DEBT ADMINISTRATION

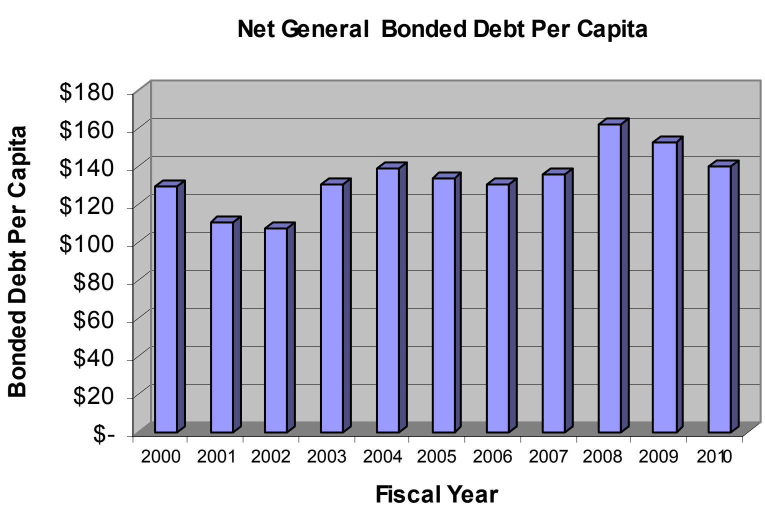
Bernalillo County's debt administration policy is to manage the issuance of the County's debt obligations and maintain the County's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, infrastructure, facilities, and equipment beneficial to the County as necessary for essential services.

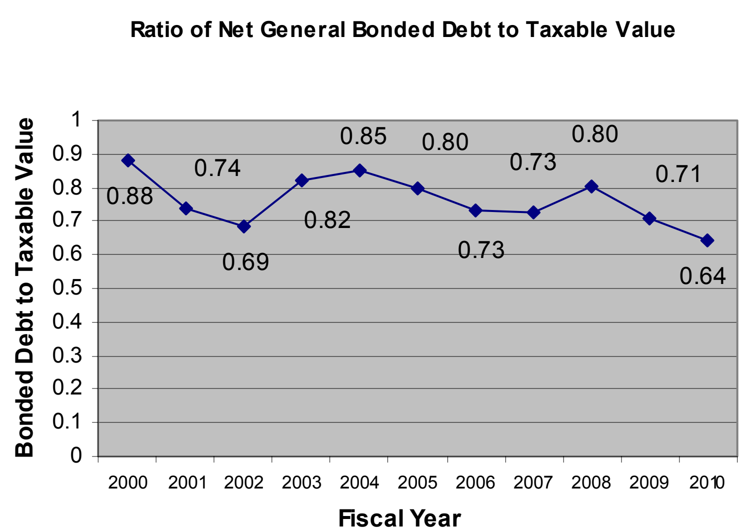
Analysis of the County's debt position is important, as growth in the County has resulted in an increased need for capital financing. This debt capacity analysis is premised on the idea that resources, as well as needs, should drive the County's debt issuance program. The debt policy is not expected to anticipate every future contingency in the County's capital program and/or all future operational needs of the County. Sufficient flexibility is required to enable County management to respond to unforeseen circumstances or new opportunities, when appropriate. Further, this analysis is not intended to review the County's total financial position or to make projections of future expenditures other than debt service.

Debt ratios are examined by the County as well as the impact of future debt financing on those ratios. The County's net bonded debt per capita, as illustrated in the chart below, is $162.59 and the ratio of net bonded debt to taxable value is 0.80:1 as of July 1, 2008. Those ratios are projected to decline to $152.45 and 0.71:1 in FY09 and to $139.93 and 0.64:1 in FY10 based on projected increases population and net tax valuations (refer to Table 4 in the Statistical Section for more details). The use of debt ratios is only one tool of many used in determining a course of action and is not used exclusively in making a decision.

A calculation of indebtedness known as net tax supported debt takes into account all bond issues supported by tax revenues. 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. For bonds being repaid solely with property taxes, the County will strive for an annual, fiscal year debt service fund balance in an amount not less than the succeeding six months principal and interest requirements. The graphs below show the relationship between general net bonded debt per capita and the ratio of net general bonded debt to taxable value for the County.

Bond issuance by the County, by either competitive or negotiated sale, is based upon which alternative will provide the County with lower costs. The Board of County Commissioners, upon reviewing the Finance Division's recommendation, 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 (i.e., variable rate financing, certain revenues issues, a combination of taxable/nontaxable issues, etc.), or based upon other factors, which lead the Finance division to conclude that a competitive sale would be less effective. If a negotiated sale is anticipated, the Finance Division and County Bond Counsel establish a list of pre-qualified underwriters.





DEBT POLICY

The objective of the County's debt management policy is to maintain the County's ability to incur present and future debt at the most beneficial interest rates in the amounts needed for financing the Capital Improvements Program. The following statements are encompassed in the County's debt policy.

- Debt shall be maintained at a level considered manageable by the rating agencies based upon current economic conditions, including among others, population, per capita income and assessed valuation.
- Bernalillo County continuously evaluates how much tax-supported debt is prudent.
- The County matches capital needs with economic resources on an annual basis to ensure that the proposed level of debt issuance does not place a constraint on maintenance of the County's excellent credit worthiness.
- County includes in its capital budgeting process a complete and detailed description of the anticipated sources of funds for future capital projects, as well as the resulting impact of long-term financing on the County's debt position.
- When adjustments to debt plans become necessary, the reasons are well documented to demonstrate that County's continuous commitment to sound debt management.
- The County shall structure all long-term debt with prepayment options except when alternative structures are more advantageous. The County will consider prepaying or defeasing portions of outstanding debt when available resources are identified.
- Bonding should be used to finance or refinance only those capital improvements and long-term assets, or other costs directly associated with financing of a project, which have been determined to be beneficial to a significant portion of the citizens in Bernalillo County, and for which repayment sources have been identified. Bonding should be used only after considering alternative funding sources, such as project revenues, Federal and State grants, and special assessments.
- The scheduled maturity of bond issues should not exceed the expected useful life of the capital project or asset(s) financed.
- Certificates of participation/other leases should be used only when appropriate (i.e., when no other adequate means of financing is available under State law).
- The County should encourage the use of competitive sales for all issues unless circumstances dictate otherwise.
- The Finance Division must approve the bond allocation process.

BOND RATINGS

The strength of the County's general obligation and gross receipts tax revenue bond debt is reflected in the following statements by the rating agencies:

"**Fitch's** initial rating of **'AA+'** reflects the county's sound financial management and large financial reserves, diversified and growing tax base, modest debt levels, and above-average pay-out rate."

"Moody's Investor Services assigns a **'Aa1'** rating, with a stable outlook, to Bernalillo County. Assignment of the Aa1 rating is based on the County's sizable and diverse tax base, low debt burden, and ample financial reserves."

Standard & Poor's – "The **'AAA'** rating reflects Bernalillo County's:

- Diversified economic base, with particular links to government, defense-related research, health care, and high technology;
- Improved wealth and income levels;
- Strong financial performance; and
- Low debt burden."

LEGAL DEBT MARGIN

State Statutes limit the aggregate amount of the County's general obligation debt to four percent (4%) of the County's reported net taxable valuation. The chart below shows the allowable bonding capacity for fiscal years 2008-2009 and 2009-2010.

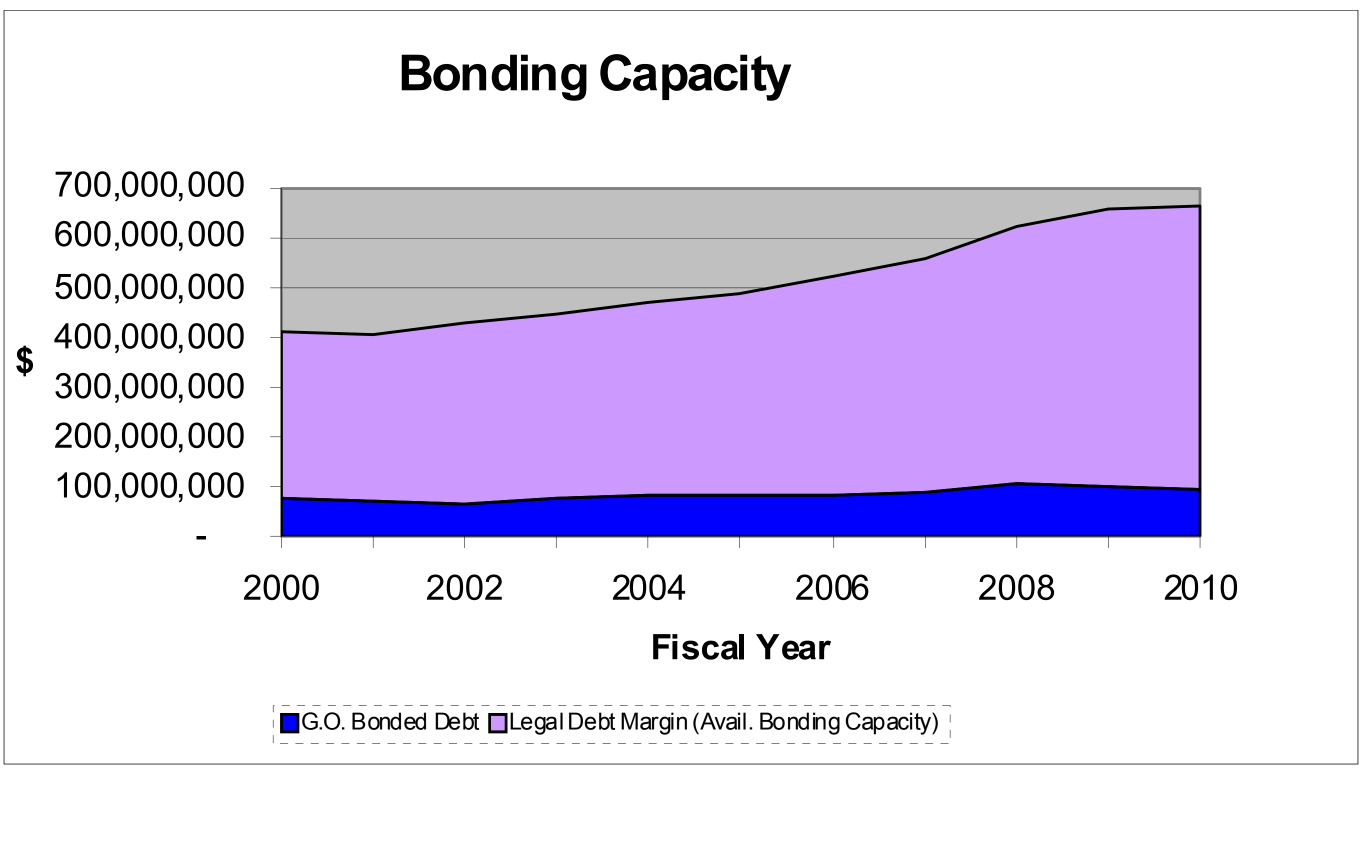
Outstanding General Obligation bonds of $98 million in FY08-09 and $92 million in FY09-10, represents 17.78% and 16.08% utilization of bonding capacity, respectively.

Legal debt margin (available bonding capacity), as illustrated in the below graph, is $456 million in FY08-09 and to increase to $480 million in FY09-10.

Computation of Legal Debt Margin for General Obligation Bonds:

	FY08-09	FY09-10
Legal Debt Limitation	4%	4%
Net Taxable Valuation(1)	$13,894,920,084	$14,311,767,687
Allowable Bonding Capacity	$555,796,803	$572,470,707
General Obligation Bonds Outstanding	$98,835,000	$92,080,000
Legal Debt Margin (Available Bonding Capacity)	$456,961,803	$480,390,707
Percentage of Allowable Bonding Capacity Utilized	17.78%	16.08%

Note(1): Projected Net Taxable Assessed Valuation based on a growth rate of 3% FY09-10



BIENNIAL FINANCING PLAN

Bernalillo County's biennial financing plan is a schedule of the expected sale of County bonds, notes and other financings expected in fiscal years 2008-2009 and 2009-2010.

The financing plan lists the amount of the issuance, timing of the sale, the security for the issue, issue type (a new issue, redemption or refunding), and method of the sale.

In FY09 and FY10, six issues are planned. The uses for the proceeds from the debt issuances include capital improvements and cash flow needs. The biennial financing plan is detailed in the below chart.

Issue	Notes	Planned Issue Size	Timing of Sale	Security for Issue	Issue Type	Planned Method of Sale
General Obligation Bonds	(1)	$20,750,000	As Needed (3 issues projected)	Property Taxes	New	Competitive
Tax & Revenue Anticipation Notes	(2)	$95,000,000	2nd Quarter FY09 4th Quarter FY09 2nd Quarter FY10	Property Taxes & General Fund Revenue	New	Competitive

Notes: (1) Projected 2008 issuance of General Obligation Bonds

(2) Tax and Revenue Anticipation Notes are sold as needed based on General Fund cash flow projections.

SUMMARY OF OUTSTANDING DEBT

General Obligations Bonds

Supported by Ad Valorem Taxes

The County has outstanding general obligation bonds for capital facilities including road improvements, storm drain improvements, library books, facilities improvements, public safety improvements, and park facility improvements. General obligation bond projects for FY08-09 and FY09-10 are referenced in the table below.

These bonds are supported by ad valorem taxes. The tax rate depends upon Debt Service schedule and property valuation.

As of the fiscal year ending June 30, 2008, approximately $0.88 per $1,000 of assessed value in ad valorem taxes are pledged to support general obligation bonds, which constitute direct and general obligations of the County.

These bonds have retirement dates ranging from 2010 through 2025. The full faith and credit of the County is pledged for the payment of the principal and interest, subject to New Mexico Constitution and statutory limitations on the aggregate amount of ad valorem taxes.

Current General Obligation Bond Projects
ROADS - School Bus Route State Grant Funds Match; Matching Funds for State Cooperative Program; County Arterial Program;design & construct Montano & Edith Intersection and Lyon/Unser Boulevard, Roadway Striping and Pavement Markings; Guard Rails on County Roads
FACILITY CONSTRUCTION AND IMPROVEMENT - Hiland Theater Renovation
PARKS AND RECREATION - Design and Construction of a Gym in th East Mountains and Renovation of Four Swimming Pools
PUBLIC SAFETY - Design and Construct a Co-Located Sheriff/Fire/Emergency Center in the East Mountains and well as completion of Renovations to the Juvenile Detention Center

Revenue Bonds

Supported by Gross Receipt Taxes (GRT)

Bernalillo County has issued seven outstanding revenue bonds, which are detailed in the chart below.

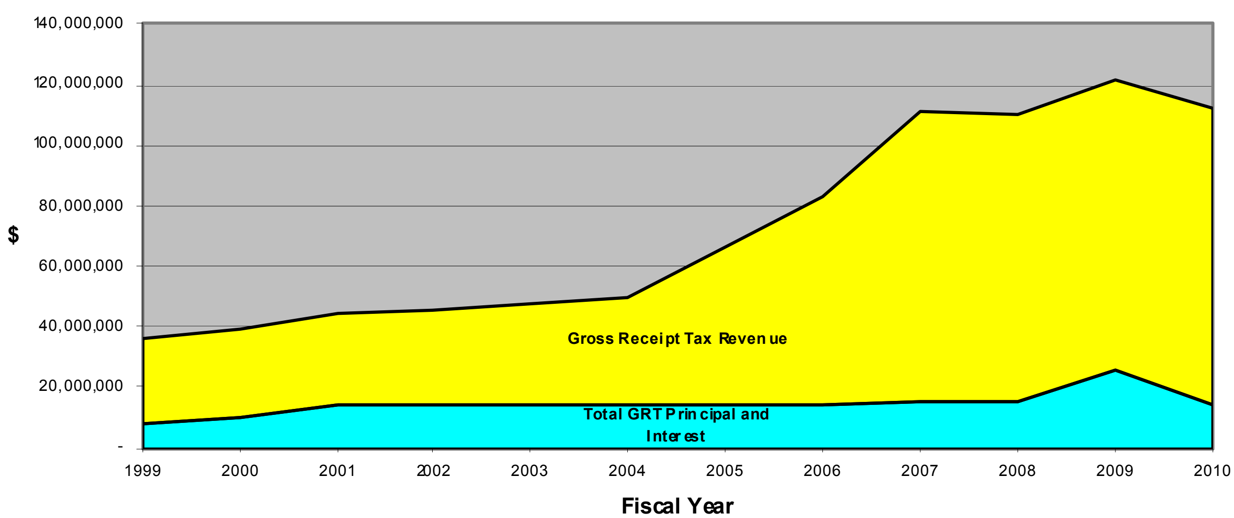
The bonds are special limited obligations of the County, payable solely from net pledged revenues (Gross Receipts Taxes). The Bonds are not general obligations of the County, and the County neither pledges its full faith and credit nor its ad valorem taxing power or general resources.

These bonds have retirement dates ranging from 2009 through 2027.

County Gross Receipts Tax Revenue bonds require a minimum debt coverage ratio of 2:1. The County's debt coverage for GRT bonds is illustrated in the graph below. Debt coverage is strong at 6.32:1 on July 1, 2008 and is projected to decrease to 3.75:1 for FY09 and increase to 7.01:1 for FY10 due to increased Gross Receipt Tax revenue.

CURRENT GROSS RECEIPTS TAX REVENUE BOND PROJECTS	
Series 1996 Revenue Bond	Purchase Equipment & Software for the Clerk's Office
Series 1996b Revenue Bond	Finance & Construct a Regional Jail
Series 1997 Revenue Bond	Finance the Purchase & Installation of Communication & Information Management Systems, Construction of Outdoor Performing Arts Center, & Purchase an Office Building
Series 1998 Revenue Bond	Finance & Construct the County Courthouse
Series 1999 Revenue Bond	Finance & Construct a Metropolitan Detention Center & Water & Sewer Systems
Series 2002 Revenue Bond	Finance Enhancements to County Courthouse
Series 2005 Revenue Bond	Partially refund the 1999 Gross Reciepts Tax Revenue Bond for Improvement Revenue Bonds
Series 2008 Revenue Bond	Refund the Gross Reciepts Tax Series 2004

Gross Receipts Tax Revenue Bond Coverage



Note: Additional Gross Receipts Tax collection was attributable to the 3/16th cent GRT implemented on January 1, 2005 and 1/8th cent GRT implemented on July 1st, 2006 in anticipation of the operation of the Metropolitan Detention Center.

Special Assessment Districts Debt

The County has established "Special Assessment Districts" to finance various improvements such as streets, sidewalks, sewer lines, and other projects as described in Section 33-3 NMSA. A special assessment is a charge imposed against certain properties to defray part or all the cost of a specific improvement deemed to primarily benefit those properties, separate and apart from the general benefit accruing to the public at large. Since the special assessment is not generally available until construction is in progress, the County usually issues interim warrants, which are essentially a short-term construction loan. Interim warrants are advanced from time to time from the General Fund as construction financing is needed.

Interim warrants are payable from special assessments to be levied to pay, in part, the costs of improvements in assessment districts and/or from the proceeds of special assessment bonds. If these sources become insufficient to pay the interim warrants and the interest becomes due, the deficiency may be paid out of the General Fund of the County. If there is a deficiency in the General Fund, it is mandatory for the County (in accordance with provisions of Section 7-3-838 NMSA) to levy and collect ad valorem taxes upon all property in the County which is by law taxable for State, County and municipal purposes, subject to the limitations of constitutional and statutory requirements. Payment of the bonds issued for the construction of a project may be supplemented from gasoline tax money in the street improvement fund authorized by Section 3-34-1 NMSA 1978 on or before a date not more than twelve months after the last deferred installment of an assessment is due from the owner of a tract or parcel of land so assessed. The County's intent is to retire any interim warrants and interest thereon with special assessments and/or assessment district bond proceeds, and not levy a general ad valorem tax.

SPECIAL ASSESSMENT DISTRICT BONDS	
Series 2003A	The Comanche-Griegos District was created by the County for the purpose of constructing certain street and drainage improvements within the County and assessing the costs thereof against the property benefiting from improvements within the County and assessing the costs thereof against the property benefiting from such improvements, and is not an independent governmental entity.
Series 2003B	Bernalillo County shall participate as a member of the District to pay the County's share of the assessment, both principal and interest, equally over the 20 year amortization of the Bonds, which amounts shall be placed on the Judgment Roll of Bernalillo County as they become due for payment from taxes collected for that purpose.

Tax & Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANs) are short-term limited obligations of the County that are used to finance current expenditures pending receipt of tax payments. TRAN proceeds allow the County to reduce fluctuations in cash flow due to the fact that certain revenues, especially property taxes, are not received evenly each month. TRAN proceeds are used to finance current general fund expenditures pending receipt of tax payments that are received in May and November. Any resulting increase in general fund cash from the TRAN proceeds is available to the County for investment. The difference between the interest earned by investing the TRAN proceeds and the interest paid on the debt represents additional investment revenue for the County. Property tax and gross receipts tax collections are evaluated prior to the issuance of the notes in order to determine the financial impact on the County.

Tax and Revenue Anticipation Notes are not general obligations of the County, but are payable solely out of the anticipated revenues that have been pledged for the payment thereof. The full faith and credit of the County is not pledged to the payment of the Notes. Anticipated Revenues include Ad Valorem Taxes, Gross Receipts Taxes, Intergovernmental Revenues, Licenses, Permits, Fees, Charges for Services, Investment Income and other Miscellaneous Income.

Industrial Revenue Bonds

The County is authorized by State Statute to issue Industrial Revenue Bonds (IRBs) wherein the County has deemed the project to be beneficial to the citizens of the County. The County may issue an IRB to finance privately-operated development projects. The private party initiates the process by requesting that the government unit issue the bonds. IRBs are a means of financing the acquisition, construction, expansion or renovation of industrial development facilities. IRBs benefit the County by promoting economic development and growth by attracting businesses by exempting most ad valorem taxes for as long as the bonds are outstanding.

In accordance with the procedures specified in the County's Revenue Bond Project Evaluation Policies and Procedures (County Code, Article IV, Division 3), the County Manager submits the project plan to the Board for discussion and in conjunction with Bond Counsel also requests approval of an Inducement Resolution to publish a notice of intent to adopt an Ordinance authorizing the issuance and sale of Industrial Revenue Bonds for the project. The project plan is also submitted for a complete analysis by an independent consultant at the expense of the applicant. Following passage of the Inducement Resolution, the Bernalillo County Commission will pass a Bond Ordinance. At this point, the County can issue and sell the bonds.