 1,800 which were mostly in the federal sector, although the state government added a few jobs. The federal sector jobs were part of the 2010 Census and also with the US Forest Service. Health Care employment posted a net increase of 1,133 jobs and Wholesale Trade jobs increased by 400. This sector will see little employment growth in the next few years. State and local government employment will see minimal gains in the near term, with moderate gains in the coming years. Federal government employment gains of 7.7 percent this year reflects Census 2010 and US Forest Service hiring, but will decline as hundreds of Census 2010 workers are released.

The construction sector remains a problem, losing another 2,433 jobs. Housing in the City of Albuquerque posted a small gain during the second quarter of 2010, up 7.2 percent, but the number of units has not been large. Rio Rancho housing permits were down 31.9 percent in the second quarter. The total value of construction contracts awarded during the second quarter was 28.1 percent below a year ago. Residential contracts were up 33.8 percent, but non-residential contracts were off 61.3 percent, and non-building contracts dropped 29.7 percent. The construction sector is expected to return to growth status, but not until 2012. Housing is expected to begin a comeback this year, but will not gain strength until 2011.

Employment in the professional and business services was 2,167 below a year ago. The losses included temporary jobs and the closing of the Sento, Inc. call center. Also included was a large layoff at the Lockheed Martin call center in Albuquerque. This sector will see an employment gain of 2.3 percent in 2011 and gains in excess of 2.5 percent each year thereafter. Hiring will continue at Fidelity Investments and the Hewlett-Packard call center in Rio Rancho will open adding as many as 1,350 jobs during the first year of operation.

The manufacturing sector is expected to show employment gains of 1.6 percent next year, 3.8 percent in 2012, and 2.7 percent in 2013. New jobs will be appearing at Intel, General Mills, Applied Technology Associates, and Solar Distinction.

The Albuquerque economy is expected to recover and will come from numerous sources. The educational services and health care sector will continue to be a significant source of new jobs. Employment is expected to increase by 2.2 percent in 2010, and then climb to 2.7 percent and 2.8 percent in 2011 and 2012 respectively as Presbyterian Health Systems plans to open a new full-service hospital in Rio Rancho. Employment is expected to average just over 2.0 percent from 2013 through 2015. Valencia County also plans to build a hospital within two years. The professional and business services sector will also provide a substantial boost as will the manufacturing sector. In addition, the construction sector is also expected to return to growth mode by sometime in 2012.

Thus, the Albuquerque MSA near term economy is still in a recession, but recovery is expected to commence in 2011 and take hold by the second half of 2012.

Request for Information

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