



Albuquerque Bernalillo County
Water Utility Authority

ANNUAL INFORMATION STATEMENT

DATED JANUARY 26, 2011

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

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INTRODUCTION

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

The joint water and sewer system (the “System”) is owned and operated by the Authority pursuant to Section 72-1-10 NMSA 1978. The Authority has the statutory powers provided to all public water and wastewater utilities in the state and is recognized as a political subdivision of the State of New Mexico (the “State”). The Authority and the City entered into a Memorandum of Understanding effective July 1, 2007, under which the City provides certain administrative support to the Authority. Financial and operating information of the System for years prior to Fiscal Year 2004 may be found in the Annual Information Statement of the City dated January 23, 2004.

Actions of the Authority’s governing board taken after January 1, 2011, including information relating to bonds, notes or other obligations of the Authority issued or incurred after that date, is not included in the Annual Statement. Other information contained in the Annual Statement is current as of January 1, 2011, unless specifically stated otherwise in the Annual Statement. The information in the Annual Statement is subject to change without notice and the delivery of the Annual Statement shall not create any implication that the affairs of the Authority have remained unchanged since the date of its delivery. The distribution of this Annual Statement by the Authority does not in any way imply that the Authority has obligated itself to update the information herein. All financial and other information presented in the Annual Statement has been provided by the Authority from its records, except for information expressly attributed to other sources believed to be reliable.

FISCAL YEAR 2010 FINANCIAL INFORMATION NOT AVAILABLE

Unaudited financial information for Fiscal Year 2010 is not currently included in this Annual Statement. The Authority currently relies on administrative assistance from the City, including financial information. In January 2009, the City brought on-line a complete replacement of its accounting and human resources system. This project is a major effort impacting City-wide financial processes which has impacted preparation of the Authority’s financials as well. The City, over the past several months and in an ongoing effort, has sought to reconcile and verify all converted financial data. As

of the date of this Annual Statement, and based on these circumstances, the Authority is unable to provide reliable financial information for Fiscal Year 2010 and has consequently not included in this version of the Annual Statement unaudited financial information for Fiscal Year 2010 resulting in multiple blanks in this version of the Annual Statement. The Authority intends to supplement the Annual Statement immediately upon compilation of reliable unaudited information for Fiscal Year 2010.

The Authority's audited financial statements for Fiscal Year 2010 are not complete. As soon as the audit is complete and approved by the New Mexico State Auditor, the Authority will attach audited financial information to this Annual Statement and file its audited financial statement for Fiscal Year 2010 with the Municipal Securities Rulemaking Board.

OUTSTANDING OBLIGATIONS

Outstanding System Obligations

The following special limited obligations secured on a parity basis by net revenues of the System are outstanding ("Senior Obligations"). These obligations are generally described below and certain terms of such obligations are summarized in the Authority's Annual Financial Report for the year ended June 30, 2010, to be attached hereto upon completion.

**Outstanding Water/Sewer Senior Obligations
as of January 1, 2011**

Water/Sewer System <u>Issue</u>	Principal Amount of <u>Original Issue</u>	Outstanding Principal <u>Amount</u>
Refunding and Improvement Revenue Bonds, Series 1999A	\$93,030,000	\$11,910,000
NMFA – Public Project Revolving Fund Loan (2002)	450,000	174,202
NMFA Drinking Water State Revolving Fund Loan (2003)	3,600,000	1,604,791
NMFA – Public Project Revolving Fund Loan (2004)	118,415,000	93,995,000
NMFA – Public Project Revolving Fund Loan (2005)	20,000,000	19,000,000
Revenue Bonds, Series 2005	132,985,000	125,825,000
Revenue Bonds, Series 2006	133,390,000	126,900,000
NMFA – Public Project Revolving Fund Loan (2007)	77,005,000	68,500,000
Revenue Bonds, Series 2008A	55,630,000	55,630,000
Revenue Bonds, Series 2009A-1	14,375,000	11,140,000
Revenue Bonds, Series 2009A-2	135,990,000	135,740,000
NMFA Drinking Water State Revolving Fund Loan (2009)	1,010,000	<u>1,010,000</u>
Total Water/Sewer System Senior Obligations		<u>\$651,428,993</u>

Other obligations payable on a subordinate basis from net revenues of the System are shown below.

**Outstanding Water/Sewer Subordinate Obligations
as of January 1, 2011**

<u>Obligation</u>	<u>Principal Amount Of Original Issue</u>	<u>Outstanding Principal Amount</u>
Wastewater Loans from the State Environment Department:		
November 1989 Loan	\$ 7,907,582	\$1,606,442
August 1995 Line of Credit	15,000,000	2,994,416
June 2001 Loan	15,000,000	7,725,570
New Mexico Finance Authority Drinking Water Loan (2004)	12,000,000	<u>12,000,000</u>
Total Subordinate Debt		<u>\$24,326,428</u>

Other obligations payable on a super subordinate basis from net revenues of the System are shown below.

**Outstanding Water/Sewer Super Subordinate Obligations
as of January 1, 2011**

<u>Obligation</u>	<u>Principal Amount Of Original Issue</u>	<u>Outstanding Principal Amount</u>
Water Trust Board Loan (2009)	\$50,000	\$50,000
Water Trust Board Loan (2009)	100,000	100,000
New Mexico Finance Authority Drinking Water Loan (2010)	47,518	47,518
New Mexico Finance Authority Drinking Water Loan (2010)	60,600	60,600
Water Trust Board (2010)	200,000	200,000
New Mexico Finance Authority Drinking Water Loan (2010)	125,453	<u>125,453</u>
Total Super Subordinate Debt		<u>\$583,571</u>

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

Combined Debt Service and Coverage Ratios

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

**Total Combined Debt Service
Outstanding Water/Sewer Obligations⁽¹⁾
January 1, 2011**

Year End July 1	Senior Current Debt Service	Subordinate Current Debt Service	Total Current Debt Service	Pledged Revenues ⁽²⁾	Projected Debt Service Coverage Senior Lien	Projected Debt Service Coverage All Debt
2011	\$66,226,957	\$3,069,888	\$69,296,845	\$77,593,000	1.17x	1.12x
2012	64,209,058	3,568,212	67,777,271	↓	1.21x	1.14x
2013	63,759,495	1,980,713	65,740,209		1.22x	1.18x
2014	64,575,138	1,412,714	65,987,852		1.20x	1.18x
2015	62,445,261	1,412,441	63,857,702		1.24x	1.22x
2016	61,499,453	1,411,969	62,911,422		1.26x	1.23x
2017	58,805,640	1,411,298	60,216,938		1.32x	1.29x
2018	56,804,290	1,410,426	58,214,715		1.37x	1.33x
2019	56,605,122	1,409,357	58,014,479		1.37x	1.34x
2020	50,162,527	1,413,083	51,575,610		1.55x	1.50x
2021	50,161,542	1,411,513	51,573,055		1.55x	1.50x
2022	43,616,165	1,409,744	45,025,909		1.78x	1.72x
2023	43,618,518	1,412,773	45,031,291		1.78x	1.72x
2024	42,606,356	1,410,505	44,016,861		1.82x	1.76x
2025	36,597,503	1,413,035	38,010,538		2.12x	2.04x
2026	26,556,227	763,121	27,319,348	2.92x	2.84x	
2027	15,001,903	765,153	15,767,056	5.17x	4.92x	
2028	15,001,254	766,883	15,768,137	5.17x	4.92x	
2029	15,007,706	763,315	15,007,706	5.17x	5.17x	
2030	15,009,432	764,546	15,009,432	5.17x	5.17x	
2031	14,956,413	734,400	14,956,413	5.19x	5.19x	
2032	14,952,988	-	14,952,988	5.19x	5.19x	
2033	14,951,888	-	14,951,888	5.19x	5.19x	
2034	6,341,313	-	6,341,313	12.24x	12.24x	
Total	\$959,472,146	\$ 30,115,090	\$ 987,324,976			

- (1) The rate covenant described below relates to all System obligations, including the eight subordinate loans listed in the previous table.
(2) Fiscal Year 2009 results (audited).

In the ordinances pursuant to which the System obligations have been issued, the Authority, as successor to the City, agreed to charge all purchasers of services reasonable rates sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all System obligations (excluding reserves therefor). The net revenues of the System for Fiscal Year 2009 were \$77,593,000 (audited). The maximum calendar year combined debt service requirements for Senior Parity payable from net revenues of the System are \$66,226,957 (occurring in year-end July 1, 2011), resulting in a coverage ratio of 1.17x. The coverage ratio of Fiscal Year 2009 System net revenues of \$77,593,000 to combined debt service requirements of all System Obligations of \$69,296,845, occurring in year-end July 1, 2011 would be 1.12x. To address the current coverage ratio being less than 133%, the Authority Board has approved 5% rate increases in Fiscal Years 2012 and 2014.

Current Ratings of the System Senior Obligations

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

JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY

Water System

The Water System provides water services to approximately 591,650 residents comprising approximately 90% of the residents of the County. About one-third of unincorporated County residents are customers of the Water System. Service is provided to approximately 192,766 accounts, including 172,766 residential and 13,604 multi-family, commercial, institutional and industrial accounts, as of June 30, 2010. Approximately 56% of the water sales are for residential uses.

Groundwater from the middle Rio Grande basin aquifer (approximately 50%) and surface water from the Rio Grande (approximately 50%) are the primary sources of supply used for the Water System. The groundwater supply is produced from 101 wells grouped in 25 well fields located throughout the metropolitan area and the surface water is diverted from the Rio Grande. Total well production capacity is approximately 294 million gallons per day (“MGD”). Maximum historical peak day demand is 214 MGD. A chlorination/fluoridation station associated with each well field satisfies the total required water treatment needs for the water produced in each well field.

Ground storage reservoirs provide for fire, peak hour and uphill transfer storage. Water is distributed from higher to lower elevations through a 115-foot vertical height pressure zone to provide minimum static pressures of 50 psi for consumers. Forty-five reservoirs are located throughout the service area, with a total reservoir storage capacity of 211 million gallons. If demand requires, reservoir water can also be transferred uphill through a pressure zone to the next highest reservoir or in an east-west series of reservoirs by means of pump stations sited at the reservoirs. There are a total of 110 boosters, with a total capacity of 680 MGD, available for water transfers between reservoirs. These reservoirs are interconnected by over 2,500 miles of pipelines and are situated at various locations east and west of the service area to provide multiple sources of supply to customers and for operating economies. The Water System takes advantage of the unique topography of the Authority’s service area which allows ground level storage while simultaneously providing system pressure by gravity. Control of the Water System is provided by remote telemetry units distributed throughout the System for control from a central control facility.

Water Supply

Existing Water Resources

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

<u>Years</u>	<u>Annual Diversion Limit (acre-feet)</u>
Thru 2015	132,100
2016 thru 2029	142,900
2030 and thereafter	155,000

The previous ground water permit limited the Authority’s pumping to 132,000 acre-feet per year. The new permit is governed by the Middle Rio Grande Administrative Area Guidelines for Review of Water Rights Applications.

The average annual withdrawal for the five years ending in Calendar Year 2010 was 104,421 acre-feet with a maximum occurring in Calendar Year 2010. Additionally, the Authority has the right to use consumptively 74,157.6 acre-feet of water per year. This figure consists of imported water pursuant to a contract with the Secretary of the Interior for 48,200 acre-feet per year from the San Juan-Chama Drinking Water Project, vested water rights of 17,875 acre-feet from the New Mexico State Engineer’s Rio Grande Basin declaration in 1956, and other water rights totaling 6,802 acre-feet. By means of its program of water rights acquisition, the Authority continues to increase its holdings each year. In addition to the annual delivery contract for 48,200 acre-feet of San Juan-Chama water, the Authority also has approximately 170,000 acre-feet of San Juan-Chama water from prior year deliveries stored in reservoirs located in northern/central New Mexico. In July 2003, the Authority began diversions of San Juan-Chama water under the Non-Potable Surface Water Reuse Project. The total surface water diversions for 2010 were 42,804 acre-feet with an average of 14,794 acre-feet over the last five years. In 2010, the Authority’s water resources use consisted of 57.2% from ground water and 42.8% from San Juan-Chama surface water.

The Authority believes that water received pursuant to the contract for San Juan-Chama water and the rights to Rio Grande Basin water will be sufficient to support, in perpetuity, a population of more than 900,000 using 150 gallons per capita per day with 50% consumptive use and 50% return flow. Alternatively, these same water resources will support a population of 500,000 using water at the rate of 250 gallons per person per day. The current service population is approximately 560,760, and the current usage is approximately 161 gallons per capita per day, down from an average of 250 gallons per capita per day between 1987 through 1993. The Authority believes this decrease can be attributed to the City’s “Water Conservation Program” and the “Water Quality Protection Plan.”

San Juan-Chama Drinking Water Project

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

Construction of the San Juan-Chama Drinking Water Project began in August 2004 following the completion of the diversion and environmental permitting. The San Juan-

Chama Drinking Water Project came on-line on December 5, 2008 and the surface water treatment plant was completed in January 2009. The San Juan-Chama Drinking Water Project consists of a diversion dam on the Rio Grande, eighteen pipeline segments, approximately 44 miles of pipeline, a raw water pump station, a raw water intake and fish passage structure designed to protect habitat on the Rio Grande and the endangered silvery minnow, and a surface water treatment plant. Construction costs for the project were approximately \$385 million with an additional \$70 million for design, construction inspection and land purchases.

The San Juan-Chama Drinking Water Project diverts San Juan-Chama water in combination with native water from the Rio Grande for purification to replace the current dependence on an increasingly depleted deep aquifer. Under a permit with the New Mexico Office of the State Engineer, the native water is diverted from the Rio Grande to the surface water treatment plant where the water is purified through a state-of-the-art multi-barrier treatment system designed to remove particulate matter, sediment and bacterial and microbial contaminants. The treatment plant is capable of processing 90 million gallons of water each day. The purified drinking water is then blended with groundwater at the existing reservoirs to supplement drinking water supplies. The Authority anticipates that the San Juan-Chama Drinking Water Project will supply up to 90% of the Authority's short-term future water needs and 70% of the Authority's water needs over the next 40 years. The Authority's plan is to implement the San Juan-Chama Drinking Water Project slowly by providing about 25% of the demand with surface water in 2009, 50% in 2010 and 90% in 2011. The plan is still moving forward to full implementation in 2011.

Full use of the San Juan-Chama water under the Drinking Water Project was contemplated as early as 1963 with the signing of the original contract with the Bureau of Reclamation. The 48,200 acre-feet was always intended to meet the needs of the future for the citizens on metropolitan Albuquerque and in December 2008 that dream was realized. The San Juan-Chama Drinking Water Project has won numerous awards including the following:

- 2010 Grand Prize Design – American Academy of Environmental Engineers – Excellence in Environmental Engineering
- 2010 Engineering Excellence Award – Grand Conceptor – American Council of Consulting Engineers
- 2009 Best Civil/Public Works Project – Southwest Contractor
- 2009 Project of the Year – Drinking Water Project - American Public Works Association
- 2008 Project of the Year – Transmission Pipeline Project – American Public Works Association
- 2007 Best Civil/Infrastructure Project – Raw Water Pump Station – Southwest Contractor
- 2006 Presidents National Environmental Excellence Award – National Association of Environmental Professionals

Water Supply Plan

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

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

In 1997, the City Council adopted the Water Resource Management Strategy ("WRMS") as the City's water supply plan. The WRMS was the culmination of years of planning and technical investigations, cooperation with federal, state and local agencies and public involvement and education. The WRMS: (1) calls for the City (or the Authority as successor) to more fully utilize its renewable water resources in order to reduce reliance on ground water to serve customers; (2) provides for limited reuse of industrial and municipal effluent to irrigate large turf areas and provide a non-potable industrial water supply source; (3) provides for the development of a ground water drought reserve, which was recommended by resource economists in a report commissioned to provide for the Authority's anticipated year 2060 water demands; (4) includes recommended implementation and financing plans; and (5) recommends pursuit of regional solutions and several specific additional sources of water for the future. The total estimated capital and initial operating costs of the WRMS (including \$10.8 million for costs of site selection and acquisition, \$375 million for the drinking water supply project, and \$29.4 million for three reclamation and reuse projects) is \$415.2 million. The future annual operating and maintenance costs for the WRMS program are estimated at \$14.8 million.

In 2007, the Water Authority adopted a new WRMS as the Authority's water supply plan. The new WRMS is a combination of existing policies from the original 1997 WRMS with several new policies that were developed in cooperation with federal, state, and local agencies and significant public involvement and education. The WRMS includes thirteen policies including continued support for the \$375 million San Juan-Chama Drinking Water Project and the remaining reuse and reclamation projects. The total estimated capital and initial operating costs of the WRMS and future annual operating and maintenance costs remain consistent with the estimates above.

The four specific projects identified in the 1997 WRMS are being, or have been, implemented. The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. A group of environmentalists and farmers filed an appeal of the surface diversion permit in State District Court. The State District Court ruled in favor of the Authority on all counts. A Notice of Appeal to the New Mexico Court of Appeals was filed and a hearing was held on July 1, 2007 and the Authority is still awaiting the decision. The Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004 and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat.

With respect to the three water reclamation and reuse projects identified in the WRMS, the Industrial Recycling Project has been completed and operational since approximately August 2000 and has provided water to the Albuquerque International Balloon Fiesta Park and recreational complex. The North I-25 Non-Potable Surface Water Reuse Project began initial operations in 2003 and full operations in January 2004. The Authority has diverted

San Juan-Chama water for industrial and irrigation use in the Northeast Heights of the City and has provided more than 175 million gallons of reuse water. The Southside Municipal Effluent Polishing and Reuse Project will utilize treated wastewater effluent for irrigation and industrial use in the Southeast Heights and South Valley of Albuquerque. Construction of the Southside Municipal Effluent Polishing and Reuse Project has started with the two pipeline projects substantially complete. The reservoir and pump station project located at Puerto del Sol Golf Course is also complete. The last project component, the treatment and pump station, which is located at the Southside Water Reclamation Plant is under construction and is anticipated to be complete in July 2011. We will begin connecting the parks, golf courses, and other turf and industrial users in September 2011 with full operation to start irrigation season 2012.

The completion and operation of the Southside Reuse project will complete the four projects as called for in the original 1997 and updated 2007 Water Resources Management Strategy to provide a safe and sustainable water supply to 2060.

To finance the implementation of the WRMS, the Authority adopted the WRMS recommended financial plan, which calls for seven years of phased incremental increases in water rates sufficient to cover the estimated capital costs and estimated operating expenses necessary to implement the WRMS through the year 2007 (“WRMS Rate Increases”). All seven dedicated incremental WRMS Rate Increases have been approved and implemented.

Construction of the South Valley Water System Expansion Project is being done in phases and is managed by the Bernalillo County Public Works Department. The Authority is the significant financial sponsor of the project. The project will construct water system infrastructure in the Southwest Valley of Bernalillo County and allow the residents to connect to the System and end their use of wells. The project will provide water service to approximately 3,200 developed parcels in the Southwest Valley. Phase I consisting of a major transmission line was completed in August 2007. The Authority paid \$9 million of the \$14 million cost. Phases 2 and 2A consists of a water distribution system to 1,240 households in the area bounded by Metzgar Road to the north, Raymac Road to the south, the Rio Grande to the east, and Coors Boulevard to the west. Phase 2 is under construction with an estimated cost of \$8.5 million with the Authority’s share at \$7.5 million. Phases 3 and 4 consisting of a reservoir, transmission line and a water booster station are underway with the Authority committed to providing \$6.5 million.

New Mexico Utilities Acquisition

In May 2009, the Authority acquired New Mexico Utilities Inc. ("NMUI"), a for-profit water provider and sewer carrier, that served approximately 17,400 residents within a 34 square mile service area located in northwest Albuquerque. Seventeen former NMUI employees became employees of the Authority. Water rates for NMUI system users were increased by approximately 3% in July 2010 as NMUI and Authority rate structures were merged. An additional 5% increase is expected in 2012. The Authority connected the NMUI system to the San Juan-Chama Drinking Water Project to replace the ground water formerly provided by NMUI and to fully integrate the operations of the NMUI system into the Authority System by 2012.

NMUI Historical and Pro-Forma Revenue⁽¹⁾

<u>Fiscal Year</u>	<u>Average Annual Customers</u>	<u>Operating Revenues</u>	<u>Operation and Maintenance Expenses⁽²⁾</u>	<u>Net Revenues Available for Debt Service</u>
2006	16,448	\$11,498,620	\$3,733,512	\$7,765,108
2007	16,900	11,900,000	3,845,517	8,054,483
2008	17,400	13,000,000	3,960,883	9,039,117
2009	17,500	13,618,125	4,079,709	9,538,416
2010 ⁽³⁾	17,600	14,167,603	4,202,101	9,965,502

⁽¹⁾ Estimated; based upon data provided to the Authority by NMUI for 2006 and estimated by the Authority for other years.

⁽²⁾ Estimated; does not include taxes, depreciation or amortization.

⁽³⁾ NMUI's customer rate structure will be integrated with the Authority's. Pro-Forma numbers indicate such integration.

New Arsenic Standard Applicable to Water Supply

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

Two projects were instituted to comply with the new arsenic standard. The first and most important is the San Juan-Chama Drinking Water Project. The San Juan-Chama Drinking Water Project is operational and provides about 50% of the water supply with the remaining coming from low-arsenic ground water wells. The surface water has less arsenic than the ground water and the treatment process at the new water treatment plant removes arsenic. The second project is the College Arsenic Treatment Plant completed in 2007, which is the largest microfiltration arsenic treatment facility in the United States. The Gonzales to College Well Collector Line project will convey high arsenic well water to the College Arsenic Treatment Plant.

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

Water Conservation Program

In an effort to extend the lifetime of the Authority's water resources, the City initiated a water conservation program in 1995. The City adopted a goal of 30% reduction from baseline period water use to be attained by 2005. The City utilized calendar years 1987 through 1993 as the baseline period, with gross community per capita water use at an average of 250 gallons per day. Gross community water use needed to be reduced to 175 gallons per capita per day to achieve the 30% conservation savings goal. At the end of 2005, Authority customers had reduced their per capita use 33% compared with use during the established baseline period. When weather is taken into account, through regression model analysis, comparative water usage was down by 36%. In 2004, the Authority adopted a new water conservation goal of 10% reduction in addition to the 30% reduction goal established in 1995 to be implemented in 2005 with reduction rates of 1% per year until 2014. The Authority established a new citizen Water Resources Advisory Committee to develop a water conservation plan to meet the new goal.

The long-term water conservation strategy elements implemented to date include an extensive public education and marketing effort, financial incentives for replacement of high volume toilets with low volume toilets, financial incentives for replacing existing high water use landscaping with xeriscaping, financial incentives for replacing high water use washing machines with low use models, and free water use audits. Residential audits include retrofits of showerheads, faucet aerators, and toilet displacement devices. Mandatory water waste prohibitions and limitations on high water use plants in landscaping new development have been enacted and are being enforced. New components now underway include recommendation of more aggressive excess use surcharges, reduction of water produced by the Authority but not billed to customers, and developing methods for more accurate evaluation of the conservation program. The Authority has also adopted a large-user ordinance requiring that customers using more than 50,000 gallons per day, including multi-family residential, commercial and industrial customers, develop and implement a conservation plan.

The Water Conservation Program has achieved significant reductions in water use since 1995 and is one of the more successful water conservation plans in the United States.

Surface and Ground Water Protection Plan

The Albuquerque/Bernalillo County Ground Water Protection Policy and Action Plan (GPPAP) was adopted by the City and County in 1994. The goals of the GPPAP are to prevent any additional ground water contamination in Bernalillo County, to facilitate clean-up of existing contamination, and to promote the coordinated protection and prudent use of ground water. The Ground Water Protection Advisory Board (GPAB) was established in 1998 by City and County ordinance to provide oversight, review and comment on ground water protection activities, and is responsible for overseeing implementation of the GPPAP. In 2006, the Water Authority, City and County adopted a joint ordinance establishing a Water Protection Advisory Board (WPAB) which replaced the GPAB. The purpose of this joint ordinance was to expand the scope to address surface water quality protection in addition to groundwater quality protection. The joint ordinance also expanded the membership to include two members appointed by the Authority. The purpose of the WPAB is to study and advise the Authority, City and County on surface and groundwater protection concerns, including policies necessary to enhance protection of surface and groundwater quality. Another goal of the WPAB is to promote consistency in Authority, City and County actions to protect surface and groundwater quality.

The WPAB works with local, state and federal agencies to monitor the progress of eradication of current contamination sites and is continuing to develop policies to prevent future contamination. The current contamination cleanups are primarily in the South Valley and Northwest Mesa of Bernalillo County. The Authority has plugged or discontinued use of wells that were affected by the various contamination sites. Additionally, the Authority has assisted in a \$120 million program to eradicate 8,000 septic tanks in the North and South Valleys, and at the end of 2010 over 6,000 septic tanks have been eliminated.

Drought Relief Measures

The Authority has adopted a Drought Management Strategy which is intended to preserve and protect the aquifer and also to meet water conservation goals during a drought. The Drought Management Strategy identifies four levels of drought -- drought advisory, drought watch, drought warning and drought emergency -- and provides various educational steps and

voluntary and mandatory conservation measures to reduce water usage during each of these drought levels.

Water Usage

The Water System serves consumers inside and outside of the City limits. The consumers served outside the City limits constitute approximately 10% of total consumers served. Well pumps are presently producing at 150 to 1,000 feet depths. Their yields range from about 500 gallons per minute to more than 3,700 gallons per minute. During the past five Fiscal Years, the Water System has supplied the following to customers within the service area:

Usage⁽¹⁾ 2006-2010

<u>Fiscal Year</u>	<u>Gallons Pumped (in 000s)</u>	<u>Gallons Billed (in 000s)</u>	<u>Percentage Billed</u>
2006	34,174,000	30,700,300	89.84%
2007	29,638,000	26,055,385	87.91%
2008	33,449,000	29,034,754	86.80%
2009	31,564,189	27,164,646	86.06%
2010	31,742,000	28,422,497	89.54%

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

Source: Albuquerque Bernalillo County Water Utility Authority.

Sewer System

The Sewer System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant located south of the service area. The treatment plant provides preliminary screening, grit removal, primary clarification and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent chlorination and dechlorination prior to discharge to the Rio Grande River.

Treatment plant capacity is based upon 76 MGD hydraulic capacity. However, capacity deficiency at the chlorination/dechlorination, anaerobic digestion and dewatered sludge handling facilities needs to be addressed to bring these facilities to the 76 MGD plant hydraulic capacity. Existing flows at the plant are about 54 MGD. The Authority has an operational industrial pretreatment program approved by the United States Environmental Protection Agency. In 2004, the Authority's pretreatment program successfully completed the EPA's five year pilot program. The EPA recognized that the Authority's pollution prevention efforts have been largely responsible for the Authority maintaining compliance with strict standards contained in National Pollution Discharge Elimination System ("NPDES") permits. The Authority's wastewater effluent discharge consistently meets all NPDES permit requirements. The EPA renewed the Authority's NPDES permit in 2009, effective for four years. The chlorination and dechlorination systems will be decommissioned in 2011 with the startup of the new ultraviolet (UV) disinfection system.

The treatment plant has a 6.6 mega-watt cogeneration facility. This facility supplies 100% of the treatment plant’s present electrical needs, along with providing heating of various buildings and sludge digesters. The engines are fueled by methane produced in the digesters and by natural gas purchased through a contract carrier. The Southside Water Reclamation Plant currently generates electricity from the bio-gas produced in the digesters. This is no cost gas that qualifies the electricity generated for Renewable Energy Certificates (“REC”). These certificates have a value to other electrical energy producers and the Authority continues to research how to sell its RECs to increase revenue. The Authority is in the process of evaluating these RECs with a consultant and will have these credits audited by an independent accounting firm.

Total beneficial reuse of sludge is accomplished by a combination of land application on 5,000 acres of public-private range land (85% of sludge produced) and production of compost (15% of sludge produced). The Authority sells the compost, primarily to the State Department of Transportation. A 660-acre dedicated land application site is used when beneficial reuse options are unavailable (for example, when the range land site is snow-covered). The Authority also plans to reduce expenses by analyzing all of the bacteriological samples from the Water Systems Division at the Authority’s internal Water Quality Lab. The Authority’s Water Reclamation Division operates a water quality laboratory, providing analytical support for process control and regulatory compliance for wastewater, drinking water, groundwater, storm water, surface water, the zoological park, residuals management and environmental health programs. The laboratory is internationally accredited under International Standards Organization Standard 17025 for inorganic chemistry and microbiology testing.

The following table sets forth the quantity of water treated and customers served through the Sewer System:

Treated Water 2006-2010		
<u>Fiscal Year</u>	<u>Gallons Treated (in 000s)</u>	<u>Average # of Customers</u>
2006	19,746,500	165,949
2007	19,557,200	167,240
2008	19,156,000	169,062
2009	20,080,573	172,857
2010	19,978,000	190,833

Source: Albuquerque Bernalillo County Water Utility Authority

Management of the System

The Authority is responsible for day-to-day operations of the System, policy, system expansion, budget, rates, personnel reorganizations, unbudgeted intra-year positions, negotiation or renegotiation of labor contracts and litigation relating to the System. The present management for the Authority is as follows:

Mark Sanchez, Executive Director. Mr. Sanchez has been the Executive Director of the Authority since its inception and was formerly the Director of Council Services for the Albuquerque City Council. Mr. Sanchez holds a Masters Degree in Business Administration

from New Mexico Highlands University and a Masters Degree in Public Administration from the University of New Mexico. He is a graduate of the Harvard JFK School of Government Program for Senior Executives in State and Local Government. Mr. Sanchez has been very active in public service. He has held executive-level positions in government, private sector and the non-profit sector in the areas of business and government policy, housing and community development, health, human and social services, job training and economic development. Mr. Sanchez has also served on the Albuquerque Public Schools Board of Education for six years, serving as president for two. He has been very active at the local, state and national levels on intergovernmental issues.

John M. Stomp, P.E., Chief Operating Officer. Mr. Stomp is responsible for the Authority's operations group including the water and wastewater treatment plants, wastewater collection systems and lift/vacuum stations, and water distribution and transmission lines. Mr. Stomp was the Water Resources Manager for over ten years prior to becoming the Chief Operating Officer. Mr. Stomp has been employed by the City, and the Authority as successor, since April 1996. Prior to employment with the Authority, Mr. Stomp was employed as a project manager by local and national water/wastewater consulting firms. Mr. Stomp has been involved with water and wastewater issues in Albuquerque and throughout New Mexico for more than 22 years. He has a Bachelor's and Master's Degree in Civil Engineering from the University of New Mexico.

Stan Allred, Chief Financial Officer. Mr. Allred held the position of Finance Officer, Water Utility Department from June 2003 until May 2008 when he was promoted to Chief Financial Officer. Mr. Allred is responsible for the Financial/Business Services Group which includes all finance, accounting, information services and Authority warehouse functions. He has over 22 years of financial and cost accounting experience. Prior to employment with the Authority, Mr. Allred was employed as a director with a multi-billion dollar national long-term care corporation. Mr. Allred has been involved with corporate financial reporting requirements and rate setting for Medicare and 15 different state Medicaid systems. Mr. Allred has a BBA with a concentration in Accounting from the University of New Mexico.

Dr. James H. "Jim" Olsen, Jr., P.E., Director of Field Operations Division. Mr. Olsen has worked for the Authority for the past 34 years and has served in his current position since 2008. Past assignments have included: Transmission & Distribution Manager for PNM Water Services (Santa Fe water system), Chief Utility Engineer for ECO Resources (Rio Rancho water & wastewater systems) Project Manager for the Pueblo of Laguna, NM Jackpile Mine Reclamation Project; management and engineering/technical assignments for ARCO-Anaconda, the Standard Oil Company (Ohio), and the City of Albuquerque Water System. He holds a Mining Engineering degree from New Mexico Institute of Mining & Technology (Socorro, NM) and a Masters in Business Administration from the Anderson School of Management, University of New Mexico. He completed his Doctorate in Education at the University of New Mexico in 1996. He has served on the faculty of the University of Phoenix since 1987 and taught graduate and undergraduate courses in management, environmental science, engineering processes, economics, project management, statistics, algebra, geography and business research methods & projects, and motivation theory; served as Lead Faculty and Area Chair for Undergraduate Mathematics and Graduate Research and Quantitative Methods.

Joe Chwirka, P.E., Director of Plant Operations Division. Mr. Chwirka has held the Division Manager position since August of 2008 and he was Chief Engineer for the Water Utility Division since February, 2007. He has approximately 35 years experience in planning,

design, construction, and operations of water and wastewater facilities. Mr. Chwirka has a BS in Microbiology from Colorado State University, a BS in Civil Engineering from the University of Maine, and a MS in Civil Engineering from the University of Maine.

David J. Price, P.E., Water Resources, Planning & Engineering Division Manager. Mr. Price has been in his current position since April 2010. Prior, he was the Chief Engineer for the Plant Division – Drinking Water. Before joining the Water Authority in December of 2007, Mr. Price spent 18 years as a consulting engineer with a focus on the evaluation and design of drinking water systems. He has a B.A. in Political Science from the University of Pennsylvania, a B.S. in Civil Engineering from the University of Arizona, and a M.S. in Environmental Engineering also from the University of Arizona.

Chris Framel, Information Officer. Mr. Framel has over 25 years of information technology and auditing experience. Prior to employment with the Water Utility Department, Mr. Framel was employed as an application development manager with the City. Mr. Framel has been involved with several implementations of large scale software and hardware projects and has provided management of various information technology disciplines.

Charles W. Kolberg, Chief Counsel. Mr. Kolberg has been with the Authority since January 1, 2008. Prior to becoming Chief Counsel, Mr. Kolberg was the Risk Manager for the City for four years. In this role he managed an internally funded insurance company covering all municipal liability exposures. Prior to becoming Risk Manager, Mr. Kolberg practiced as an attorney for seventeen years with twelve of those years as an Assistant City Attorney handling all aspects of municipal law including substantial litigation on water resource issues. Mr. Kolberg attended the University of New Mexico before obtaining his B.A. in Political Science from the University of Colorado in 1981. He received his Juris Doctorate in 1986 from Arizona State University.

Hobert “H” Warren, Manager, Northwest Service Area. Mr. Warren has held the manager position since May of 2009. He has approximately 15 years experience in operations, compliance, construction, transition planning, automated meter reading implementation, billing systems, and rate studies. Prior to employment with the Authority, Mr. Warren was the local operations manager for a company that owns and operates more than 130 regulated water and wastewater systems in nine states.

FINANCIAL INFORMATION

Statement of Net Assets

The following table is the historical statement of net assets for the System as operated by the Authority:

FY Ending June 30

Assets	2006 ⁽¹⁾	2007 ⁽¹⁾	2008 ⁽¹⁾	2009 ⁽¹⁾	2010 ⁽¹⁾
Current Assets					
Cash and investments	\$ 26,766,770	\$ 30,824,887	\$ 35,812,862	\$ 21,395,430	
Cash with fiscal agents held for debt service	39,461,690	39,245,721	36,700,648	35,362,977	
Accounts Receivable	10,226,675	15,120,543	17,942,087	13,231,933	
Due from other governments	1,991,554	1,535,517	1,408,898	463,096	
Prepaid Expenses	-	-	-	65,144	
Notes Receivable	<u>1,213,410</u>	<u>987,306</u>	<u>1,012,387</u>	<u>936,638</u>	
Total Current Assets	<u>79,660,099</u>	<u>87,713,974</u>	<u>92,876,882</u>	<u>71,455,218</u>	
Noncurrent assets:					
Long-term accounts and notes receivable	<u>7,705,710</u>	<u>5,573,221</u>	<u>5,647,255</u>	<u>5,559,542</u>	
Restricted Assets					
Cash and investments	91,339,646	43,956,845	71,509,971	117,916,818	
Investment with fiscal agent	1,337,211	504,505	6,645	6,686	
Escrow deposits	<u>146,492</u>	<u>147,161</u>	<u>147,604</u>	<u>148,025</u>	
Total Restricted Assets	<u>92,823,349</u>	<u>44,608,511</u>	<u>71,664,220</u>	<u>118,071,529</u>	
Capital Assets					
Net Capital Assets other than purchased water rights	808,972,816	836,924,122	913,607,336	1,278,575,916	
Purchased water rights ⁽²⁾	-	-	39,647,635	39,943,365	
Construction work in progress	<u>179,561,894</u>	<u>324,170,005</u>	<u>306,751,483</u>	<u>34,077,876</u>	
Total Capital Assets	<u>988,534,710</u>	<u>1,161,094,127</u>	<u>1,260,006,454</u>	<u>1,352,597,157</u>	
Other Noncurrent Assets					
Capitalized Bond issuance costs	2,457,503	3,600,577	4,016,387	4,516,670	
Purchased water rights	<u>29,073,663</u>	<u>29,622,203</u>	<u>-</u>	<u>-</u>	
Total other non-current assets	<u>31,531,166</u>	<u>33,222,780</u>	<u>4,016,387</u>	<u>4,516,670</u>	
Total non-current assets	<u>1,120,594,935</u>	<u>1,244,498,639</u>	<u>1,341,334,316</u>	<u>1,480,744,898</u>	
Total Assets	<u>1,200,255,034</u>	<u>1,332,212,613</u>	<u>1,434,211,198</u>	<u>1,552,200,116</u>	
Current Liabilities					
Accounts payable	2,125,897	2,499,096	2,601,319	3,492,619	
Accrued employee compensation	2,469,592	2,887,340	3,742,077	4,250,292	
Accrued interest	701,627	445,206	423,199	400,522	
Deposits	466,562	887,095	973,425	857,209	
Deferred revenue	-	-	-	554,551	
Current portion of water rights contract	841,359	866,987	893,395	920,608	
Payable from restricted assets:					
Contracts and other payables	23,260,967	26,691,750	13,049,049	12,511,107	
Mature bonds	31,605,000	30,170,000	28,130,000	26,135,000	
Loan agreements	3,431,583	3,947,591	8,348,928	11,500,916	
Accrued Interest	<u>8,177,630</u>	<u>9,363,546</u>	<u>10,095,428</u>	<u>12,568,032</u>	
Total Current Liabilities	<u>73,080,217</u>	<u>77,758,611</u>	<u>68,256,820</u>	<u>73,190,856</u>	
Noncurrent Liabilities					
Bonds, net of current portion, discount, premiums	257,608,339	359,701,073	389,983,916	506,606,665	
Line of credit	-	-	-	3,524,340	
Water rights and loan agreements, net of current portion	<u>173,819,516</u>	<u>165,253,429</u>	<u>227,209,996</u>	<u>212,941,463</u>	
Total Long-Term Debt	<u>431,427,855</u>	<u>524,954,502</u>	<u>617,193,912</u>	<u>723,072,468</u>	
Other Liabilities:					
Deferred revenue	877,107	-	-	-	
Accrued vacation and sick leave	<u>653,124</u>	<u>544,324</u>	<u>125,636</u>	<u>35,550</u>	
Total Other Liabilities	<u>1,530,231</u>	<u>544,324</u>	<u>125,636</u>	<u>35,550</u>	
Total Liabilities	<u>506,038,303</u>	<u>603,257,437</u>	<u>685,576,368</u>	<u>796,298,874</u>	
Net Assets					
Invested in capital assets, net of related debt	609,954,619	666,487,051	698,188,728	725,766,544	
Restricted for:					
Construction	5,539,537	-	10,552,328	13,671,991	
Debt service	12,919,005	6,003,021	-	-	
Unrestricted	<u>65,803,570</u>	<u>56,465,104</u>	<u>39,893,774</u>	<u>16,462,707</u>	
Total Net Assets	<u>\$ 694,216,731</u>	<u>\$ 728,955,176</u>	<u>\$ 748,634,830</u>	<u>\$ 755,901,242</u>	

Source:

(1) Albuquerque Bernalillo County Water Utility Authority Comprehensive Annual Financial Report.

(2) Purchased water rights were reclassified for the 2008 financial statements

Revenues and Expenditures

The following table shows the historical revenues and expenditures for the System as operated by the Authority:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Operating Revenues					
Charges for services	<u>\$138,202,390</u>	<u>\$141,033,829</u>	<u>\$152,232,345</u>	<u>\$147,145,589</u>	
Operating Expenses					
Salaries and fringe benefits	27,199,667	30,150,765	33,434,911	37,382,418	
Professional services	522,423	571,909	706,368	859,079	
Utilities	8,575,409	7,844,415	9,218,289	12,202,402	
Supplies	3,566,957	4,492,618	5,249,035	6,092,171	
Travel	19,404	35,578	47,319	27,915	
Fuels, repairs and maintenance	7,321,814	9,494,065	10,440,809	10,873,331	
Contractual services	2,907,072	3,937,255	6,333,703	8,889,954	
Other operating expenses	14,057,616	14,058,027	14,110,809	13,400,597	
Depreciation	51,933,636	55,925,877	60,905,959	72,295,419	
Amortization	382,882	392,290	393,410	396,367	
Bad debt expense	-	-	338,609	93,018	
Total Expenses	<u>116,486,880</u>	<u>126,902,799</u>	<u>141,179,221</u>	<u>162,512,671</u>	
Operating Income	<u>21,715,510</u>	<u>14,131,030</u>	<u>11,053,124</u>	<u>(15,367,082)</u>	
Non-operating revenues (expenses)					
Interest on investments	5,019,000	8,936,303	6,442,709	2,647,735	
Gain on disposition of capital assets	6,572	(51,231)	(2,450)	-	
Interest expense	(8,618,687)	(15,888,684)	(21,781,730)	(21,681,874)	
Water service expansion charges	17,254,474	12,516,234	11,074,841	6,346,401	
Other	(20,574)	(353,676)	953,834	7,509,694	
Total non-operating income	<u>13,640,785</u>	<u>5,158,946</u>	<u>(3,312,796)</u>	<u>(5,178,044)</u>	
Income before contribution and transfers	35,356,295	19,289,976	7,740,328	(20,545,126)	
Capital contributions	<u>16,853,909</u>	<u>15,448,469</u>	<u>11,939,326</u>	<u>27,811,538</u>	
Change in Net Assets	52,210,204	34,738,445	19,679,654	7,266,412	
Net Assets July 1	<u>642,006,527</u>	<u>694,216,731</u>	<u>728,955,176</u>	<u>748,634,830</u>	
Net Assets June 30	<u>\$694,216,731</u>	<u>\$728,955,176</u>	<u>\$748,634,830</u>	<u>\$755,901,242</u>	

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

(1) Albuquerque Bernalillo County Water Utility Authority (unaudited). See "FISCAL YEAR 2010 FINANCIAL INFORMATION NOT AVAILABLE".

Historical Financial Information

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

Water/Sewer System Debt Service Coverage Calculation Fiscal Years 2006-2010 (\$000)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total operating revenues ⁽¹⁾	\$ 127,310	\$ 138,010	\$ 137,614	\$ 147,488	\$ 143,675
Non-operating revenues (expenses):					
Interest	3,654	7,330	12,104	7,358	4,079
Expansion charges	12,404	17,854	12,516	11,075	6,278
Other	<u>706</u>	<u>84</u>	<u>156</u>	<u>659</u>	<u>6,768</u>
Total adjusted revenues	<u>144,074</u>	<u>163,278</u>	<u>162,390</u>	<u>166,580</u>	<u>160,800</u>
Total operating expenses (excluding interest expense)	110,701	119,879	126,766	139,764	161,141
Less:					
Franchise fees	(4,770)	(5,141)	(5,112)	(5,519)	(4,912)
Depreciation	(46,409)	(52,427)	(55,926)	(60,905)	(72,265)
Amortization	<u>(517)</u>	<u>(379)</u>	<u>(392)</u>	<u>(799)</u>	<u>(757)</u>
Total adjusted operating expenses	<u>59,005</u>	<u>61,932</u>	<u>65,336</u>	<u>72,541</u>	<u>83,207</u>
Net revenues available for debt service	<u>\$ 85,069</u>	<u>\$ 101,346</u>	<u>\$ 97,054</u>	<u>\$ 94,039</u>	<u>\$ 77,593</u>

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

- (1) Albuquerque Bernalillo County Water Utility Authority (unaudited). See "FISCAL YEAR 2010 FINANCIAL INFORMATION NOT AVAILABLE".
- (2) The operating revenues differ from the Revenue from Water and Sewer Charges and Other Operating Revenue table below in that certain operating revenues are excluded for purposes of calculating debt service coverage pursuant to the requirements of the applicable bond authorizing legislation.

Operating Revenue

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

Revenue from Water and Sewer Charges and Other Operating Revenue

<u>Fiscal Year</u>	<u>Revenue from Water Charges</u>		<u>Revenue From Sewer Charges</u>	<u>Other Operating Revenue⁽²⁾</u>	<u>Total Operating Revenue</u>
	<u>For General Operations</u>	<u>For WRMS⁽¹⁾</u>			
2006	\$59,172,344	\$25,095,852	\$46,563,188	\$7,371,006	\$138,202,390
2007	60,186,959	24,975,068	46,771,690	9,100,112	141,033,829
2008	71,398,950	25,630,246	47,683,918	7,519,231	152,232,345
2009	69,395,141	23,803,266	46,805,468	7,141,714	147,145,589
2010 ⁽³⁾					

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

- (1) These revenues are attributable to rate increases adopted to finance capital costs and operating expenses to implement the Water Resource Management Strategy.
- (2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.
- (3) Albuquerque Bernalillo County Water Utility Authority (unaudited). See "FISCAL YEAR 2010 FINANCIAL INFORMATION NOT AVAILABLE".

Utility Expansion Charges

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

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

The Authority may adjust the UECs annually by the Engineering News Records (“ENR”) indexes. These cost indices are the building cost or construction cost indices (“BCI” and “CCI”) per the ENR. The ENR tracks changes in building and construction costs (the difference between the levels of labor costs; the CCI being more heavily weighted on labor costs) for a 20-city average. These indices are commonly used to estimate the replacement costs of utility infrastructure. The Authority’s rate consultant recommends the comparison of the CCI and BCI as the best approach to apply to UECs and the water supply charge discussed below.

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

Current Utility Expansion Charges

<u>Meter Size</u>	<u>Water Charge</u>	<u>Sewer Charge</u>
¾”	\$ 2,603	\$ 1,953
1”	4,340	3,255
1 ½”	8,679	6,508
2”	13,887	10,414
3”	27,771	20,878
4”	43,393	32,543
6”	86,787	65,087
8” & over	138,860	104,140

During Fiscal Years 2006 through 2010, the following revenue from the collection of UECs was received.

Revenue from Utility Expansion Charges

<u>Fiscal Year</u>	<u>Total UEC Revenues</u>
2006	\$17,254,474
2007	12,516,234 ⁽²⁾
2008	11,074,841 ⁽²⁾
2009	6,346,401
2010 ⁽¹⁾	

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

(1) Albuquerque Bernalillo County Water Utility Authority (unaudited). See “FISCAL YEAR 2010 FINANCIAL INFORMATION NOT AVAILABLE”.

(2) The decline in UEC revenues in 2007 and 2008 is related to the slowdown in residential construction in Bernalillo County.

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

Water Supply Charge

The Water Supply Charge (“WSC”) is assessed by the Authority at the time of meter sale or application for service to any new water customer requesting connection to the System in an area not located within the Authority’s service area requiring a development agreement. The proceeds from this charge are dedicated and restricted to the development of new water resources, rights or supplies to serve the beneficiary new customers outside of the service area consistent with the Authority’s Regional Water Plan and Water Resources Management Strategy and other guiding principles adopted by the Authority. The amount of the WSC shall be adjusted annually by BCI or CCI as published by ENR. The WSC does not apply to non-potable water service. The Authority’s rate consultant has reviewed the methodology used in the calculation in developing the WSC and has agreed to its development and it is one that is widely applied in the industry.

The following table sets forth the current water supply charges.

Current Water Supply Charges

<u>Meter Size</u>	<u>Water Supply Charge</u>
¾”	\$ 1,344
1”	2,249
1 ½”	4,481
2”	7,170
3”	14,339
4”	22,404
6”	44,810
8” & over	71,965

Rate Reserve Fund

The Rate Reserve Fund reserves water and sewer revenues in a dedicated fund for the purpose of offsetting declines in rate revenue and to mitigate future rate increases. The Rate Reserve Fund was established at \$1 million. Effective July 1, 2008 the rate reserve fund increased by \$2 million annually. There is no funding cap set for the Rate Reserve Fund and the current balance is \$7 million, which the Authority anticipates utilizing in Fiscal Year 2011. The Authority plans to begin funding the Rate Reserve Fund again in Fiscal Year 2012. Any expenditure from this Rate Reserve Fund will require an appropriation approved by the Authority Board.

Additional Charges in Effect

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

Water Commodity Charge: Water usage metered or estimated is at a rate of \$1.4094 per unit (1 unit = 100 cubic feet or 748 gallons).

Water Conservation Charge: Annually, the average water usage for the months of December through March is calculated and used in determining the surcharge during the months of April through October. The surcharge amount added for each unit exceeding 300% of the

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

Sewer Commodity Charge: All wastewater discharged is charged at a rate of \$0.822 per unit for residential, commercial, industrial and institutional customers and \$0.579 per unit for wholesale customers based on either 95% of the average metered or estimated volume of water for the previous winter months of December through March, or based on 95% of the actual water used if that amount is less.

Rate Comparisons

The Authority continues to keep water and sewer rates at a competitive level. Based on results for the 2008 Water and Wastewater Rate Survey, extracted from the water/wastewater survey by the American Water Works Association, the Authority was ranked (from lowest to highest) at or below average for water and sewer rates, based upon a usage of 11,200 gallons for water and 7,480 gallons for sewer.

Water/Sewer Billing and Collections

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

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

The Authority has made efforts to reduce delinquencies through aggressive collection attempts with changes in the method of assigning turn-off crews work assignments and the use of a check collection vendor. The delinquency rate has historically been less than 1.2% and is currently at that level.

Rates and Charges of the System

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

The capital and operating budgets for the System are submitted by the Executive Director of the Authority to the Authority Board by April of each year for the fiscal year which begins July 1. The Authority considers the budgets, together with the rates necessary to finance the operation and capital improvements, and adopts the budget and rates necessary for the next fiscal year no later than May of each year.

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

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

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

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

Current Levels of Base Rates and Charges

Customers pay fixed rates for water and sewer services as well as additional charges which vary depending on the volume of water used or discharged. Residential customers pay fixed water rates (depending on service size) between \$11.41 and \$2,168.77, while commercial customers pay between \$11.93 and \$2,249.77. For sewer service, residential customers pay a fixed sewer rate (depending on service size) between \$7.49 and \$834.31, while commercial customers pay between \$9.26 and \$1,059.87.

Increases to Rates and Charges

The Authority has increased System rates and charges by the following percentage increases during the past five Fiscal Years as described below and has approved 5% rate increases in Fiscal Years 2012 and 2014:

Approved Increases in Rates and Charges

<u>Fiscal Year</u>	% Increase		
	<u>General Operations</u>	<u>WRMS⁽¹⁾</u>	<u>Franchise Fee</u>
2004	4.5	4.5	
2005	0	0	
2006	0	0	
2007 ⁽²⁾	1.0	0	4.0
2008	0	0	0
2009	0	0	0
2010	0	0	0
2011	0	0	0

(1) Each effective May 1 of the respective years. These rates were approved to finance capital costs and operating expenses to implement the Albuquerque Water Resource Management Strategy and affect water charges only.

(2) Effective July 1, 2006.

Source: Albuquerque Bernalillo County Water Utility Authority.

Customer Information

The following tables set forth historical information regarding the average number of customers of the Water System by meter size and class during Fiscal Years 2006 through 2010. The majority of the customers of the Water System during Fiscal Year 2010 was residential and used a 3/4" meter size.

History of Water Users by Meter Sizes

<u>Meter Size</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
¾"	146,843	149,846	151,172	168,632	169,406
1" and 1 ¼"	17,773	17,581	17,621	17,611	17,815
1 ½"	1,945	1,955	1,968	2,169	2,185
2"	2,509	1,816	1,839	2,179	2,223
3"	654	733	766	834	712
4"	244	246	264	275	268
6"	52	53	53	67	60
8" and over	41	40	41	46	41
Total	<u>170,060</u>	<u>172,270</u>	<u>173,724</u>	<u>191,813</u>	<u>192,710</u>

Source: Albuquerque Bernalillo County Water Utility Authority.

History of Water Users by Class

<u>Class</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Residential	151,089	152,563	153,959	171,983	172,766
Multi-Family	6,812	7,565	7,644	6,231	6,340
Commercial	10,065	10,049	9,998	11,367	11,282
Institutional	1,981	1,983	2,013	2,119	2,214
Industrial	<u>113</u>	<u>110</u>	<u>110</u>	<u>113</u>	<u>108</u>
Total	<u>170,060</u>	<u>172,270</u>	<u>173,724</u>	<u>191,813</u>	<u>192,710</u>

Source: Albuquerque Bernalillo County Water Utility Authority.

According to the Authority's records for Fiscal Year 2010, the top ten retail customers of the System in the aggregate accounted for no more than 10.68% of the total billed consumption for the Water System, 7.24% of the total revenue of the Water System, 18.16% of the total billed consumption for the Sewer System and 11.86% of the total revenue of the Sewer System.

During Fiscal Year 2010, 54.93% of billed water consumption was residential, while 16.31% was classified as commercial. The balance consisted of multi-family users consuming 15.04%, institutional users consuming 11.36% and industrial users at 0.7%.

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Estimated Population (Service Area)	525,347	530,600	533,253	538,586	591,650
Number of Meters Billed	167,737	171,130	172,394	174,005	194,087
Estimated Persons Per Meter	3.13	3.10	3.09	3.10	2.80
Annual Pumpage (1,000 Gallons)	32,469,000	31,384,000	32,598,000	31,940,000	33,098,373
Annual Water Billed (1,000 Gallons)	29,551,899	27,942,376	28,573,691	27,816,110	28,844,216
Average Daily Pumpage (Gallons)	89,860,274	85,983,561	89,284,930	87,506,849	90,680,474
Peak Day Pumpage (Gallons)	179,876,000	165,478,800	174,986,400	155,329,700	186,819,804
Average Daily Production Per Meter (Gallons)	536	502	508	503	467
Well Pumping Capacity (per 24 Hour Period)	294,000,000	294,000,000	294,000,000	294,000,000	314,250,000
Storage Capacity (Gallons)	211,000,000	211,000,000	211,000,000	211,000,000	228,700,000
Number of Miles of Lines ⁽¹⁾					
-Water	2,520	2,520	2,520	2,599	2,626
-Sewer	1,820	1,820	1,820	1,846	1,858

(1) Estimated.

Source: Albuquerque Bernalillo County Water Utility Authority.

Budget

Budget Process

The Authority operates on a fiscal year basis, from July 1 through June 30. The Authority Board has adopted a Budget Ordinance that provides for the formulation and approval of the Authority's annual operating and capital budgets. The Budget Ordinance requires the establishment of five-year goals and one-year objectives to guide the budget process. The goals and objectives provide the framework for the delivery of services and implementation of planned capital improvements and to measure performance. The operating budget is prepared on an accrual basis of accounting. The Executive Director submits operating and capital budgets to the Board at the April meeting each year. The Board holds two public hearings with adoption of the budgets at the May meeting. The annual operating and capital budgets determine the Authority's

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

Approved Fiscal Year 2011 Budget

The approved Fiscal Year 2011 budget is the Authority's financial plan for Fiscal Year 2011. The development of this financial plan was guided by the Authority's Five-year Goals, One-year Objectives, Performance Plan and the Guiding Principles. This approved budget is balanced, fiscally conservative and sound and conforms to all policies adopted. The approved budget will carry out the Authority's mission of assuring responsive customer service, providing reliable, high-quality, affordable and sustainable water supply, wastewater collection, treatment, and reuse systems, and supporting a healthy, environmentally sustainable and economically viable community.

In preparing the Fiscal Year 2011 budget, a number of assumptions were made, including: no cost of living adjustment for labor in Fiscal Year 2011, Authority debt will be approximately 25 basis points under market rate based on the Authority's AAA bond rating, and power, chemicals and fuel will not exceed the Consumer Price Index. Revenue is projected to remain flat. Development and growth are also projected to remain flat.

For Fiscal Year 2011, the approved budget does not include a rate increase. There is an adjustment to the Northwest Service Area ratepayers, formerly New Mexico Utilities, to bring those ratepayers into the Authority's rate structure as previously approved by the Authority Board. In keeping with the commitment made to the Board, the Authority in the development of this approved budget has taken a conservative approach to provide effective and efficient water and wastewater services balanced against projected resources. As with other governmental entities, the Authority has also seen the results of the current economic decline. Water and wastewater revenue has remained relatively flat while Utility Expansion Charges (UEC) have fallen from a high of about \$17 million in Fiscal Year 2006 to \$9 million anticipated for Fiscal Year 2011. Water conservation has resulted in the Authority service area reaching 159 gallons consumed per day (gcpd) in 2009 and moving toward reaching the goal of 150 gcpd in 2014. However, conservation also means that revenue generated from water and wastewater is substantially reduced. Revenue from interest income has also declined due to the current economy. Expenses have and continue to increase from a Fiscal Year 2008 actual of \$149.6 million to \$172 million for Fiscal Year 2011. Much of the increase over this period is based on the acquisition of the former New Mexico Utilities and the increases associated with bringing the San Juan-Chama Drinking Water Project online.

In the preparation of the Fiscal Year 2011 budget the Authority reviewed various alternatives to reduce expenditures to balance the budget. In reviewing current staffing and salaries, the Authority has determined that a reduction in this area would not be prudent based on the ongoing service needs. While there is no reduction in staffing, there is no cost of living salary adjustment for Fiscal Year 2011. A 3% shift between the employer/employee split in other employee benefits from the current 83%-17% to an 80%-20% split has been approved.

This shift in percentage will help offset the increased cost in other employee benefits as a result of increases in health, dental and vision insurance rates. This shift is subject to the collective bargaining process, but the dollar amount associated with this shift is included in the budget. In reviewing general operating expenditures, there were some reductions taken; however, these reductions were more than offset by increases in power, chemicals and supplies. The most significant expense of the Authority continues to be debt service payments which comprise 38% of our total operating expense for Fiscal Year 2011. Operating expenses other than these mentioned remain relatively static. One item of note is the decline in the Worker's Compensation expense, which the Authority has worked diligently in partnership with employees to reduce over the past three years.

The Northwest Service Area Division (NWSA) has been successfully integrated into the general operations of the Authority. The NWSA now provides services not only to customers of the former New Mexico Utilities but also to other Authority Westside ratepayers. In Fiscal Year 2011, the Authority will begin to look at the expansion of the current NWSA from what was the New Mexico Utilities area to an area that will be bounded by Sandoval County on the north, the Rio Grande River on the east, I-40 on the south and the Rio Puerco on the west. Any expenses associated with this expansion would have to be budget neutral. Since the Authority has long discussed area operations, the establishment of a northwest service area as described will provide a program that can be used to improve services to customers.

The San Juan-Chama Drinking Water Project is expected to increase surface water treatment to provide 50% of water supplied to the service area. The Authority will continue to operate two water supply systems, the surface water and the ground water systems. This dual system operation will continue into the future even though the primary source of supply will be the surface water from the San Juan-Chama Drinking Water Project. It is anticipated that 75% of the area's future water supply will be surface water from the San Juan-Chama Drinking Water Project. The Authority continues to adjust the funding for operations of the San Juan-Chama Drinking Water Project as a history of operating costs is developed.

For Fiscal Year 2011, the Authority is again implementing a nonrecurring employee safety/performance incentive to be offset by savings generated through reduced costs associated with safety and/or performance. This incentive program has been an effective tool in the reduction of the Authority's Workers Compensation expense as mentioned. In Fiscal Year 2006, injury time was at 24,021 hours. In Fiscal Year 2009 this amount was reduced to 9,774 hours, a 60% reduction. For Fiscal Year 2010 the current trend projects that injury time will be lower than the planned target of 9,000 hours.

For Fiscal Year 2011 the gap between revenues and expenditures is estimated to be \$4.6 million in the General Operating Fund. The Authority proposes to close this gap through the use of working capital or fund balance. In the Fiscal Year 2010 budget presentation, based on the Authority's ten year financial plan, the Board was informed that the use of working capital or fund balance and the rate reserve fund would be anticipated given that no rate increase would be proposed in Fiscal Year 2011. The working capital or fund balance at the end of Fiscal Year 2010 is projected to be \$8 million. Subtracting the \$4.6 million Fiscal Year 2011 deficit, the working capital or fund balance will be approximately \$3.4 million at the end of Fiscal Year 2011. This balance will be augmented by the rate reserve fund that was established by the Board in Fiscal Year 2008 which will have a \$7 million balance in Fiscal Year 2011. With the \$3.4 million in working capital or fund balance and the \$7 million from the rate reserve fund, the Authority is able to maintain a \$10 million working capital or fund balance for Fiscal Year 2011.

Revenue for Fiscal Year 2011 is estimated to be \$167 million; approximately \$3 million above the Fiscal Year 2010 approved budget. The \$3 million increase is mainly from the change in rates for the former New Mexico Utilities ratepayers (\$2.8 million). This increase is due to the addition of the sustainable water supply charge that was not part of the New Mexico Utilities rate structure. Approved operating expenditures, \$172 million, contain a net decrease of \$5.8 from Fiscal Year 2010. This includes an increase of \$1 million in personnel expenditures, \$2 million in general operating expenditures and a decrease in internal services charges of \$9 million.

Four positions that were added in Fiscal Year 2010 are included at a cost of \$243,000. These positions are a Facilities Plant Advisor, a Senior Office Assistant, a Leak Detection Tech and an Environmental Scientist. In addition, the increased cost of health insurance accounts for approximately \$0.5 million. The general operating expenditures increase is due mainly to increases in utilities, supplies and chemicals. There is a shift in appropriations for vehicle maintenance charges from the internal services category to the general operating category of \$1 million. The shift has no impact on total operating costs. Changes in internal services include the \$1 million vehicle maintenance transfer, a reduction of \$5.5 million in the cash transfer to capital and a \$2.5 million reduction in the transfer to debt service.

Also included in a separate resolution is the Capital Implementation Program (CIP) approved budget for Fiscal Year 2011. The total approved appropriation for Fiscal Year 2011 is \$47.52 million for new projects as well as supplemental appropriations for existing CIP projects to provide additional funding based on current estimates of ongoing projects. By Ordinance, \$30 million of annual CIP funding must be used for system rehabilitation. The appropriation also includes \$4 million for system growth, \$9.52 million for the Southside Water Reclamation Plant rehabilitation, \$3 million for special projects and \$1 million for the Fiscal Year 2011 funding increment for the Valley Utilities Projects co-managed with Bernalillo County. There are no appropriations for projects that will be funded with revenues from Fiscal Year 2012 and later.

The Authority participated in the peer review process of the American Water Works Association's QualServe program in 2005. An on-site examination of the utility's operations by a team of outside, highly experienced utility professionals, examined the utility's operations, business planning and management, customer relations, and organization. The peer review together with the annual benchmarking and self assessment programs have assisted the Authority in identifying what it does well and areas where improvement is necessary. The Authority has used the information and recommendations gathered from the QualServe program to provide guidance in the one-year objectives, the performance plan and the financial plan presented here. This information and recommendations have also been the basis for operational improvements already implemented in the Authority.

The Authority has established an asset management program with a steering committee to oversee the program. The program is an extensive 'Business Model' that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset management were developed to address the critical problem of aging public infrastructure and changing utility business environment. The Authority has completed an asset management plan as a part of its asset management program. The asset management plan will provide a 30-year projection that will allow the Authority to budget for renewals and replacements into the future.

Some of the challenges going forward beyond Fiscal Year 2011 include the increasing cost of power and chemicals, full operation of the San Juan-Chama Drinking Water Project and ground water operations simultaneously, debt cost management, and a long-term investment in the Reclamation Plant.

Capital Implementation Program for the System

The Executive Director develops the capital implementation program (“CIP”) which consists of a ten-year plan of capital expenditures, including a detailed yearly CIP budget which is submitted to the Board in accordance with the Budget Ordinance. Development of the CIP plan is based on information collected and analyzed on the Authority’s capital assets. Maintenance, rehabilitation, and replacement of assets are linked to the Authority’s short- and long-term financial needs and reflected in the CIP plan and operating budget. The budget amounts of the capital project funds are individual project budgets authorized by the Board for the entire length of the project which are not necessarily the same as the Authority’s fiscal year. The Executive Director may transfer funding up to 10% of an existing capital project as approved by the Board, provided the change does not significantly alter the project’s scope. The Budget Ordinance also sets forth requirements for Board review and approval of applications or proposals for state and federal grants.

The Authority prepared a Water and Wastewater Decade Plan for Fiscal Years 2010 through 2019, which the Authority adopted on June 20, 2007. The Decade Plan reflects increased spending for both new development and basic infrastructure requirements. The approved program contemplates planned expenditure amounts averaging an estimated \$47 million per year through 2018 for various water and sewer system improvements including approximately \$33 million per year for infrastructure rehabilitation, along with future expansion of the Southside Wastewater Treatment Plant. The Decade Plan does not include the Valley Utilities Projects and the WRMS projects. The current Valley Utility Project is the South Valley Water Expansion Project which is funded at a current rate of \$1 million per year. Through the end of Fiscal Year 2010, the Authority has committed \$31 million to the Valley Utilities Projects. The following table reflects updated costs for Fiscal Years 2010 through 2019 for basic water and wastewater system capital improvements.

Consistent with making capital decisions based on risk, a condition assessment of the Southside Water Reclamation Treatment Plant and its in-line supporting systems determined the need for an accelerated renovation program. Accordingly, a larger portion of the basic program rehabilitation dollars are being allocated to treatment plant renovation and will be supplemented by \$20 million of proceeds from the revenue bond debt sale which closed in April 2009. It is anticipated that the \$20 million will be spent over the next three fiscal years. The increase in basic program dollars for water reclamation facilities rehabilitation projects means less money will be spent in other rehabilitation categories than as shown in the Fiscal Year 2008 – 2017 Decade Plan.

Estimated Program Expenditures

Fiscal Year	Proposed Program Expenditures
2011	\$47.00 million
2012	47.00 million
2013	47.00 million
2014	47.00 million
2015	47.00 million
2016	47.00 million
2017	47.00 million
2018	47.00 million
2019	47.00 million

Source: Albuquerque Bernalillo County Water Utility Authority.

The proposed program is designed to focus on meeting the basic utility needs for water and wastewater assets, balancing growth and rehabilitation, and meeting federal and state regulatory requirements. The program focuses on maintaining safe drinking water, meeting pollution control standards, providing adequate fire protection and water system reliability, and implementing an asset management approach for rehabilitating deteriorated water and wastewater infrastructure at a targeted \$33 million per year level of investment.

The new decade plan has certain significant departures from the Fiscal Year 2008 – Fiscal Year 2017 Decade Plan. The internal assessment of the condition of the Authority’s infrastructure and future system needs as well as changes in the external environment in which the Authority operates will necessarily lead to changes in revenue allocation over time. In addition, the Authority is starting to make capital decisions based on an asset management approach that is intended to provide a business model for managing infrastructure assets to minimize the total costs of owning and operating them at an acceptable level of risk.

Overall, the program proposes expenditures of \$474 million over the next ten years for water/wastewater capital improvements for the basic program. Based on estimated need, an additional \$84 million has been committed for rehabilitation of the Southside Reclamation Plant.

INVESTMENT POLICIES AND PROCEDURES

The City has advised the Authority that Authority funds are invested by the City of Albuquerque Treasurer’s Office pursuant to the City’s Investment Policy (the "Investment Policy") established and maintained by an Investment Oversight Committee. The Investment Oversight Committee reviews the Investment Policy annually and recommends changes as necessary. The Investment Oversight Committee is established by City ordinance and consists of five voting members. Day-to-day management of the City’s Investment Program is delegated to the Treasury Division of the Department of Finance and Administrative Services, and specifically to the Investment Manager of the Treasury Division. According to the Investment Policy, all the investments should be made in accordance with the "Prudent Person" rule (all investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs,

not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived) and on the basis of competitive bids and/or offers. The liquidity goal is achieved by matching investment maturities with the expected timing of obligations. Attainment of a market return is measured by benchmarking the portfolio against a relevant market index. Finally, diversification (safety) is accomplished through implementation of a strategic asset allocation, derived from modern portfolio theory concepts.

The Investment Policy seeks to balance three primary objectives for its cash portfolio:

- maintaining sufficient liquidity to meet financial obligations;
- earning a market rate of return (subject to permitted investment constraints); and
- diversifying investments among asset classes to ensure safety of principal.

The Investment Policy permits the City to invest in (a) direct obligations of the United States or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, or in certain certificates or receipts established by the United States Government or its agencies or instrumentalities; (b) obligations of certain specified government-sponsored agencies; (c) accounts, certificates of deposit or time deposits with qualifying banks and savings and loan associations located in Bernalillo County, New Mexico; (d) certificates of deposit, time deposits and banker's acceptances of any qualifying bank or savings and loan association located outside the City; (e) bonds or securities of the State of New Mexico, its agencies, or certain of its subdivisions; (f) certain stripped securities; (g) certain specified repurchase agreements; (h) specified short-term investment and other funds maintained by the State of New Mexico; (i) money market instruments and other securities of commercial banks, brokers-dealers and other specified financial investors; and (j) other investments permitted under statutes of the State of New Mexico. Proceeds of bonds, amounts set aside to pay bonds and reserve funds relating thereto may also be invested in certain tax-exempt obligations and other investments specified in documents relating to the bonds.

FORWARD-LOOKING STATEMENTS

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

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

LITIGATION

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

APPROVAL OF ANNUAL STATEMENT

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

Approved by:

/s/ Mark Sanchez

Executive Director

Appendix A

Albuquerque Bernalillo County Water Utility Authority A Component Unit of the City of Albuquerque Annual Financial Report Year ended June 30, 2010

The Authority's financial statements for Fiscal Year 2010 are expected to be audited by Moss Adams LLP, independent certified public accountants and then are required to be submitted to the New Mexico State Auditor for review and approval. The financial statements for Fiscal Year 2010 are not completed and will be provided upon their completion and approval of the State Auditor.

APPENDIX B

CUSIP Numbers

Bond Issue name	D/S Month & Year	Cusip	Principal
Joint Water and Sewer Refunding Series 1999A	July 2011	013554NX4	\$11,910,000
Joint Water and Sewer 2005	July 2011	013493AF8	\$1,780,000
	July 2012	013493AG6	1,655,000
	July 2012	013493AB7	5,000,000
	July 2013	013493AH4	840,000
	July 2013	013493AC5	6,350,000
	July 2014	013493AJ0	665,000
	July 2014	013493AW1	9,000,000
	July 2015	013493AK7	10,355,000
	July 2016	013493AL5	9,115,000
	July 2017	013493AM3	11,080,000
	July 2018	013493AN1	8,410,000
	July 2019	013493AP6	4,230,000
	July 2019	013493AX9	4,300,000
	July 2020	013493AQ4	8,680,000
	July 2021	013493AR2	8,655,000
	July 2022	013493AS0	8,875,000
	July 2023	013493AT8	8,915,000
July 2024	013493AU5	8,945,000	
July 2025	013493AV3	8,975,000	
Joint Water and Sewer 2006A	July 2011	013493BA8	\$2,255,000
	July 2011	013493BT7	3,210,000
	July 2012	013493BB6	3,650,000
	July 2012	013493BU4	2,075,000
	July 2013	013493BC4	980,000
	July 2013	013493BV2	5,000,000
	July 2014	013493BD2	2,470,000
	July 2014	013493BW0	3,815,000
	July 2015	013493BE0	2,925,000
	July 2015	013493BX8	3,670,000
	July 2016	013493BF7	785,000
	July 2016	013493BY6	6,125,000
	July 2017	013493BG5	7,265,000
	July 2018	013493BH3	7,595,000
July 2019	013493BJ9	7,945,000	
July 2020	013493BK6	8,315,000	

	July 2021	013493BL4	8,695,000
	July 2022	013493BM2	9,095,000
	July 2023	013493BN0	9,550,000
	July 2024	013493BP5	10,000,000
	July 2025	013493BQ3	10,480,000
	July 2026	013493BR1	11,000,000
Joint Water and Sewer 2008A	July 2026	013493 BZ3	\$5,825,000
	July 2027	013493 CA7	6,115,000
	July 2028	013493 CB5	6,420,000
	July 2029	013493 CC3	6,745,000
	July 2030	013493 CD1	7,080,000
	July 2033	013493 CG4	23,445,000
Joint Water and Sewer 2009A-1	July 2011	013493CM1	\$1,445,000
	July 2012	013493CN9	6,155,000
	July 2013	013493CP4	6,465,000
	July 2014	013493CQ2	2,000,000
	July 2014	013493DH1	4,785,000
	July 2015	013493CR0	2,000,000
	July 2015	013493DJ7	5,040,000
	July 2016	013493CS8	600,000
	July 2016	013493DK4	6,705,000
	July 2017	013493CT6	2,000,000
	July 2017	013493DL2	5,660,000
	July 2018	013493CU3	1,645,000
	July 2018	013493DM0	6,370,000
	July 2019	013493CV1	3,000,000
	July 2019	013493DN8	5,395,000
	July 2020	013493CW9	8,805,000
	July 2021	013493CX7	9,285,000
	July 2022	013493CY5	3,205,000
	July 2023	013493CZ2	3,375,000
	July 2024	013493DA6	3,560,000
	July 2025	013493DB4	3,755,000
	July 2026	013493DC2	3,965,000
	July 2027	013493DD0	4,180,000
	July 2028	013493DE8	4,410,000
	July 2029	013493DF5	4,655,000

Joint Water and Sewer 2009A-2	July 2011	013493DQ1	\$3,530,000
	July 2012	013493DR9	3,700,000
	July 2013	013493DS7	2,350,000
	July 2013	013493DT5	1,560,000