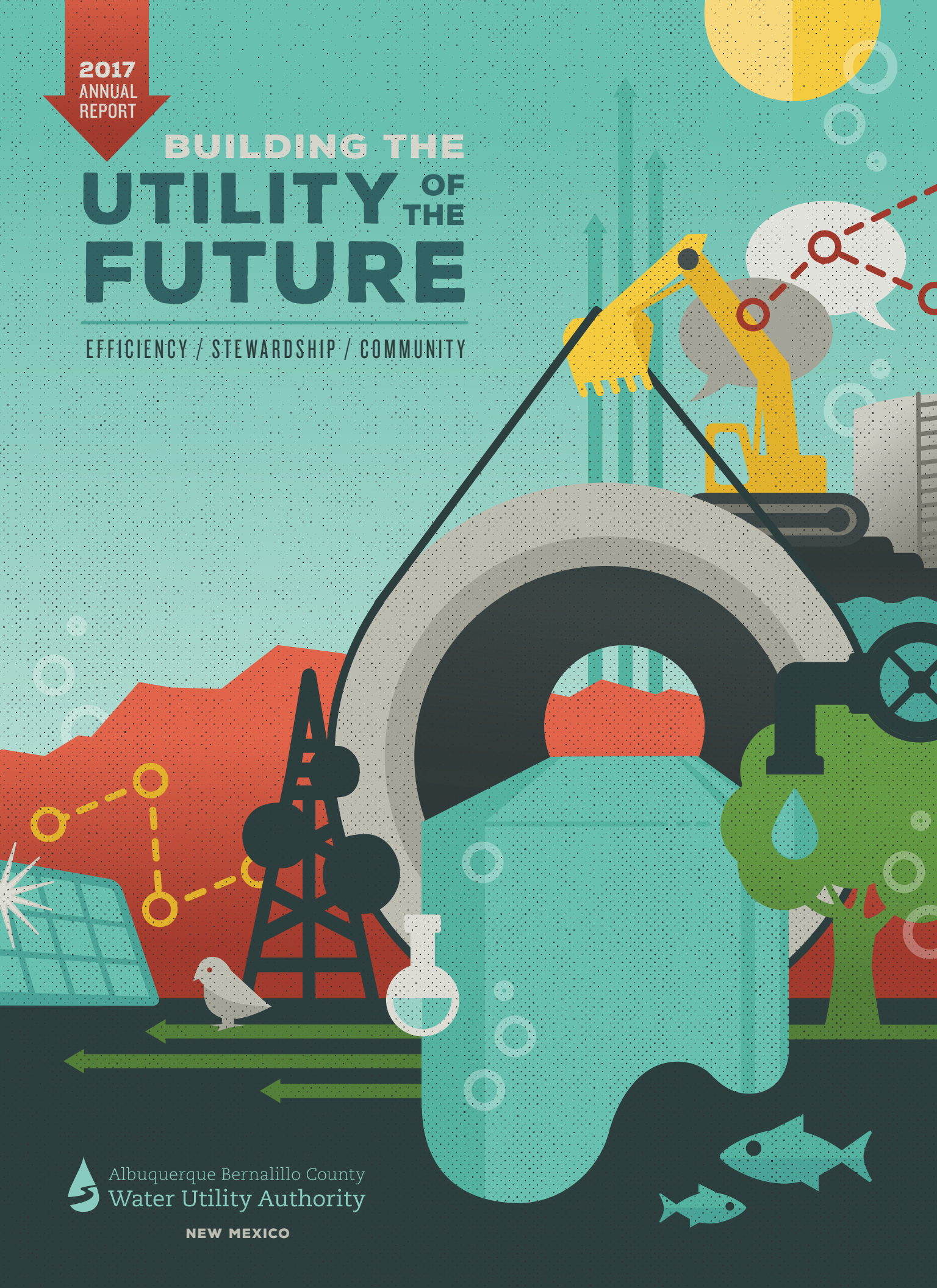
2017 ANNUAL REPORT

BUILDING THE UTILITY OF THE FUTURE

EFFICIENCY / STEWARDSHIP / COMMUNITY



Albuquerque Bernalillo County
Water Utility Authority

NEW MEXICO

CONTENTS

FROM THE CHAIR

THE FUTURE IS NOW

The Water Authority's organizational culture, beneficial reuse of sewage treatment byproducts, and water reuse program were all cited as reasons for our selection as an honoree.

What does the "Utility of the Future" look like? Well, according to leading organizations in the water sector, it looks a lot like the Albuquerque Bernalillo County Water Utility Authority. In late 2016, a coalition of these groups named the Water Authority an inaugural honoree in its new *Utility of the Future Today* program.

In selecting the Water Authority, these organizations—the National Association of Clean Water Agencies (NACWA), the Water Environment Federation (WEF), and the Water Environment & Reuse Foundation (WE&RF), with input from the U.S. Environmental Protection Agency (EPA)—specifically cited the utility for its organizational culture, its beneficial reuse of sewage treatment byproducts (i.e., biosolids), and its water reuse program. *Utility of the Future Today* honorees must also demonstrate their commitment to community partnership and engagement, energy efficiency and "green" power generation, materials recovery (e.g., recycling), and watershed stewardship.

Why the emphasis on these categories? Because they are indicators of utility efficiency, productivity, and long-term sustainability. We owe it to the ratepayers of our community to deliver in all these areas, not only to ensure fair and affordable rates, but to safeguard the environment and guarantee a water supply for future generations.

Fortunately, we've already laid the groundwork for this—a fact to which our status as a *Utility of the Future Today* abundantly attests. Read on to find out more!

KLARISSA PEÑA Chair

FROM THE CHIEF EXECUTIVE

YEAR'S ACHIEVEMENTS DOVETAIL WITH *UTILITY OF THE FUTURE* STATUS

A new solar array to power our drinking water treatment facilities. Reaching the halfway point on the 10-year makeover of our wastewater reclamation plant. Drilling Albuquerque's first aquifer storage and recovery injection wells. The list of the Water Authority's achievements in 2017 reflects the organization's status, as accorded by a coalition of national water agencies, as a *Utility of the Future Today*.

While we are honored to be thusly recognized, we are not managing New Mexico's largest water and sewer utility with an eye toward winning awards. Our goal, rather, is to build the most efficient, resilient and environmentally responsible organization that we can—for the sake of the community we serve, and for the sake of future generations.

We must continue to evolve as an organization and as a steward of our water resources. As our new 100-year water management strategy emphasizes, our current efforts with respect to water reuse and aquifer storage and recovery (i.e., storing surface water underground) must be expanded. And our world-renowned conservation program must be updated, in the light of past gains, to ensure that we are using every drop as efficiently as possible.

I hope you'll take a moment to look through this annual report and learn more about the steps we're taking to meet the highest standards of effective utility management. We have much more to achieve, of course, but as our accomplishments of 2017 demonstrate, we're well on our way.

MARK S. SANCHEZ Executive Director

Our goal is to build the most efficient, resilient, and environmentally responsible organization that we can – for the sake of the community we serve, and for the sake of future generations.

YOUR WATER AUTHORITY

The Albuquerque Bernalillo County Water Utility Authority, a political subdivision of the State of New Mexico, provides water and wastewater service to the greater Albuquerque/ Bernalillo County metropolitan area. It is the largest water and wastewater utility in the state.

OPERATING BUDGET **$213 MILLION**

CAPITAL BUDGET **$67 MILLION**

CURRENT OUTSTANDING DEBT **$635 MILLION**

BOND RATINGS **AA+** S&P / **Aa2** MOODY'S / **AA** FITCH

SYSTEM ASSET VALUATION (APPROXIMATE)

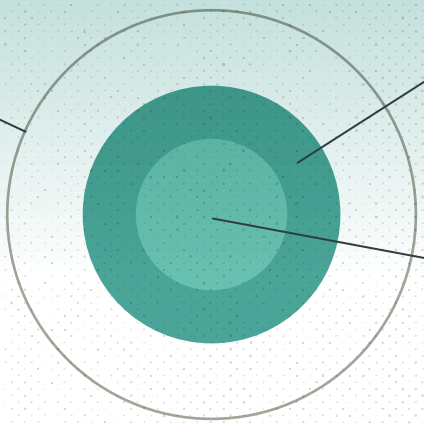
$5 BILLION replacement value

$1.2 BILLION water rights

ANNUAL WATER PRODUCTION

FY 2017

29.7 BILLION GALLONS



SURFACE WATER: **63%**

18.6 BILLION GALLONS

GROUNDWATER: **37%**

11.1 BILLION GALLONS

AVERAGE ANNUAL DISCHARGE TO THE RIO GRANDE

FY 2017

18.2 BILLION GALLONS

AVERAGE DAILY DISCHARGE TO THE RIO GRANDE

FY 2017, Approximate

49.9 MILLION GALLONS








GOVERNING BOARD

The Water Authority is accountable to its ratepayers through a governing Board consisting of seven elected officials: Three Albuquerque City Councilors, three Bernalillo County Commissioners, and the Mayor of Albuquerque or his designee. Also serving is a nonvoting member from the Village of Los Ranchos. Board members as of December 2017 (pictured top to bottom, left to right):

KLARISSA PEÑA Albuquerque City Council, Chair
DEBBIE O'MALLEY Bernalillo County Commission, Vice-Chair
RICHARD J. BERRY Mayor, City of Albuquerque
PAT DAVIS Albuquerque City Council
MAGGIE HART STEBBINS Bernalillo County Commission
WAYNE JOHNSON Bernalillo County Commission
TRUDY E. JONES Albuquerque City Council
PABLO RAEL Village of Los Ranchos, ex officio

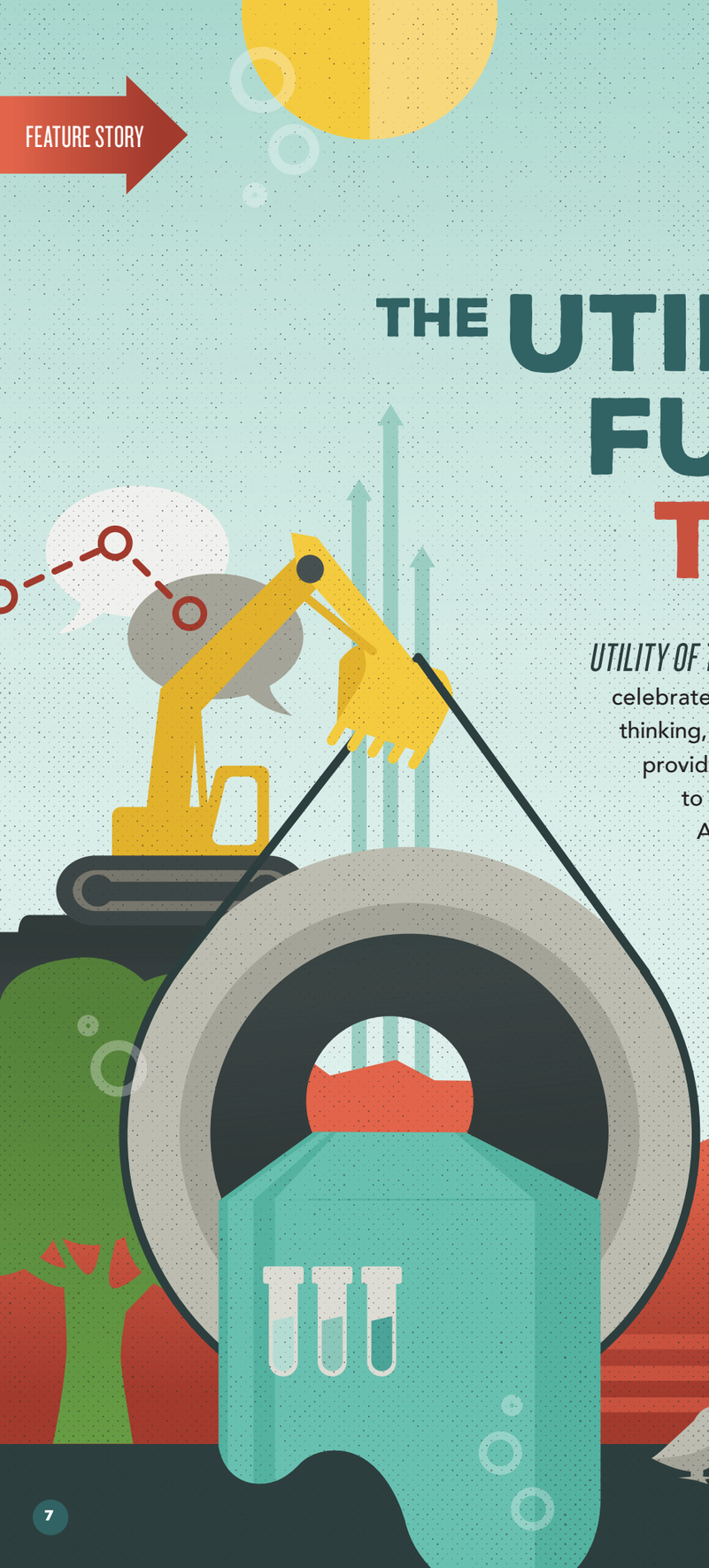
SENIOR STAFF

MARK S. SANCHEZ Executive Director
JOHN M. STOMP III, P.E. Chief Operating Officer
STAN ALLRED Chief Financial Officer
PETER S. AUH General Counsel
JUDY BENTLEY Human Resources Manager
MARK KELLY Regulatory Compliance Manager
CHARLES LEDER Plant Operations Manager
DAVID MORRIS Public Affairs Manager
JAMES H. OLSEN JR., P.E. Field Operations Manager
DAVID PRICE, P.E. Engineering & Planning Manager
FRANK ROTH Senior Policy Manager
CODY STINSON Information Technology Manager
HOBERT "H" WARREN Customer Service Manager
KATHERINE YUHAS Water Resources Manager

CUSTOMER ACCOUNTS
210,426

CURRENT EMPLOYEES (BUDGETED)
633

THE UTILITY OF THE FUTURE TODAY



UTILITY OF THE FUTURE TODAY RECOGNITION celebrates the achievements of forward-thinking, innovative water utilities that are providing resilient value-added service to communities. In 2016, the Water Authority was named an inaugural recipient of the award.

The award program is the brainchild of four water sector organizations—the National Association of Clean Water Agencies (NACWA), the Water Environment Federation (WEF), and the Water Environment & Reuse Foundation (WE&RF), with input from the U.S. Environmental Protection Agency (EPA).

"Through the *Utility of the Future* program, these national organizations are providing a model for utilities of all sizes to achieve more efficient operations," said Water Authority Chairperson Klarissa Peña. "That they have named us a *Utility of the Future Today* is indicative of our commitment as a utility to the concepts of sustainability, stewardship, and community engagement."

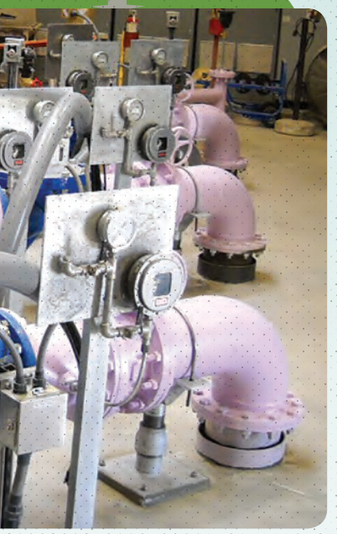
In honoring the Water Authority, the *Utility of the Future* program specifically cited the utility for its organizational culture, its beneficial reuse of sewage treatment byproducts (i.e., biosolids), and its water reuse program. *Utility of the Future Today* honorees must also demonstrate their commitment to community partnership and engagement, energy efficiency and "green" power generation, materials and nutrient recovery (e.g., recycling), and watershed stewardship.

Debbie O'Malley, Bernalillo County Commissioner and Water Authority Vice-Chair, said the recognition is well-deserved, but does not mark a stopping point in the utility's improvement efforts.

"It's great that we can measure ourselves against the standards set by the *Utility of the Future* program," she said. "We must continue to build on the successes that made us an inaugural winner of the award."

THE FUTURE: GETTING THERE

In naming the Water Authority an inaugural *Utility of the Future Today*, program organizers cited these initiatives and attributes:



WATER REUSE

The Water Authority has for many years used recycled industrial wastewater for landscape irrigation in northeast Albuquerque, and in 2010 completed a large-scale nonpotable reuse project to serve the southeast section of town. This project uses reclaimed water from the community's wastewater treatment plant, which also depends on recycled water to operate. The Water Authority, which re-used about 529 million gallons in 2016 for turf irrigation, relies on reuse for about 1.7 percent of the community's water needs. That percentage is expected to grow significantly in coming decades as the utility implements its long-term water resources management strategy, *WATER 2120*.

GREEN ENERGY

The Water Authority, in addition to using recovered biogas to help power its wastewater treatment operations, is now using solar power to generate about 2.5 MW of clean energy at its wastewater and drinking water plants. The utility also works in partnership with local power company PNM to time high-energy operations, such as running wells and pumps, for off-peak hours. In the summer of 2017 alone, participation in PNM's peak saver program yielded about $425,000 in rebates to the water utility.

ORGANIZATIONAL CULTURE

Encouraging employees and stakeholders to view the utility in "big-picture" terms: as a member of a larger watershed and economic community, committed to delivering maximum environmental benefits as efficiently and responsibly as possible.

WATERSHED STEWARDSHIP

The Water Authority understands the need to protect the lands through which its surface-water supply flows. Pursuant to this, it has entered a five-year, $1 million partnership with The Nature Conservancy and the Rio Grande Water Fund for watershed management efforts in northern New Mexico. Furthermore, between 2014 and 2016 the utility financed and supervised extensive habitat restoration work along the Albuquerque stretch of the Rio Grande, planting some 11,000 trees and shrubs and creating spawning areas for the endangered Rio Grande silvery minnow.

BIOSOLIDS & NUTRIENT RECOVERY

The Water Authority transforms sludge from its wastewater treatment operations into high-quality organic compost, available for sale to the general public and to other government agencies. The utility produces about 10,000 tons of compost annually, and generated more than $200,000 from compost sales in FY 2017. Individuals and businesses wishing to purchase compost can call 505-289-3600.

COMMUNITY PARTNERSHIP & ENGAGEMENT

The Water Authority is committed to educating its customers about its activities and involving them in its planning process. Since 2013 Water Authority staff have met with more than 700 customers across the service area to solicit feedback and share information through a program called "Customer Conversations." Topics covered so far have included water waste enforcement, potable water reuse, rates, infrastructure renewal, watershed restoration, long-term resource management, and levels of service.

2017: YEAR IN REVIEW

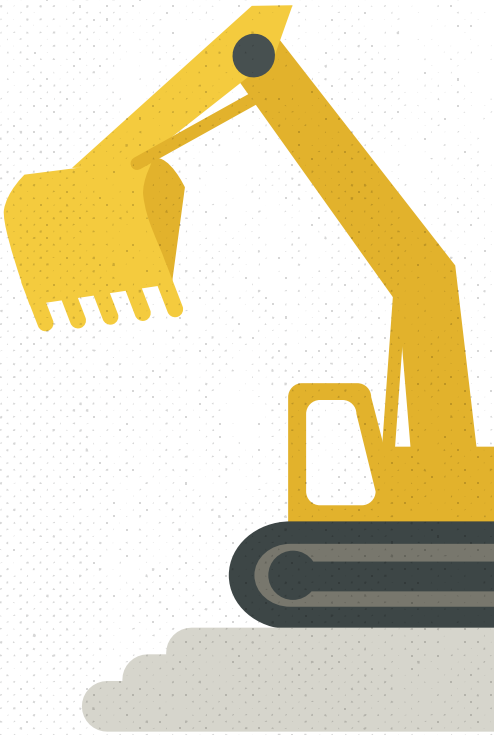
ASR INJECTION WELLS A FIRST FOR ALBUQUERQUE

The Water Authority in 2017 began drilling the community's first-ever injection wells for ASR (aquifer storage and recovery), a water storage method popular in the Western United States but just getting its feet wet in New Mexico.

Utility officials dedicated the two new wells at a ceremony in August at the Water Authority's San Juan-Chama Drinking Water Plant in northeast Albuquerque. The project was made possible thanks in large part to the efforts of State Sen. Dede Feldman, who sponsored the 1999 legislation allowing ASR to move forward in New Mexico.

ASR will be an important part of Albuquerque's water strategy in coming years. It will allow the utility to place water in the aquifer during times of low demand and withdraw it for use during high-demand summer months or when the community's surface-water treatment plant is down for maintenance and repairs. Water injection is scheduled to begin in 2018.

Drilling began this year on Albuquerque's first direct-injection aquifer storage and recovery (ASR) wells.



WATER AUTHORITY BREAKS GROUND ON SOUTH VALLEY WATER PROJECT

Construction on a highly anticipated project to bring municipal drinking water to the historic South Valley neighborhood of Los Padillas began in October, with an expected completion date of summer 2018 for the first phase.

Bernalillo County and the Water Authority have teamed up to plan and finance the project, the total cost of which is expected to be $4-5 million. The County is contributing about $1.65 million for Phase 1, with the Water Authority contributing labor, equipment, and another $250,000 toward construction. Additional phases will occur as funding becomes available.

Klarissa Peña, Chair of the Water Authority Board, said the project is a great example of intergovernmental cooperation.

"We're very glad to be working with Bernalillo County Commissioner Steven Michael Quezada and State Representatives Andrés Romero and Patricio Ruiloba on the extension of water service to a South Valley community rooted in New Mexico history," she said.

About 3,000 people live in Los Padillas. It's a 300-year-old semirural neighborhood where shallow domestic wells are associated with potential public health problems stemming from leaking underground petroleum storage tanks, septic tank effluent, and agricultural irrigation.

Water Authority personnel dig a trench for new water lines in the South Valley neighborhood of Los Padillas.

Conservation Program Manager Carlos Bustos addresses the media regarding Water Authority "Tree-Bates."

CONSERVATION PROGRAM KICKS OFF SPRING WITH RELAUNCH OF "TREE-BATES"

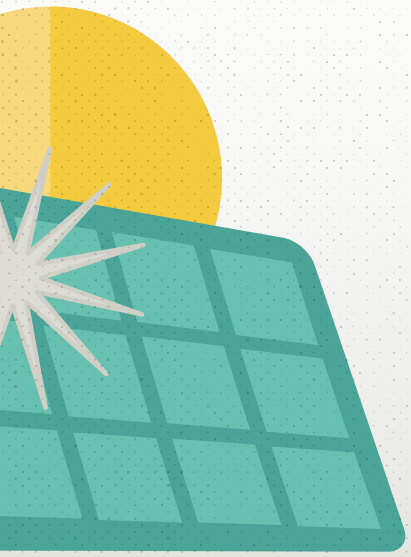
Tree planting and tree care received special emphasis in the Water Authority's 2017 conservation program, which saw the relaunch of the utility's "Tree-Bate" program at a March news conference.

Under the program, Water Authority customers can earn credits on their water bill for planting approved, desert-friendly trees. Credits also are available for professional tree care such as pruning, fertilization, or irrigation system installation.

The program is aimed at addressing Albuquerque's loss of vegetation as trees planted in the 1930s and 1940s reach the end of their lifespans.

AWARD-WINNING SOLAR ARRAY DEBUTS AT SURFACE-WATER TREATMENT PLANT

Water Authority officials cut the ribbon in June on a new solar array that's helping to power the community's drinking water treatment plant. The 1.5 MW solar facility, constructed in consultation with Triple H Solar LLC, is expected to provide about 10 percent of the plant's power needs.



The solar array, which was named New Mexico's *Renewable Energy Project of the Year* by the Association of Energy Engineers, is the second large solar facility powering a Water Authority plant. The community's Southside Water Reclamation (i.e., sewage treatment) Plant is partially powered by a 1 MW solar array built in 2012–2013.

"The Water Authority is committed to the adoption of green technologies wherever feasible," said Klarissa Peña, the chair of the utility's governing Board. "In cases like this, where we reduce our power bills while also reducing our carbon footprint, it's a win-win for our ratepayers and the environment."

LEADING THE WAY IN PREVENTING WATER LOSS

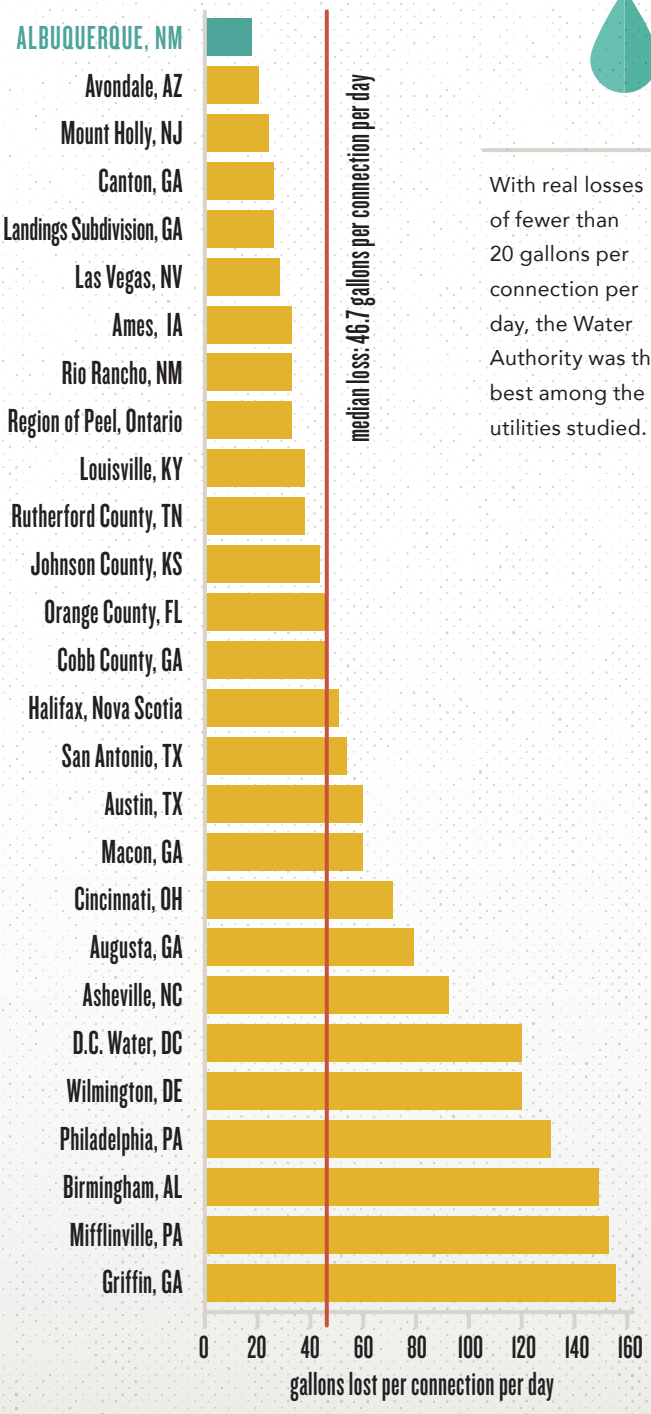
The Water Authority announced in October the results of a national study showing that it is among the best when it comes to controlling water loss caused by system leaks and other problems.

The study, conducted by the American Water Works Association, shows that Albuquerque's water utility is well below the median where water loss (caused by leaks, inaccurate metering, and even theft) is concerned.

At fewer than 20 gallons per connection per day in real losses, the Water Authority was the best overall among the 27 utilities studied. Some utilities showed average real losses of more than 150 gallons per service connection per day, and the median (average) real loss among study participants was 46.7 gallons per connection.

John Stomp, the Water Authority's Chief Operating Officer, credited the utility's water loss performance to improved response times to leaks, increased reinvestment in infrastructure, and an emphasis on proactive leak detection.

"Seeking out leaks proactively, before catastrophic breaks occur, has been the most effective tool in stopping water loss," he said.



With real losses of fewer than 20 gallons per connection per day, the Water Authority was the best among the utilities studied.

REAL WATER LOSSES FOR 2015 STUDY PARTICIPANTS

Source: AWWA WLCC 2016

"BIG DIG" FOR SOUTHWEST ALBUQUERQUE

The Water Authority broke ground in November of 2016 on a $6.5 million project to reroute sewer flows in southwest Albuquerque along the western part of Central Avenue. As part of the project, "vortex" manhole technology is being installed in order to eliminate odors, which had been a cause of complaints in this area for many years.

"This solution represents a significant investment in this neighborhood," said former Water Authority Board member and current City Councilor Ken Sanchez, who championed the project along with Water Authority Board Chair Klarissa Peña. "It demonstrates my commitment, and that of the Water Authority, to infrastructure improvements in the West Central area and throughout Albuquerque."

The project is slated for completion in early 2018.

Water Authority contractors work to install a new vortex manhole as part of a major sewer realignment project along Central Avenue.

FINANCIALS

ECONOMIC CONTEXT

The Water Authority serves some 650,000 people in Albuquerque, NM, and certain unincorporated areas of Bernalillo County. Albuquerque is New Mexico's largest city and is the state's major commercial, trade, service, transportation, and financial center. The city's economy is driven by large public-sector employers (the University of New Mexico, Albuquerque Public Schools, Sandia National Laboratories, Kirtland Air Force Base) and such private employers as Intel, Presbyterian Health Care, and Public Service Company of New Mexico (PNM). The Bureau of Business and Economic Research at the University of New Mexico reported that as of February 2017, New Mexico had still not replaced all of the jobs lost during the economic downturn of 2008. However, the bureau projects that Albuquerque will be a leader in job creation in the state in coming years and the economic outlook for both the City of Albuquerque and Bernalillo County continues to show positive trends.

Please note that this is a summary popular report intended for general readership and as such does not contain all the information available in the utility's Comprehensive Annual Financial Report (CAFR). To view the FY 2017 CAFR, which is prepared in accordance with generally accepted accounting principles (GAAP), please visit the Water Authority's website at www.abcwua.org and click on "Finances" under "Your Water Authority."

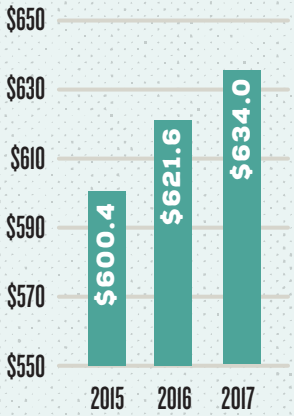
TOP 10 WATER AUTHORITY CUSTOMERS

		Water Revenue	% of Total Revenue	Consumption in thousands of gallons
1	City of Albuquerque	$9,134,660	5.98%	2,884,365
2	Albuquerque Public Schools	3,169,349	2.08%	742,653
3	University of New Mexico	1,299,145	0.85%	136,463
4	Bernalillo County	828,899	0.54%	231,851
5	Kirtland Air Force Base	684,830	0.45%	148,765
6	Water Authority	324,528	0.21%	86,736
7	Lovelace Health	291,783	0.19%	93,113
8	Central New Mexico Community College	278,331	0.18%	64,731
9	Sumitomo	270,565	0.18%	110,990
10	Albuquerque Academy	255,004	0.17%	104,396
Total		**$16,537,094**	**10.83%**	

2017 TOTAL WATER REVENUE: $152,676,463

CHANGE IN NET POSITION

in millions
(details on following page)



CONDENSED STATEMENTS OF NET POSITION in thousands of dollars

A summarized comparative statement of net position (the difference between assets and liabilities) for the last three fiscal years. The increase in assets in FY17 was primarily due to an influx of cash from increases in consumption levels, and the receipt of bond proceeds.

				Variance	
	FY2017	**FY2016**	**FY2015**	**2017 v 2016**	**2016 v 2015**
ASSETS					
Current and other assets	$207,502	$171,855	$166,956	$35,647	$4,899
Capital assets	1,182,433	1,187,301	1,220,391	(4,868)	(33,090)
Total assets	1,389,935	1,359,156	1,387,347	30,779	(28,191)
Total deferred outflow of resources	43,485	26,135	32,304	17,350	2,323
LIABILITIES					
Long-term liabilities	720,177	680,942	733,412	39,235	(52,470)
Other liabilities	78,147	81,583	74,294	(3,436)	7,289
Total liabilities	798,324	762,525	807,706	35,799	(45,181)
Total deferred inflow of resources	1,090	1,096	11,503	(6)	(1,915)
NET POSITION					
Net investment in capital assets	560,766	568,245	576,678	(7,479)	(8,433)
Unrestricted	73,241	53,425	23,764	19,816	29,661
Total Net Position	$634,007	$621,670	$600,442	$12,337	$21,228

CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION in thousands of dollars

Provides a general understanding of how available resources are used to provide services. This table presents a summarized comparative statement of revenues, expenses, and changes in net position for the last three fiscal years. Operating revenues increased $1.4 million from FY2016 and $30.0 million from FY2015 primarily due to the implementation of a 5 percent rate revenue increase on July 1, 2016.

				Variance	
	FY2017	**FY2016**	**FY2015**	**2017 v 2016**	**2016 v 2015**
REVENUES					
Operating	$215,194	$210,056	$185,202	$5,138	$24,854
Non-operating	11,549	15,240	9,742	(3,691)	5,498
Total revenues	226,743	225,296	194,944	1,447	30,352
EXPENSES					
Operating	198,770	191,538	190,045	7,232	1,493
Non-operating	19,158	18,034	22,129	1,124	(4,095)
Total Expenses	217,928	209,572	212,174	8,356	(2,602)
Income (Loss) before capital contributions	8,815	15,724	(17,230)	(6,909)	32,954
Capital contributions	3,522	5,504	7,348	(1,982)	(1,844)
Change in net position	12,337	21,228	(9,882)	(8,891)	31,110
Net position, beginning of year	621,670	600,442	610,324	21,228	(9,882)
Net position, end of year	$634,007	$621,670	$600,442	$12,337	$21,228

The Government Finance Officers Association (GFOA) of the United States and Canada has given an **Award for Outstanding Achievement in Popular Annual Financial Reporting to the Albuquerque Bernalillo County Water Utility Authority** (Water Authority) for its Popular Annual Financial Report for the fiscal year ended June 30, 2016. This is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards of creativity, presentation, understandability and reader appeal.

A Certificate of Achievement is valid for a period of one year only. This was the Water Authority's second year receiving this award. Staff believes the report continues to conform to the Certificate of Achievement program requirements and will submit it to the GFOA to determine its eligibility for another certificate.

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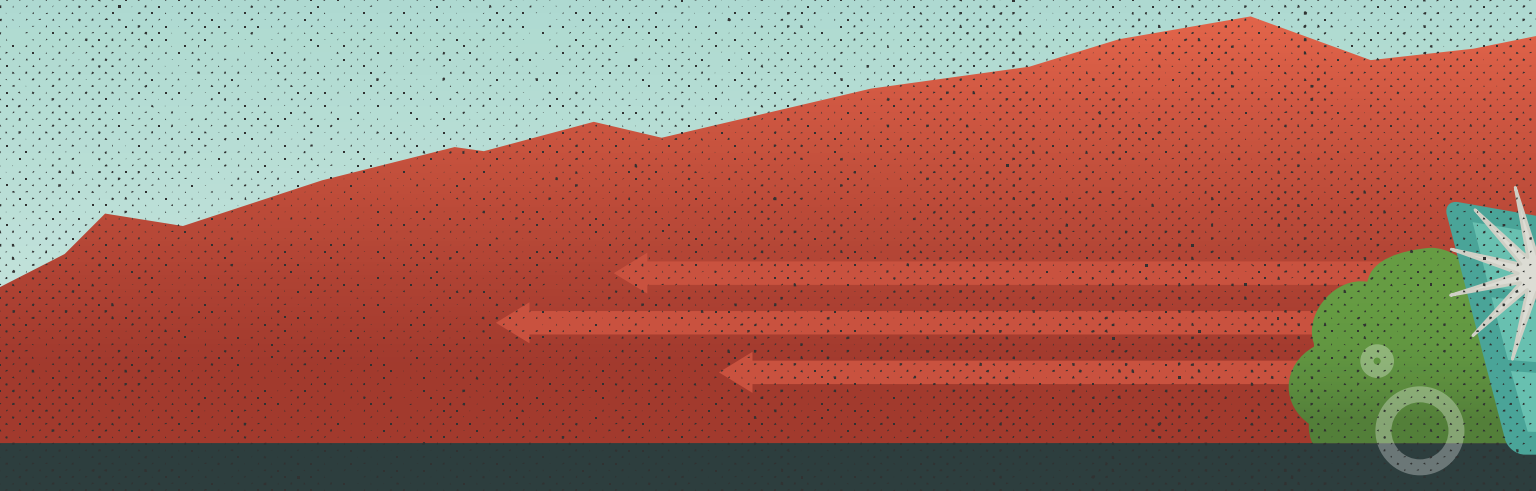

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