

NOTICE
\$87,945,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds
Series 2017

Preliminary Official Statement, subject to completion,
dated January 17, 2017

The Preliminary Official Statement, dated January 17, 2017 (the "Preliminary Official Statement"), relating to the above-described bonds (the "Series 2017 Bonds" or the "Bonds") of the Albuquerque Bernalillo County Water Utility Authority (the "Authority" or "ABCWUA"), has been posted as a matter of convenience. The posted version of the Preliminary Official Statement has been formatted in Adobe Portable Document Format. Although this format should replicate the Preliminary Official Statement available from the Authority, appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat may cause the Preliminary Official Statement that you view or print to differ in appearance from the Preliminary Official Statement.

The Preliminary Official Statement and the information contained therein are subject to completion or amendment or other change without notice. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

For purposes of Rule 15c2-12 promulgated by the United States Securities and Exchange Commission, the Preliminary Official Statement alone, and no other document or information on the internet, constitutes the "Official Statement" that the Authority has "deemed final" as of its date with respect to the Bonds, except for certain information permitted to be omitted therefrom.

No person has been authorized to give any information or to make any representations other than those contained in the Preliminary Official Statement in connection with the offer and sale of the Bonds and, if given or made, such information or representations must not be relied upon as having been authorized. The information and expressions of opinion in the Preliminary Official Statement are subject to change without notice and neither the delivery of the Official Statement nor any sale made thereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority since the date of the Preliminary Official Statement.

By choosing to proceed and view the electronic version of the Preliminary Official Statement, you acknowledge that you have read and understood this Notice.

Preliminary Official Statement dated January 17, 2017

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to the registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT DATED JANUARY 17, 2017

New Issue – Book-Entry Only

S&P: AA+
Moody's: Aa2

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants described in "TAX MATTERS" herein, interest on the Series 2017 Bonds (including original issue discount treated as interest) (a) is excludable from the gross income of the recipients thereof, for federal income tax purposes, (b) is not a specific preference item for purposes of the federal alternative minimum tax for individuals and corporations, but such interest on the Series 2017 Bonds will be included in the adjusted current earnings of certain corporations, and (c) is exempt from all taxation by the State or any political subdivision of the State. For a more complete description of such opinion of Bond Counsel and a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the federal tax treatment of interest on the Series 2017 Bonds for certain owners of such bonds, see "TAX MATTERS" herein.

\$87,945,000*

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds Series 2017

Dated: Date of Delivery

Due: July 1, as shown on inside cover

The Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2017 (the "Series 2017 Bonds" or the "Bonds") are issued as fully registered bonds in denominations of \$5,000 or integral multiples thereof. The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the Series 2017 Bonds through its nominee, Cede & Co. One fully registered bond equal to the principal amount of each maturity of the Series 2017 Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2017 Bonds will be made in book-entry form only, and beneficial owners of the Series 2017 Bonds will not receive physical delivery of bond certificates representing their ownership of the Series 2017 Bonds, except as described herein. Upon receipt of payments of principal and interest, DTC will remit such payments to the DTC participants for subsequent disbursement to the beneficial owners of the Series 2017 Bonds, as more fully described herein.

The Series 2017 Bonds are being issued to provide funds for: (i) the advance refunding of certain outstanding Senior Obligations of the Authority which may include the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1 maturing on and after July 1, 2030, (ii) acquiring additional Water and Sewer System assets, and extending, repairing, replacing and improving the Water and Sewer System, and (iii) the payment of costs of issuance related to the Series 2017 Bonds.

Interest on the Series 2017 Bonds will be payable semiannually on each January 1 and July 1, commencing July 1, 2017. Payments of principal and interest on the Series 2017 Bonds will be made directly to DTC or its nominee, Cede & Co., by the Chief Financial Officer of the Authority, as Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Principal of the Series 2017 Bonds is payable on the dates and interest is payable at the rates shown on the Maturity Schedule set forth on the inside cover.

SEE MATURITY SCHEDULE ON INSIDE COVER OF THIS OFFICIAL STATEMENT

The Series 2017 Bonds may be subject to optional and mandatory sinking fund redemption as described herein.

The Series 2017 Bonds are special, limited obligations of the Authority, payable solely from and secured by the Net Revenues of the Authority's Joint Water and Sewer System. The lien of the Series 2017 Bonds on the Net Revenues is on parity with the Senior Obligations of the Authority (currently outstanding in the aggregate principal amount of \$497,357,388, and post-refunding in the amount of \$559,567,388^{*}). The issuance of the Series 2017 Bonds shall not, directly, indirectly or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The Authority does not have taxing power.

In connection with the issuance of the Series 2017 Bonds, the Authority will commit to provide certain annual information and notice of certain significant events as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING." The Series 2017 Bonds are offered when, as, and if issued by the Authority and purchased by the Underwriters and subject to the delivery of approving opinions by Modrall, Sperling, Roehl, Harris & Sisk, P.A., and certain other conditions. Certain legal matters will be passed on for the Authority by its General Counsel, Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., and by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Disclosure Counsel. RBC Capital Markets, LLC serves as Financial Advisor to the Authority. Certain legal matters will be passed on for the Underwriters by McCall, Parkhurst & Horton L.L.P. Delivery of the Series 2017 Bonds is expected on or about March 1, 2017 through the facilities of DTC, against payment therefor.

J.P. MORGAN

BAIRD

STIFEL

PIPER JAFFRAY & CO.

Official Statement dated January __, 2017

*Preliminary, subject to change.

MATURITY SCHEDULE

\$87,945,000*

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds
Series 2017

Maturity Date (July 1)	Principal Amount*	Interest Rate	Price or Yield	Cusip No.†
2018	\$4,135,000			
2019	4,220,000			
2020	4,350,000			
2021	4,520,000			
2022	4,705,000			
2023	4,935,000			
2024	5,185,000			
2025	5,445,000			
2026	5,715,000			
2027	6,000,000			
2028	6,300,000			
2029	6,615,000			
2030	4,675,000			
2031	4,905,000			
2032	5,150,000			
2033	5,415,000			
2034	5,675,000			

†The above referenced CUSIP numbers have been assigned by an independent company not affiliated with the parties to this bond transaction and are included solely for the convenience of the holders of the Series 2017 Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Authority nor the Underwriters take any responsibility for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2017 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2017 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

*Preliminary, subject to change.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

WATER UTILITY AUTHORITY BOARD

Councilor Trudy E. Jones, Chair
Commissioner Art De La Cruz, Vice-Chair
Mayor Richard J. Berry
Councilor Pat Davis
Commissioner Debbie O'Malley
Councilor Ken Sanchez
Commissioner Maggie Hart Stebbins
Trustee Pablo R. Rael (ex-officio member)

WATER UTILITY AUTHORITY ADMINISTRATION

Mark Sanchez, Executive Director
John Stomp, Chief Operating Officer
Stan Allred, Chief Financial Officer
Dr. James H. "Jim" Olsen, Jr. P.E., Field Operations Manager
Charles S. Leder, P.E., Plant Operations Manager
David J. Price, Water Resources, Planning and Engineering Manager
Cody R. Stinson, Chief Information Officer
Peter Auh, Esq., Chief Counsel
Hobert "H" Warren, Customer Service and Area Operations Manager
David Morris, Public Affairs Manager
Frank Roth, Senior Policy Manager
Judy Bentley, Human Resources Manager
Mark Kelly, Compliance Manager

REGISTRAR AND PAYING AGENT

Chief Financial Officer
Albuquerque Bernalillo County Water Utility Authority

BOND AND DISCLOSURE COUNSEL

Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

AUTHORITY COUNSEL

Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A.
Albuquerque, New Mexico

FINANCIAL ADVISOR

RBC Capital Markets, LLC
Albuquerque, New Mexico

No dealer, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Series 2017 Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information set forth or included in this Official Statement has been provided by the Authority and from other sources believed by the Authority to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Authority described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

The Underwriters have provided the following sentence for inclusion in this Official Statement: the Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The Series 2017 Bonds have not been registered under the Securities Act of 1933 in reliance upon exemptions contained in such Act. The registration and qualification of the Series 2017 Bonds in accordance with applicable provisions of the securities law of the states in which the Series 2017 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. None of the United States Securities and Exchange Commission (the "SEC") or any other federal, state, municipal or other governmental entity, or any agency or department thereof, has passed upon the merits of the Series 2017 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement is "deemed final" by the Authority for purposes of Rule 15c2-12 of the SEC. The Authority has covenanted to provide such annual financial statements and other information in the manner as may be required by regulations of the SEC or other regulatory body.

This Official Statement contains statements that are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. When used in this Official Statement, the words "estimate," "project," "intend," "expect" and similar expressions are intended to identify forward-looking statements. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

THE PRICES AT WHICH THE SERIES 2017 BONDS ARE OFFERED TO THE PUBLIC BY THE UNDERWRITERS (AND THE YIELDS RESULTING THEREFROM) MAY VARY FROM THE INITIAL PUBLIC OFFERING PRICES OR YIELDS APPEARING ON THE INSIDE COVER PAGE HEREOF. IN ADDITION, THE UNDERWRITERS MAY ALLOW CONCESSIONS OR DISCOUNTS FROM SUCH INITIAL PUBLIC OFFERING PRICES TO DEALERS AND OTHERS. IN CONNECTION WITH THE OFFERING OF THE SERIES 2017 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2017 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

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OFFICIAL STATEMENT

\$87,945,000*

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds
Series 2017

INTRODUCTION

This Official Statement, which includes the cover page, inside cover and appendices hereto, provides certain information in connection with the offer and sale of the Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2017 (the "Series 2017 Bonds" or "Bonds") by the Albuquerque Bernalillo County Water Utility Authority (the "Authority").

Capitalized terms used herein and not defined have the meanings specified in Authority Ordinance WUA O-17-__ and Authority Resolution No. WUA R-17-__ adopted by the Authority on January 25, 2017 (collectively, the "Bond Ordinance"). See "DESCRIPTION OF BOND ORDINANCE - Definitions" in Appendix C hereto.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 2017 Bonds to potential investors is made only by means of the entire Official Statement.

Albuquerque Bernalillo County Water Utility Authority

The joint water and sanitary sewer system (the "System") was owned by the City of Albuquerque, New Mexico (the "City") and operated by its Public Works Department prior to creation of the Authority. In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and resulted in the City transferring to the Authority all functions, appropriations, money, records, equipment and other real and personal property pertaining to the System. The policy-making functions for the System were also transferred to the Authority. The Authority has a minimal relationship with the City under the current Memorandum of Understanding, dated July 1, 2013, by and between the Authority and the City which expires in 2018. These ties include the Authority's rental of space and computer equipment from the City and Authority employees may participate in certain City employment benefits such as medical, dental, vision and life insurance. Other than these limited connections, the Authority operates independently of the City and Bernalillo County, New Mexico (the "County").

The Authority's Board (the "Board") governs the System for all of the City and 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

*Preliminary, subject to change.

Albuquerque Trustee (as an Ex Officio member). The current members of the governing board are as follows: Councilor Trudy E. Jones, Chair; Commissioner Art De La Cruz, Vice-Chair; Mayor Richard J. Berry; Councilor Pat Davis; Commissioner Debbie O'Malley; Councilor Ken Sanchez, Commissioner Maggie Hart Stebbins and Trustee Pablo R. Rael, Ex-Officio (non-voting). The Executive Director of the Authority is Mark Sanchez.

The Authority focuses on drinking water delivery and wastewater treatment services in its service area and has approximately 632 employees. Attached as Appendix B hereto is Bernalillo County Economic and Demographic Information.

Purpose of the Bonds

Proceeds from the sale of the Series 2017 Bonds will be used to provide funds for (i) the advance refunding of certain Senior Obligations of the Authority which may include the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1 maturing on and after July 1, 2030 in the aggregate principal amount of \$27,280,000 (the "Series 2009A-1 Bonds"), (ii) acquiring additional System assets through regular System improvements, expansion, maintenance, and upgrades pursuant to the Authority's Basic Capital Program, and (iii) payment of costs of issuance of the Series 2017 Bonds. The advance refunding of all, or part of, the Series 2009A-1 Bonds will result in debt service savings for the Authority.

At the time of issuance of the Series 2017 Bonds, the Authority will deposit proceeds of the Series 2017 Bonds to a special escrow fund held with BOKF, NA dba Bank of Albuquerque (the "Escrow Agent"), pursuant to an Escrow Agreement by and between the Authority and the Escrow Agent, resulting in the defeasance of certain maturities the Series 2009A-1 Bonds. See "PLAN OF FINANCING – The Project – Refunding Project."

Authority for Issuance

The Series 2017 Bonds are issued under the authority of and pursuant to the Constitution and laws of the State of New Mexico (the "State"), and all enactments of the Board relating to the issuance of the Series 2017 Bonds.

Security and Sources of Payment for the Bonds

Special Limited Obligations

The Series 2017 Bonds are special, limited obligations of the Authority, payable solely from Net Revenues, money on deposit in certain of the funds and accounts held under the Bond Ordinance, and the earnings thereon. As long as the Series 2017 Bonds are outstanding, the Bond Ordinance prohibits the Authority from issuing additional System Obligations with a lien on Net Revenues prior and superior to the lien of the Series 2017 Bonds. System Obligations with a lien on Net Revenues on parity with the Series 2017 Bonds or subordinate thereto may be issued under certain circumstances as set forth in the Bond Ordinance. See "DESCRIPTION OF THE SERIES 2017 BONDS – Issuance of Additional System Obligations."

Net Revenues

Net Revenues are the Gross Revenues of the System after deducting Operation and Maintenance Expenses. Gross Revenues include all income and revenues directly or indirectly derived by the Authority from the operation and use of the System. Operation and Maintenance Expenses include all reasonable and necessary current expenses of the System related to operating, maintaining and repairing the System. See "The Joint Water and Sanitary Sewer System" under this caption and "SECURITY AND SOURCES OF PAYMENT."

Outstanding Senior Obligations and Subordinate Obligations

Upon issuance, the Series 2017 Bonds will have a lien on Net Revenues that is on parity with the lien of the following Outstanding Senior Obligations:

New Mexico Finance Authority Public Project Revolving Fund Loan Agreement (2007);
Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1;
New Mexico Finance Authority Drinking Water State Revolving Fund Loan Agreement (2009);
New Mexico Finance Authority Public Project Revolving Fund Loan Agreement (2011);
Joint Water and Sewer System Improvement and Refunding Revenue Bonds, Series 2013A&B;
Senior Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014A; and
Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2015.

Upon issuance, the Series 2017 Bonds will have a lien on Net Revenues that is senior to the lien of the following Outstanding Subordinate Obligations:

New Mexico Finance Authority Drinking Water State Revolving Fund Loan Agreement (2008);
Subordinate Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2014B.

All the Outstanding Senior Obligations were issued pursuant to ordinances and resolutions adopted by the Authority, and are more fully described in "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations - Senior Obligations." The total principal amount of the Outstanding Senior Obligations after delivery of the Series 2017 Bonds, and defeasance of certain maturities of the Series 2009A-1 Bonds, is expected to be approximately \$559,567,388*.

All the Outstanding Subordinate Obligations were issued pursuant to ordinances and resolutions adopted by the Authority, and are more fully described in "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations - Subordinate and Super Subordinated Obligations." The total principal amount of the Outstanding Subordinate Obligations as of January 1, 2017 was \$85,515,187. None of the Subordinate Obligations will be

*Preliminary, subject to change.

redeemed with proceeds from the Series 2017 Bonds.

On December 14, 2016, the Authority adopted Ordinance No. O-16-2 authorizing an obligation with a super subordinated lien on the Net Revenues of the System. The Super Subordinated Obligation will be a Water Trust Board loan with the New Mexico Finance Authority which is expected to close on or about January 27, 2017 in the aggregate principal amount of \$669,550.

Protective Covenants

The Authority covenants in the Bond Ordinance to charge all purchasers of services of the System reasonable and just rates sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on all Senior Obligations and to pay 120% of the annual Debt Service Requirements on all Senior Obligations and Subordinate Obligations. See "SECURITY AND SOURCES OF PAYMENT - Estimated Total Combined Debt Service and Coverage Ratios" and "DESCRIPTION OF BOND ORDINANCE - Protective Covenants" in Appendix C hereto.

The Joint Water and Sanitary Sewer System

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

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

The Sanitary Sewer System (the "Sewer System" or "Wastewater System") consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant. The reclamation plant provides preliminary screening, grit removal, primary clarification and sludge removal, advanced secondary treatment, final clarification, and effluent chlorination and dechlorination prior to discharge in the Rio Grande. See "JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY."

Terms of the Bonds

Payments

The Series 2017 Bonds will be dated the date of initial delivery to the Underwriters. Interest on the Series 2017 Bonds is payable on January 1 and July 1 of each year, commencing July 1, 2017. The Series 2017 Bonds will mature on July 1 of the years and in the amounts and will bear the interest rates shown on the inside front cover.

Record Date

The record date for the Series 2017 Bonds is the fifteenth day of the calendar month preceding each January 1 and July 1.

Denominations

The Series 2017 Bonds will be issued in denominations of \$5,000, or integral multiples thereof.

Book-Entry Only System

Individual purchases will be made in book-entry form only and purchasers of the Series 2017 Bonds will not receive physical delivery of bond certificates. Payments of principal of and interest on the Series 2017 Bonds will be made directly to The Depository Trust Company, New York, New York ("DTC") or its nominee, Cede & Co., by the Authority's Chief Financial Officer, or its successor, as Paying Agent (the "Paying Agent"), so long as DTC or Cede & Co. is the sole registered owner. DTC will remit such payments to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds, all as more fully described in "DESCRIPTION OF THE SERIES 2017 BONDS - Book-Entry Only System." *While the Series 2017 Bonds are in book-entry only form, references in this Official Statement to Owners should be read to include the person for whom the DTC Participant acquires an ownership interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system, and (ii) notices that are to be given to Owners by the Authority or the Paying Agent will be given only to DTC.*

Redemption of the Series 2017 Bonds

The Series 2017 Bonds may be subject to optional and mandatory sinking fund redemption prior to maturity at the redemption prices and during the periods described under "DESCRIPTION OF THE SERIES 2017 BONDS – Redemption Prior to Maturity."

Issuance of Additional System Obligations

The Authority must meet certain tests prior to the issuance of additional Senior Obligations and Subordinate Obligations. For a description of these tests and consents, see "DESCRIPTION OF THE SERIES 2017 BONDS - Issuance of Additional System Obligations." The Authority may incur or issue Super Subordinated Obligations payable from Net Revenues

without restriction. As long as the Senior Obligations are outstanding, the Authority is prohibited from issuing System Obligations with a lien on Net Revenues superior to the lien of the Outstanding Senior Obligations.

Tax Considerations

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents relating to the Series 2017 Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2017 Bonds is excludable from the gross income of the recipients thereof for federal income tax purposes and is not a specific preference item for purposes of the alternative minimum tax for individuals, estates, trusts and corporations, but such interest on the Series 2017 Bonds will be included in the adjusted current earnings of certain corporations, and is exempt from all taxation by the State or any political subdivision of the State. For a more complete description of such opinion of Bond Counsel and a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the federal tax treatment of interest on the Series 2017 Bonds for certain owners of such bonds, see "TAX MATTERS."

Continuing Disclosure Undertaking

The Authority will execute a Continuing Disclosure Undertaking for the benefit of the Owners (the "Continuing Disclosure Undertaking") and will (i) provide audited financial statements and certain other financial information and operating data and (ii) file notices of certain specific significant events in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934. See "CONTINUING DISCLOSURE UNDERTAKING" and Appendix E hereto.

Historically, the Authority has timely filed annual financial information and audited financial statements consistent with the terms of the Authority's outstanding Continuing Disclosure Undertakings and is in material compliance with these Undertakings. However, in March 2012, the Authority timely filed its audited financial statements related to Fiscal Year 2011 with a nationally recognized securities information repository, which was required prior to July 1, 2009. Beginning on July 1, 2009, continuing disclosure filings were required to be filed with the Municipal Securities Rulemaking Board. The Authority subsequently filed its audited financial statement for Fiscal Year 2011 with the Municipal Securities Rulemaking Board in September 2013. Also, at the time the Authority filed annual financial information in March 2014 related to Fiscal Year 2013, the audited financial statement for such fiscal year was not complete and the Authority chose not to provide unaudited financial information. For the first decade of the Authority's existence, the Authority's audited financial statements were interconnected with the City of Albuquerque's financial system which has experienced problems and resultant delays over the past several years. These delays resulted in the Authority having incomplete and unreliable financial information at the time the Authority was required to file such annual financial information. To avoid providing investors with unreliable information, the Authority waited until the respective audited financial statements were available and timely filed them with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System. The Authority's audited financial statements are no longer contingent on, or

interconnected with, the completion of the City's audited financial statements and the Authority does not anticipate any problems with the timely completion of its audited financial statements or providing reliable unaudited financial information as necessary.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2017 Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel, will deliver the bond opinion included in Appendix D hereto. Certain legal matters relating to the Series 2017 Bonds will be passed on for the Authority by Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., General Counsel, and by Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by McCall, Parkhurst & Horton L.L.P. See "LEGAL MATTERS."

RBC Capital Markets, LLC ("RBC") is employed as Financial Advisor to the Authority in connection with the issuance of the Series 2017 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2017 Bonds is contingent upon the issuance and delivery of the Series 2017 Bonds. RBC, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of, or assume responsibility for, the accuracy, completeness, or fairness of the information in this Official Statement. The Financial Advisor may also receive a fee for conducting a competitive bidding process regarding the investment of certain proceeds of the Bonds.

Offering and Delivery of the Bonds

The Series 2017 Bonds are offered when, as and if issued, subject to approval as to their legality by Bond Counsel and the satisfaction of other conditions. The Bonds will be delivered through the facilities of DTC on or about March 1, 2017.

Other Information

This Official Statement speaks only as of its date, and the information contained herein is subject to change.

The quotations from, and summaries and explanations of the laws, regulations and documents contained herein do not purport to be complete and reference is made to the laws, regulations and documents for full and complete statements of their provisions. Copies of such laws, regulations and documents may be obtained, upon request and payment to the Authority of a charge for copying, mailing and handling, at One Civic Plaza, N.W., Room 5012, Albuquerque, New Mexico 87102, Attention: Office Coordinator.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the Owners of any of the Series 2017 Bonds.

RISK FACTORS

The ability of the Authority to pay principal of and interest on the Series 2017 Bonds depends primarily upon the receipt by the Authority of sufficient Net Revenues. Some of the events which could prevent the Authority from receiving a sufficient amount of Net Revenues to enable it to pay the principal of and interest on the Series 2017 Bonds are summarized below. The following description of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Series 2017 Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The obligation of the Authority to pay debt service on the Series 2017 Bonds is a limited obligation of the Authority and is not secured by a legal or equitable pledge or charge or lien upon any property of the Authority or any of its income or receipts, except the Net Revenues. The obligation of the Authority to pay debt service on the Series 2017 Bonds does not constitute an obligation of the Authority to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. **The Authority does not have any taxing power.** The Authority is obligated under the Bond Ordinance to pay debt service on the Series 2017 Bonds and other System Obligations solely from Net Revenues.

Factors that can adversely affect the availability of Net Revenues include, among other matters, weather conditions (drought or excessive rainfall that may affect water sales), general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth). The realization of future Net Revenues is also subject to, among other things, the capabilities of management of the Authority, the ability of the Authority to provide water and wastewater service to its customers, the ability of the Authority to establish, maintain and collect charges for the water and wastewater service to its customers and the ability of the Authority to establish, maintain and collect rates and charges sufficient to pay debt service on the Series 2017 Bonds and other System Obligations. See "SECURITY AND SOURCES OF PAYMENT."

System Operation and Maintenance Expenses and System Rates

The operation and maintenance expenses of the System may increase in the coming years. Actual operation and maintenance expenses may be greater or less than projected. Factors such as changes in technology, regulatory standards, increased costs of material, energy, labor and administration can substantially affect System expenses. Although the Authority has covenanted to prescribe, revise and collect rates and charges in amounts sufficient to pay debt service on the Series 2017 Bonds and other System Obligations, there can be no assurance that such amounts will be collected. Increases in System rates could result in a decrease in demand for System usage. The Authority actively and successfully pursues conservation efforts that limit the use of water and have a corresponding negative effect on System revenues. See "JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY – Water System – Water Conservation Program." Over the past ten years, conservation efforts have resulted in an average water use decline of 29%.

Statutory and Regulatory Compliance

Changes in the scope and standards for public agency water and wastewater systems, such as the System, may lead to increasingly stringent operating requirements and the imposition of administrative orders issued by Federal or State regulators. Future compliance with such requirements and orders can impose substantial additional costs on the Authority. In addition, claims against the System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the System or from other legally available sources. No assurance can be given that the cost of compliance with such existing or future laws, regulations and orders would not adversely affect the ability of the System to generate Net Revenues sufficient to pay debt service on the Series 2017 Bonds and other System Obligations.

Risks Relating to the Water Supply

The ability of the System to operate effectively can be affected by the water supply available to the Authority, which is situated in an arid environment that is currently subject to drought conditions. If the water supply decreases significantly, whether by operation of mandatory supply restrictions, prohibitively high water costs or otherwise, flow within the System will diminish and Net Revenues may be adversely affected.

Security of the System

Damage to the System resulting from vandalism, sabotage, or terrorist activities may adversely impact the operations and finances of the System. There can be no assurance that the Authority's security, emergency preparedness and response plans will be adequate to prevent or mitigate such damage, or that the costs of maintaining such security measures will not be greater than currently anticipated. The Authority has obtained appropriate insurance coverage and established reserve funds, which may be used by the Authority, if other funds are not readily available and sufficient, to pay extraordinary and unexpected repair or replacement expenses of the System or liability claims related to the System.

Utility Costs

No assurance can be given that any future significant reduction or loss of power would not materially adversely affect the operations of the System. The operations of the System on a daily basis require a significant amount of electrical power and natural gas. Electricity is needed to run pumps, lights, computers, mechanical valves and other machinery. Prices for electricity or gas may increase, which could adversely affect the System's financial condition.

Impact of Economic Conditions on System Net Revenues

The major economic disruptions and recession of the past several years have adversely affected the economic activity of the region in general, in particular resulting in decreased economic activity, increased unemployment and a reduction in residential and commercial construction. The Authority cannot predict the extent of the fiscal problems that will be encountered in any future economic downturn. Reduction in System users' ability to pay rates

and charges, and reduction in the rate at which new customers are added to the System, can adversely impact System Net Revenues.

Limitations on Remedies

Enforceability of the rights and remedies of the Owners of the Series 2017 Bonds may become subject to (i) the Federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditor's rights generally, (ii) equity principles which may limit the specific enforcement of certain remedies, (iii) the exercise by the United States of America of the powers delegated to it by the Constitution, and (iv) the exercise of the state police powers. Remedies available to the Owners of the Series 2017 Bonds are in many respects dependent upon judicial action which is often subject to discretion and delay and could prove both expensive and time consuming to obtain.

DESCRIPTION OF THE SERIES 2017 BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2017 Bonds. This summary is qualified in its entirety by reference to the Bond Ordinance and the Series 2017 Bonds. See "DESCRIPTION OF BOND ORDINANCE" in Appendix C. Copies of the form of the Bond Ordinance are available from the Authority upon request.

The Series 2017 Bonds will be dated the date of initial delivery to the Underwriters. Interest on the Series 2017 Bonds will be payable on January 1 and July 1 of each year, commencing July 1, 2017, with a record date of the fifteenth day of the calendar month preceding each January 1 and July 1. The Series 2017 Bonds will be issued in the aggregate principal amount and will mature on the dates and in the amounts shown on the inside front cover. The Series 2017 Bonds will be issued in denominations of \$5,000 or integral multiples thereof.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry only system has been obtained from sources that the Authority believes to be reliable, but none of the Authority, Financial Advisor, Bond Counsel or the Underwriters or their counsel take responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of the Bonds, each in the aggregate principal amount of Bonds of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency"

registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to Direct Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. The Authority undertakes no responsibility for and makes no representations as to the accuracy or the completeness of the content of such material contained on that website as described in the preceding sentence including, but not limited to, updates of such information or links to other Internet sites accessed through the aforementioned website.

Purchases of the Series 2017 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2017 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2017 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2017 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series 2017 Bonds, except in the event that use of the book-entry system for the Series 2017 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2017 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2017 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2017 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2017 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

While the Series 2017 Bonds are in the book-entry only system, redemption notices will be sent to DTC. If less than all of the Series 2017 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2017 Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2017 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Series 2017 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2017 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2017 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2017 Bonds will be printed and delivered to the Beneficial Owners.

Redemption Prior to Maturity

Optional Redemption

The Series 2017 Bonds maturing on and after July 1, _____ may be optionally redeemed, in whole or in part, at any time, on or after July 1, _____, upon the payment of the principal amount of the Series 2017 Bonds to be redeemed, plus accrued interest thereon to the

date fixed for redemption. Interest on any Series 2017 Bonds called for redemption shall cease to accrue on the redemption date designated in the notice of redemption.

Unless money sufficient to pay the principal of and interest on the Series 2017 Bonds to be redeemed pursuant to the optional redemption provisions of the Bond Ordinance is received by the Paying Agent prior to the giving of notice of redemption in accordance with the Bond Ordinance, the notice will state that redemption is conditional upon the receipt of that money by the Paying Agent by 2:00 p.m. on the redemption date. If an amount sufficient to redeem all Series 2017 Bonds called for redemption is not received by that time, (i) the Paying Agent will redeem only those Series 2017 Bonds for which the redemption price was received and the Series 2017 Bonds to be redeemed will be selected in the manner set forth in the Bond Ordinance, and (ii) the redemption notice will have no effect with respect to those Series 2017 Bonds for which the redemption price was not received and those Series 2017 Bonds will not be redeemed. The Registrar will give notice to the owners of the Series 2017 Bonds not redeemed in the manner in which the notice of redemption was given, identifying the Series 2017 Bonds previously called for redemption which were not redeemed and stating that the redemption did not take place with respect to those Series 2017 Bonds, and the Registrar will promptly return any Series 2017 Bonds not redeemed to the owners thereof.

Mandatory Sinking Fund Redemption

The Series 2017 Bonds maturing on July 1, _____ are subject to mandatory sinking fund redemption, by lot, and shall be redeemed on July 1 in the years set forth below in the amount of the corresponding mandatory sinking fund redemption requirement for such Series 2017 Bonds at a redemption price of the principal amount of such Series 2017 Bonds called for redemption plus interest accrued to the date fixed for redemption, without premium, as follows:

\$ _____	Series 2017 Bonds due July 1, _____
Year	Mandatory Sinking Fund Redemption Requirement
	\$

*

*Maturity

Notice of Redemption

Notice of redemption shall be given by the Registrar by sending notice thereof to the registered Owner of each Series 2017 Bond, or portion thereof, to be redeemed, at least 30 days prior to the redemption date at the address shown on the registration books of the Registrar as of the close of business on the fifth day prior to the sending of notice, and as otherwise required by law.

Partial Redemption

If less than all of the Series 2017 Bonds of a series subject to redemption will be redeemed at any one time, the Series 2017 Bonds to be redeemed will be selected by the Registrar in the manner and from the series and maturities designated by the Authority. If less than all of the Series 2017 Bonds within a maturity will be redeemed, the Series 2017 Bonds to be redeemed within that maturity will be selected by lot in such manner as determined by the Registrar. The portion of any Series 2017 Bond of such series to be redeemed and the portion of that Series 2017 Bond not to be redeemed are both to be in Authorized Denominations.

Issuance of Additional System Obligations

Senior Obligations

The Bond Ordinance permits the Authority, subject to the following requirements, to issue additional System Obligations with a lien on Net Revenues on parity to the lien of the Senior Obligations on Net Revenues. See "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations – Senior Obligations."

Except with respect to certain refunding bonds, the Authority must meet the following tests prior to the issuance of additional Senior Obligations:

(1) The Authority shall be current in making all deposits relating to Debt Service Requirements and reserve requirements on System Obligations and certain other funds and accounts required by the Bond Ordinance; and

(2) The Net Revenues for the Historic Test Period (defined below) shall have been sufficient to pay an amount representing at least 133% of the maximum combined annual Debt Service Requirements of only the Outstanding Senior Obligations and the terms of *either* subparagraph 3(a) or 3(b) below shall be satisfied; and

(3) (a) Using the fees and rates for use of the System on the date of computation, or assuming that any new schedule of fees and rates approved by the Authority during or after the Historic Test Period was in effect during the entire Historic Test Period, the Net Revenues which were or would have been received during that Historic Test Period are required to be sufficient to pay an amount representing at least 133% of the maximum combined annual Debt Service Requirements on the Outstanding Senior Obligations and the Senior Obligations proposed to be issued; or

(b) The projected Net Revenues for the Prospective Test Period (defined below) shall be sufficient to pay an amount representing at least 133% of the maximum combined annual Debt Service Requirements on the Outstanding Senior Obligations and the Senior Obligations proposed to be issued. To determine if the annual Net Revenues are sufficient for the purposes of the preceding sentence, the Net Revenues projected for the applicable Prospective Test Period shall be determined by applying the rates for use of the System approved by the Board at the time of computation to be in effect during the Prospective Test Period to the

proposed number of connections to the System after giving effect to the purchase, expansion or improvement of the System or the acquisition of an existing water and sanitary sewer system.

The required tests described above shall be performed without adjustment for payments to or withdrawals from the Rate Stabilization Fund or for interest accrued in the Acquisition Fund. For purposes of the above tests, the term "*Historic Test Period*" means any period of 12 consecutive months out of the 24 calendar months next preceding the delivery of additional Senior Obligations. The term "*Prospective Test Period*" means the 12-month period commencing on the first day of the month following the estimated Completion Date of the Project for which additional Senior Obligations are proposed to be issued or the first day of the thirty-sixth month following the delivery of such additional Senior Obligations, whichever is earlier. In determining whether additional Senior Obligations may be issued pursuant to the test above, a written certificate or opinion of an Independent Accountant or an Authorized Officer that states in substance that the Net Revenues are sufficient to pay the amounts required shall be conclusively presumed to be accurate in determining the right of the Water Authority to authorize, issue, sell and deliver such additional Senior Obligations.

No refunding bonds or other refunding obligations may be issued by the Authority as Senior Obligations unless:

- (a) The refunding does not increase the maximum combined annual Debt Service Requirements of the Outstanding Senior Obligations, or
- (b) The refunding Senior Obligations are issued in compliance with the tests described above for Senior Obligations.

Subordinate Obligations

The Bond Ordinance permits the Authority, subject to the following requirements, to issue additional System Obligations with a lien on Net Revenues subordinate to the lien of the Senior Obligations on Net Revenues. See "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations – Subordinate and Super Subordinate Obligations."

Except with respect to certain refunding bonds, the Authority must meet the following tests prior to the issuance of additional Subordinate Obligations:

- (1) The Authority (i) shall be current in making all deposits relating to Debt Service Requirements and reserve requirements on System Obligations and certain other funds and accounts required by the Bond Ordinance, (ii) shall satisfy the additional bonds test related to the issuance of additional Senior Obligations⁽¹⁾; and (iii) shall satisfy the test set forth below in subparagraph (2); and

(1) This requirement is applicable only for so long as the Series 2009A-1 Bonds, Series 2013A&B Bonds, Public Project Revolving Fund Loan Agreement (2007), Drinking Water State Revolving Loan Agreement (2009), and Public Project Revolving Fund Loan Agreement (2011) are Outstanding. After these Senior Obligations are no longer Outstanding, the Authority shall be required to only meet the tests set forth in (i) and (iii) under paragraph (1).

(2) The Net Revenues for the Historic Test Period (defined below) shall have been sufficient to pay an amount representing at least 120% of the maximum combined annual Debt Service Requirements of only the Outstanding Senior Obligations and the Outstanding Subordinate Obligations and the terms of *either* subparagraph 3(a) or 3(b) below shall be satisfied; and

(3) (a) Using the fees and rates for use of the System on the date of computation, or assuming that any new schedule of fees and rates approved by the Authority during or after the Historic Test Period was in effect during the entire Historic Test Period, the Net Revenues which were or would have been received during that Historic Test Period are required to be sufficient to pay an amount representing at least 120% of the maximum combined annual Debt Service Requirements on the Outstanding Senior Obligations and the Outstanding Subordinate Obligations and the Subordinate Obligations proposed to be issued; or

(b) The projected Net Revenues for the Prospective Test Period shall be sufficient to pay an amount representing at least 120% of the maximum combined annual Debt Service Requirements on the Outstanding Senior Obligations and the Outstanding Subordinate Obligations and the Subordinate Obligations proposed to be issued. To determine if the annual Net Revenues are sufficient for the purposes of the preceding sentence, the Net Revenues projected for the applicable Prospective Test Period shall be determined by applying the rates for use of the System approved by the Board at the time of computation to be in effect during the Prospective Test Period to the proposed number of connections to the System after giving effect to the purchase, expansion or improvement of the System or the acquisition of an existing water and sanitary sewer system.

The required tests described above shall be performed without adjustment for payments to or withdrawals from the Rate Stabilization Fund or for interest accrued in the Acquisition Fund. For purposes of the above tests, the term "*Historic Test Period*" means any period of 12 consecutive months out of the 24 calendar months next preceding the delivery of additional Subordinate Obligations. The term "*Prospective Test Period*" means the 12-month period commencing on the first day of the month following the estimated Completion Date of the Project for which additional Subordinate Obligations are proposed to be issued or the first day of the thirty-sixth month following the delivery of such additional Subordinate Obligations, whichever is earlier. In determining whether additional Subordinate Obligations may be issued pursuant to the test above, a written certificate or opinion of an Independent Accountant or an Authorized Officer that states in substance that the Net Revenues are sufficient to pay the amounts required shall be conclusively presumed to be accurate in determining the right of the Water Authority to authorize, issue, sell and deliver such additional Subordinate Obligations.

No refunding bonds or other refunding obligations may be issued by the Authority as Subordinate Obligations unless:

(a) The refunding does not increase the maximum combined annual Debt Service Requirements of the Outstanding Subordinate Obligations, or

(b) The refunding Subordinate Obligations are issued in compliance with the tests described above for Subordinate Obligations.

Super Subordinated Obligations

The Authority may issue Super Subordinated Obligations with a lien on the Net Revenues subordinate to the liens of the Senior Obligations and the Subordinate Obligations. See "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations – Subordinate and Super Subordinated Obligations."

Superior System Obligations Prohibited

As long as Senior Obligations are outstanding, the Bond Ordinance prohibits the Authority from issuing additional System Obligations with a lien on Net Revenues prior and superior to the lien of such Outstanding Senior Obligations.

PLAN OF FINANCING

Sources and Uses of Bond Proceeds

The sources and uses of funds to be received in connection with the sale of the Series 2017 Bonds are set forth in the following table.

PRINCIPAL AMOUNT OF SERIES 2017 BONDS.....	\$
Reoffering Premium.....	
 TOTAL SOURCES OF BOND PROCEEDS.....	 \$ <hr/> <hr/>
USES OF BOND PROCEEDS:	
Deposit to Escrow for Refunding	
Deposit to Acquisition Fund.....	
Underwriters' Discount ⁽¹⁾	
Costs of Issuance ⁽²⁾	
 TOTAL USES OF BOND PROCEEDS	 \$ <hr/>

(1) See "Underwriting."

(2) This amount includes legal and accounting fees, escrow fees, printing, posting, rating fees, and other miscellaneous costs.

The Project

Refunding Project

Proceeds from the sale of the Series 2017 Bonds will be used, in part, to provide funds for the advance refunding of certain Outstanding Senior Obligations of the Authority which may include the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1 maturing on and after July 1, 2030 in the aggregate principal amount of \$27,280,000 (the "Series 2009A-1 Bonds" or the "Advanced Refunded Obligations") on July 1, 2019 (the "Redemption Date"). The advance refunding of all or part of the Advanced Refunded Obligations will result in debt service savings for the Authority.

At the time of issuance of the Series 2017 Bonds, the Authority will deposit proceeds of the Series 2017 Bonds to a special escrow fund (the "Escrow Fund") held with BOKF, NA dba Bank of Albuquerque (the "Escrow Agent"), pursuant to an Escrow Agreement by and between the Authority and the Escrow Agent, resulting in the defeasance of the Series 2009A-1 Bonds.

The principal of and interest due on the Advance Refunded Obligations are to be paid on the scheduled maturity and interest payment dates of July 1, 2017, January 1, 2018, July 1, 2018, January 1, 2019 and July 1, 2019 (for the Series 2009A-1 Bonds) from amounts to be deposited on the closing date to the Escrow Fund pursuant to the Escrow Agreement. The Bond Ordinance provides, that from the proceeds of the sale of the Series 2017 Bonds received from the Underwriters and other available funds of the Authority, if any are necessary, the Authority will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Advance Refunded Obligations on the Redemption Date. Such funds will be held by the Escrow Agent in the Escrow Fund and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Advance Refunded Obligations to the Redemption Date.

Causey, Demgen & Moore P.C., Certified Public Accountants, Denver, Colorado, will verify at the time of delivery of the Series 2017 Bonds, the mathematical accuracy of the schedules and demonstrate that the Federal Securities will mature and bear interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay the principal of and interest on the Advance Refunded Obligations on the Redemption Date, and all payment dates prior to the Redemption Date. Such maturing principal of and interest on the Federal Securities will not be available to pay the Series 2017 Bonds. See "VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS."

By the deposit of the Federal Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the Authority will have effected the defeasance of the Advance Refunded Obligations in accordance with the requirements of the ordinance authorizing issuance of the Advance Refunded Obligations and applicable law, and the Advance Refunded Obligations will no longer be outstanding as Senior Obligations. The Authority has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund of any additional amounts required to pay the principal of and interest on the Advance Refunded Obligations if, for any reason, the cash balance on deposit or scheduled to be on deposit in the Escrow Fund is insufficient to make such payments.

Improvement Project

Proceeds from the sale of the Series 2017 Bonds will be used, in part, to provide funds for acquiring additional System assets through regular System improvements, expansion, maintenance, and upgrades pursuant to the Authority's Basic Capital Program. Proceeds of the Series 2017 Bonds will be allocated to the Improvement Project as follows: (i) approximately \$66 million of Bond proceeds will be used for projects under the Authority's Decade Plan, (ii) approximately \$5 million for a new Authority administration facility, and (iii) approximately \$2.5 million for the Authority's aquifer and storage recovery project. Proceeds of the Series 2017 Bonds will also be used to pay costs of issuance of the Series 2017 Bonds.

SECURITY AND SOURCES OF PAYMENT

Special, Limited Obligations

The Series 2017 Bonds are special, limited obligations of the Authority, payable solely from the Net Revenues, money on deposit in certain of the funds and accounts held under the Bond Ordinance, and the earnings thereon. All Series 2017 Bonds are equally and ratably secured by Net Revenues. The Series 2017 Bonds are being issued with a senior lien on Net Revenues on parity with the lien of the other Outstanding Senior Obligations. The Authority has the right, subject to specified conditions, to issue additional Senior Obligations. The Bond Ordinance permits the Authority to issue bonds or other obligations with a lien on Net Revenues subordinate and super subordinate to the lien of the Senior Obligations. **As long as Senior Obligations are outstanding, the Authority is prohibited from issuing additional System Obligations with a lien on Net Revenues prior and superior to the lien of such Outstanding Senior Obligations.** The issuance of the Series 2017 Bonds shall not, directly, indirectly or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. **The Authority does not have any taxing power.**

Net Revenues

Net Revenues are the Gross Revenues of the System after deducting Operation and Maintenance Expenses.

Gross Revenues includes all income and revenues directly or indirectly derived by the Authority from the operation and use of the System, or any part of the System, and includes, without limitation, all revenues received by the Authority from the System and from the sale and use of water, water services or facilities, sewer service or facilities or any other service, commodity or facility or any combination thereof furnished to the inhabitants of the geographic area served by the Authority by means of the System as the same may at any time exist to serve customers outside the Authority's geographical limits as well as customers within the Authority's geographical limits. Gross Revenues does not include (i) any money received as grants or gifts from the United States of America, the State or other sources, or the proceeds of any charge or tax intended as a replacement therefor or other capital contributions from any source which are restricted as to use, and (ii) condemnation proceeds or the proceeds of any insurance policy, except property insurance proceeds which are not necessary to restore or replace the property lost or damaged or insurance proceeds derived in respect of loss of use or business interruption.

Operation and Maintenance Expenses include all reasonable and necessary current expenses of the System, paid or accrued, related to operating, maintaining and repairing the System. Operation and Maintenance Expenses does not include any allowance for depreciation, payments in lieu of taxes, liabilities incurred by the Authority as a result of its negligence or other misconduct in the operation of the System or any charges or costs allocable to capital improvements or replacements. Operation and Maintenance Expenses also do not include any payment of or reimbursement for the payment of Debt Service Requirements or premiums on the Bonds.

For a presentation of the last five fiscal years of Net Revenues available for debt service, see "Water/Wastewater System – Debt Service Coverage Calculation – Fiscal Years 2012-2016."

Reserve Fund

No debt service reserve fund will be funded for the Series 2017 Bonds, nor has a debt service reserve fund been funded for any of the Authority's Outstanding System Obligations.

Covenant as to Lien for Delinquent Charges

To the extent permitted by law, the Authority will cause a lien to be perfected upon each lot or parcel of land for delinquent charges imposed for water and sanitary sewer services provided by the System to the owner of such lot or parcel. The Authority will take all necessary steps to enforce such lien against any parcel of property the owner of which is delinquent for more than six months in the payment of charges imposed for the use of the System. See "FINANCIAL INFORMATION – System Billing and Collections."

Rate Covenant

The Authority covenants in the Bond Ordinance to charge all purchasers of services of the System, including the Authority, the City and the County, reasonable and just rates sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the Series 2017 Bonds and all other Outstanding Senior Obligations and to pay 120% of the annual Debt Service Requirements on the Series 2017 Bonds and all other Outstanding Senior Obligations and all other Outstanding Subordinate Obligations (excluding accumulation of any reserves therefor).

The Authority is required to determine quarterly that the Net Revenues are sufficient to satisfy the rate covenant. If the Net Revenues are not sufficient to satisfy such covenant upon the approval of the annual audit for a Fiscal Year, the Authority is required either: (i) to promptly increase the rates for use of the services of the System in order to generate sufficient Net Revenues to satisfy such covenant or (ii) to employ a consultant or manager for the System who has a favorable national reputation for skill and experience in the management, operation and financial affairs of water and sewer systems and who is not an employee or officer of the Authority. The Authority will request that the consultant or manager make recommendations, if any, as to revisions of the Authority's rate structure and other charges for use of the System, its Operation and Maintenance Expenses and the method of operation of the System in order to satisfy the rate covenant as soon as practicable. Copies of any such requests and recommendations of the consultant or manager shall be filed with the Authority. So long as the Authority substantially complies with the recommendations of the consultant or manager on a timely basis, the Authority will not be deemed to have defaulted in satisfying the rate covenant even if the resulting Net Revenues are not sufficient to be in compliance with the covenant, if there is no other default under the Bond Ordinance. For a discussion of coverage ratios relating to the System, see "Estimated Total Combined Debt Service and Coverage Ratios" under this caption.

Outstanding System Obligations

Senior Obligations

Upon issuance, the Series 2017 Bonds will have a senior lien on Net Revenues. System Obligations with a senior lien on Net Revenues as of January 1, 2017 are shown below:

Outstanding Senior Obligations as of January 1, 2017

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

* The Authority intendeds to advance refund certain maturities of the Series 2009A-1 Bonds with proceeds of the Bonds.

Subordinate and Super Subordinate Obligations

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

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

<u>Obligation</u>⁽¹⁾	<u>Principal Amount of Original Issue</u>	<u>Outstanding Principal Amount</u>
New Mexico Finance Authority Drinking Water Loan (2008)	\$9,627,877	\$7,870,187
Revenue Bonds, Series 2014B	87,005,000	<u>77,645,000</u>
Total Subordinate Obligations		<u>\$85,515,187</u>

(1) None of the Subordinate Obligations will be refunded with proceeds of the Series 2017 Bonds.

On December 14, 2016, the Authority adopted Ordinance No. O-16-2 authorizing an obligation with a super subordinated lien on the Net Revenues of the System. The Super Subordinated Obligation will be a Water Trust Board loan with the New Mexico Finance Authority which is expected to close on or about January 27, 2017 in the aggregate principal amount of \$669,550.

Debt Service Requirements for the Series 2017 Bonds *

The following tables show the estimated annual Debt Service Requirements on the Series 2017 Bonds for each period ending on July 1st.

\$87,945,000* Series 2017 Bonds

Period Ending (July 1)	Principal Amount *	Interest ^{(1) *}	Total Debt Service *
2017	-	\$1,400,868	\$1,400,868
2018	\$4,135,000	4,100,100	8,235,100
2019	4,220,000	4,017,400	8,237,400
2020	4,350,000	3,890,800	8,240,800
2021	4,520,000	3,716,800	8,236,800
2022	4,705,000	3,536,000	8,241,000
2023	4,935,000	3,300,750	8,235,750
2024	5,185,000	3,054,000	8,239,000
2025	5,445,000	2,794,750	8,239,750
2026	5,715,000	2,522,500	8,237,500
2027	6,000,000	2,236,750	8,236,750
2028	6,300,000	1,936,750	8,236,750
2029	6,615,000	1,621,750	8,236,750
2030	4,675,000	1,291,000	5,966,000
2031	4,905,000	1,057,250	5,962,250
2032	5,150,000	812,000	5,962,000
2033	5,415,000	554,500	5,969,500
2034	5,675,000	283,750	5,958,750

⁽¹⁾ Interest has been calculated for purposes of this Preliminary Official Statement based on assumed interest rates.

*Preliminary, subject to change.

Estimated Total Combined Debt Service and Coverage Ratios*

The following table shows the total combined debt service and estimated coverage ratio for each period ending on July 1st for the Series 2017 Bonds and all other Outstanding System Obligations through their final maturity dates (taking into account the Refunding Project).

<u>Period End (July 1)</u>	<u>Outstanding Senior Lien Debt Service</u>	<u>Series 2017 Bonds Debt Service*</u>	<u>Combined Senior Lien Debt Service*(1)</u>	<u>Subordinate Debt Service</u>	<u>Combined Total Debt Service*</u>	<u>Net Revenues</u>	<u>Senior Coverage*</u>	<u>Senior and Subordinate Coverage*</u>
2017	\$59,903,966	\$1,4000,868	\$60,588,734	\$15,102,153	\$75,690,887	\$119,876,650	1.98x	1.58x
2018	62,785,593	8,235,100	69,588,493	11,958,654	81,547,147	119,876,650	1.72x	1.47x
2019	62,783,044	8,237,400	69,588,244	11,730,628	81,318,872	119,876,650	1.72x	1.47x
2020	56,965,045	8,240,800	63,773,645	11,459,065	75,232,710	119,876,650	1.88x	1.59x
2021	57,366,297	8,236,800	64,170,897	11,067,927	75,238,824	119,876,650	1.87x	1.59x
2022	51,039,298	8,241,000	57,848,098	10,856,816	68,704,914	119,876,650	2.07x	1.74x
2023	51,389,636	8,235,750	58,193,186	10,505,530	68,698,716	119,876,650	2.06x	1.74x
2024	46,321,888	8,239,000	53,128,688	10,145,567	63,274,255	119,876,650	2.26x	1.89x
2025	41,083,639	8,239,750	47,891,189	9,782,179	57,673,368	119,876,650	2.50x	2.08x
2026	35,896,140	8,237,500	42,701,440	715,367	43,416,807	119,876,650	2.81x	2.76x
2027	25,225,442	8,236,750	32,029,992	715,130	32,745,122	119,876,650	3.74x	3.66x
2028	17,073,391	8,236,750	23,877,941	714,718	24,592,659	119,876,650	5.02x	4.87x
2029	17,081,629	8,236,750	23,886,179	714,127	24,600,306	119,876,650	5.02x	4.87x
2030	17,189,541	5,966,000	16,808,341	725,687	17,534,028	119,876,650	7.13x	6.84x
2031	17,229,122	5,962,250	16,847,210	59,298	16,906,508	119,876,650	7.12x	7.09x
2032	17,134,031	5,962,000	16,753,294	-	16,753,294	119,876,650	7.16x	7.16x
2033	17,129,181	5,969,500	16,751,544	-	16,751,544	119,876,650	7.16x	7.16x
2034	8,763,031	5,958,750	8,380,469	-	8,380,469	119,876,650	14.30x	14.30x
2035	2,427,625	-	2,427,625	-	2,427,625	119,876,650	49.38x	49.38x
2036	2,423,813	-	2,423,813	-	2,423,813	119,876,650	49.46x	49.46x
2037	1,350,500	-	1,350,500	-	1,350,500	119,876,650	88.76x	88.76x
2038	<u>1,349,250</u>	-	<u>1,349,250</u>	-	<u>1,349,250</u>	119,876,650	88.85x	88.85x
TOTAL	<u>\$669,911,102</u>	<u>\$130,072,718</u>	<u>\$750,358,770</u>	<u>\$106,252,846</u>	<u>\$856,611,616</u>			

(1) The Combined Senior Lien Debt Service figures assume the defeasance of the Advanced Refunded Obligations.

Source: Table compiled by RBC Capital Markets, LLC as Financial Advisor. Net Revenues provided by the Authority.

*Preliminary, subject to change.

**Water/Wastewater System
Debt Service Coverage Calculation
Fiscal Years 2012-2016**

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

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

JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY

Water System

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

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

Water storage reservoirs provide for fire, peak hour and uphill transfer storage. Water is distributed from higher to lower elevations through a 115-foot vertical height pressure zone to provide minimum static pressures of 50 pounds per square inch (psi) for consumers. Sixty-two (62) reservoirs are located throughout the service area, with a total reservoir storage capacity of 245 million gallons. If demand requires, reservoir water can also be transferred to a higher zone or across zones through an east-west series of reservoirs by means of pump stations sited at the reservoirs. There are a total of 129 boosters, with a total capacity of 775 MGD, available for water transfers between reservoirs. These reservoirs are interconnected by 3,130 miles of pipelines and are situated at various locations east and west of the service area to provide multiple sources of supply to customers and for operating economies. The Water System takes advantage of the unique topography of the Authority's service area which allows ground level storage while simultaneously providing system pressure by gravity. Control of the Water System is provided by remote telemetry units distributed throughout the Water System for control from a central control facility.

Existing Water Resources

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

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

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

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

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

The Authority believes that water received pursuant to the contract for San Juan-Chama water and the rights to Rio Grande Basin water will be sufficient to support, in perpetuity, a customer population of more than 1,000,000 using 135 gallons per capita per day with 40% consumptive use and 60% return flow. Alternatively, these same water resources will support a customer population of 500,000 using water at the rate of 250 gallons per person per day with the same consumptive use and return flow. The current service population is approximately 670,779, and the current usage is approximately 129 gallons per capita per day (Fiscal Year 2016), down from an average of 250 gallons per capita per day between 1987 through 1993. The Authority believes this decrease can be attributed to the Authority's "Water Conservation Program."

San Juan-Chama Drinking Water Project

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

imported Colorado River water (San Juan-Chama water) was adopted in 1997 along with seven dedicated rate increases to pay for the construction and operation.

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

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

Water Supply Plan

Prior to 1997, the water supply plan for the Authority's service area, which was based on technical knowledge of the surface and groundwater systems at the time, could be summarized as follows: the City would pump groundwater to meet water system demands; groundwater pumping would cause additional seepage (induced recharge) from the river; and the City would provide surface water to offset river depletion by return wastewater flow, native water rights and imported water obtained under contract with the Secretary of Interior from the San Juan-Chama diversion project. Technical investigations by the New Mexico Bureau of Mines and Mineral Resources, the U.S. Geological Survey and the Bureau of Reclamation concluded that the Authority's wastewater return flows were sufficient to offset the annual seepage from the Rio Grande associated with the Authority's groundwater pumping. Technical work is continuing to provide water resources information needed for long-term management and to develop water supply solutions.

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

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

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

With respect to the three water reclamation and reuse projects identified in the WRMS, the Industrial Recycling Project has been completed and operational since approximately August 2000. The North I-25 Non-Potable Surface Water Project began full operations in January 2004. Together these two projects provide approximately 2,600 acre-feet of water each year for irrigation use in the Northeast Heights of the City. The Southside Municipal Effluent Polishing and Reuse Project utilizes about 1,000 acre-feet per year of treated wastewater effluent for irrigation and industrial use in the Southeast Heights and South Valley of Albuquerque. The completion and operation of the Southside Reuse Project completes the four projects as called for in the original 1997 and updated 2007 WRMS to provide a safe and sustainable water supply to 2060 (which is as far as the WRMS projected).

As a result of the implementation of the 2007 WRMS, the aquifer has been rising throughout the Middle Rio Grande. Although the region has experienced drought for six

consecutive years, the water supply is increasing in the Albuquerque area as a result of the Authority's transition to surface water (DWP), reuse and significant water conservation efforts. To date, the Authority has saved more than 1,000,000 acre-feet of ground water over the last five years.

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

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

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

Aquifer Storage and Recovery

Aquifer storage and recovery ("ASR") is a means of storing excess water in the aquifer to reduce evaporation and provide a groundwater drought reserve when surface water supplies are not available. Aquifer storage and recovery is another water resources management tool that the Authority is implementing to ensure a safe and sustainable water supply. The Authority initiated the first land application project, called the Bear Canyon ASR Project, in 2009 and has since stored 1,578 acre-feet of water in the aquifer. In November 2014, the Authority received the full-scale permit for the Bear Canyon ASR project and began regular operations in 2014. In 2015, the Authority recovered 1,357 acre-feet from the Bear Canyon storage account. The Authority has received a demonstration permit from the New Mexico Office of the State Engineer for the large scale ASR project capable of injecting about 5,000 acre-feet a year into the aquifer which will be recovered in the first three years, but will provide for additional storage that will assist in further expanding the drought supply for the Authority. Additional ASR projects are called for in the new 100 year plan that would include both infiltration and direct injection.

South Valley Expansion Projects

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

New Arsenic Standard Applicable to Water Supply

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

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

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

Water Conservation Program

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

In 2004, the Authority adopted a new water conservation goal of 10% reduction in addition to the 30% reduction goal established in 1995 to be implemented in 2005 with reduction rates of 1% per year until 2014 to achieve a usage of 150 gallons per capita per day (“GPCD”). This goal was achieved three years early in 2011.

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

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

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

Surface and Groundwater Protection Plan

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

The WPAB works with local, state and federal agencies to monitor the progress of mitigation of current contamination sites and is continuing to develop policies to prevent future

contamination. The current contamination cleanups are primarily in the South Valley and Northwest Mesa of Bernalillo County. The Authority has plugged or discontinued use of wells that were affected by the various contamination sites. Additionally, the Authority has assisted in a \$120 million program to eradicate 8,000 septic tanks in the North and South Valleys, and at the end of Calendar Year 2016 over 6,000 septic tanks have been eliminated.

Kirtland Air Force Base Fuel Spill

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

Drought Relief Measures

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

Water Usage

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

**Usage⁽¹⁾
2012-2016**

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

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

Source: Albuquerque Bernalillo County Water Utility Authority.

The top ten customers of the Water System are:

**Water System Top Ten Customers⁽¹⁾
Fiscal Year 2016**

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

⁽¹⁾Includes non-potable water customers.

Source: Albuquerque Bernalillo County Water Utility Authority.

Wastewater Plant and Collection System

The Wastewater System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant. The wastewater treatment plant provides preliminary screening, grit

removal, primary clarification and sludge removal, advanced secondary treatment including ammonia and nitrogen removal, final clarification, and effluent disinfection using ultraviolet light prior to discharge to the Rio Grande.

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

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

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

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

accredited under International Standards Organization Standard 17025 for inorganic chemistry and microbiology testing. The Authority reduces expenses by analyzing all of the bacteriological samples at the Authority's internal water quality lab.

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

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

Source: Albuquerque Bernalillo County Water Utility Authority.

The top ten customers of the Wastewater System are:

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

Source: Albuquerque Bernalillo County Water Utility Authority.

Management of the System

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

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

John M. Stomp, P.E., Chief Operating Officer. Mr. Stomp is responsible for the Authority's operations group including the water and wastewater treatment plants, wastewater collection systems and lift/vacuum stations, and water distribution and transmission lines. Mr. Stomp was the Water Resources Manager for over ten years prior to becoming the Chief Operating Officer. Mr. Stomp has been employed by the City, and the Authority as successor, since April 1996. Prior to employment with the Authority, Mr. Stomp was employed as a project manager by local and national water/wastewater consulting firms. Mr. Stomp has been involved with water and wastewater issues in Albuquerque and throughout New Mexico for approximately 29 years. He has a Bachelor's and Master's Degree in Civil Engineering from the University of New Mexico.

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

Dr. James H. "Jim" Olsen, Jr., P.E., Field Operations Manager. Mr. Olsen has worked for the City, and now the Authority, for over 39 years and has served in his current position since 2008. Past assignments have included: Transmission & Distribution Manager for PNM Water Services (Santa Fe water system), Chief Utility Engineer for ECO Resources (Rio Rancho water & wastewater systems), Project Manager for the Pueblo of Laguna, NM Jackpile Mine Reclamation Project, management and engineering/technical assignments for ARCO-Anaconda, the Standard Oil Company (Ohio), and the City of Albuquerque Water System. He holds a Mining Engineering degree from New Mexico Institute of Mining & Technology (Socorro, NM) and a 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.

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

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

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

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

Hobert "H" Warren, Customer Services and Area Operations Manager. Mr. Warren has held the manager position since 2012. He has approximately 20 years-experience in operations, compliance, construction, transition planning, automated meter reading implementation, billing

systems, and rate studies. Prior to employment with the Authority, Mr. Warren was the local operations manager for a company that owns and operates more than 130 regulated water and wastewater systems in nine states.

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

Administrative Services

The City provides certain services to the Authority pursuant to a Memorandum of Understanding ("MOU"), dated July 1, 2013 with a termination date of June 30, 2018. These services include the Authority's rental of space and computer equipment from the City and Authority employees' participation in certain City employment benefits. Since July 1, 2013, the operations of the Authority are largely autonomous from the City and County.

FINANCIAL INFORMATION

Statement of Net Position

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

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

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

Revenues and Expenditures

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

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

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

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

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

Operating Revenue

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

Revenue from Water and Wastewater Charges and Other Operating Revenue

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

(1) These revenues are attributable to rate increases adopted to finance capital costs and operating expenses to implement the Water Resource Management Strategy. In Fiscal Year 2016, the WRMS revenues were combined with General Operations revenues as part of the new rate ordinance structure.

(2) These revenues are derived from the State Water Conservation Fees, Water Resource Management Fees, meter rentals and other miscellaneous services.

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

Utility Expansion Charges

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

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

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

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

Current Utility Expansion Charges

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

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

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

Revenue from Utility Expansion Charges

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

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

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

expansion. The developer bears the risk and expense for any revenue shortfall related to the System expansion.

Water Supply Charge

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

The following table sets forth the current water supply charges.

Current Water Supply Charges

<u>Meter Size</u>	<u>Water Supply Charge</u>
¾”	\$1,573
1”	2,631
1 ½”	5,242
2”	8,387
3”	16,776
4”	26,029
6”	52,535
8” & over	83,873

Source: Albuquerque Bernalillo County Water Utility Authority

Rate Stabilization Fund

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

Additional Charges

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

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

Water Conservation Charge: Annually, the average water usage for the months of December through March is calculated and used in determining the surcharge during the months of April through October. The surcharge amount added for each unit exceeding 200% of the customer's individual winter mean water usage is equal to 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit. A second tier surcharge for each unit exceeding 300% of the customer's individual winter mean water usage is equal to an additional 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit. A third tier surcharge for each unit exceeding 400% of the customer's individual winter mean water usage is equal to an additional 50% of the commodity charge, and is added to the base commodity charge, the water conservation fee charged by the State and the sustainable water supply charge per unit.

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

Rate Comparisons

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

Water/Wastewater Billing and Collections

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

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

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

Rates and Charges of the System

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

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

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

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

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

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

Current Levels of Base Rates and Charges

Customers pay fixed rates for water and wastewater services as well as additional charges which vary depending on the volume of water used or discharged. These fixed rates are designed to cover, at a minimum, customer service costs and all debt service costs. The rate structure is designed to ensure that debt service costs are covered, regardless of changes in conditions such as drought or the continued success of the Authority’s water conservation efforts. Residential

customers pay fixed water rates (depending on service size) between \$14.43 and \$2,746.62, while commercial customers pay between \$15.11 and \$2,848.99. For wastewater service, residential customers pay a fixed wastewater rate (depending on service size) between \$9.12 and \$1,016.41, while commercial customers pay between \$11.28 and \$1,291.19.

Increases to Rates and Charges

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

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

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

Source: Albuquerque Bernalillo County Water Utility Authority.

Customer Information

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

History of Water Users by Meter Sizes

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

Source: Albuquerque Bernalillo County Water Utility Authority.

History of Water Users by Class

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

Source: Albuquerque Bernalillo County Water Utility Authority.

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

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

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

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

(1) Estimated

Source: Albuquerque Bernalillo County Water Utility Authority.

Financial Management

Financial Policies

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

Budget Process

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

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

The Executive Director develops the CIP which consists of a ten-year plan of capital expenditures, including a detailed yearly CIP budget which is submitted to the Board in accordance with the Budget Ordinance. Development of the CIP plan is based on information collected and analyzed on the Authority's capital assets. Maintenance, rehabilitation, and replacement of assets are linked to the Authority's short- and long-term financial needs and

reflected in the CIP plan and operating budget. The budget amounts of the capital project funds are individual project budgets authorized by the Board for the entire length of the project which are not necessarily the same as the Authority's fiscal year. The Executive Director may transfer funding up to 10% of an existing capital project as approved by the Board, provided the change does not significantly alter the project's scope. The Budget Ordinance also sets forth requirements for Board review and approval of applications or proposals for state and federal grants.

Capital Implementation Program

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

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

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

The current Decade Plan, Fiscal Year 2016 – Fiscal Year 2025, is designed to focus on meeting the basic utility needs for water and wastewater assets, balancing growth and rehabilitation, and meeting federal and state regulatory requirements. The program focuses on maintaining safe drinking water, meeting pollution control standards, providing adequate fire protection and water system reliability, and implementing an asset management approach for

rehabilitating deteriorated water and wastewater infrastructure at a targeted \$60 to \$85 million per year level of rehabilitation investment starting in Fiscal Year 2016 as outlined below.

The development of this Decade Plan continued the use of risk analysis techniques combined with an asset management strategy to determine where the Authority’s capital resources should be expended in order to maximize the benefit to rate payers. The Authority’s asset management plan is intended to provide a business model for managing infrastructure assets to minimize the total costs of owning and operating them at an acceptable level of risk. Ratepayers’ investment in the infrastructure is maximized as a result. The adopted Decade Plan represented the funding decisions made by a broad array of staff and managers throughout the Authority. Project prioritization resulted from discussions within the Authority and with outside consultants engaged to assist the Authority in charting a path for its Basic Capital Program.

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

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

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

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

These projections are subject to change.

Source: Albuquerque Bernalillo County Water Utility Authority.

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

In addition to seeking improvements in efficiency and effectiveness through its AMP, the Authority continues to participate in the American Water Works Association's QualServe program. The QualServe program provides a framework for water and wastewater utilities to continually improve using a Plan-Do-Check-Act framework. It currently offers a well-developed toolbox of benchmarking, self-assessment and peer review for water and wastewater utilities. The QualServe program has assisted the Authority in identifying what it does well and areas where improvement is necessary. The Authority has used the information and recommendations gathered from the QualServe program to provide guidance in the one-year objectives, the performance plan and the financial plan. This information and recommendations have also been the basis for operational improvements already implemented in the Authority.

Approved Fiscal Year 2017 Budget

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

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

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

Other achievements in the preceding fiscal year include: kick-off of a new rainwater harvesting pilot program in partnership with the New Mexico Water Collaborative; record-low per capita water use by Authority customers in response to conservation initiatives; first-time recovery of water stored underground via the Bear Canyon Aquifer Storage and Recovery

Project; and introduction of a new mobile app that allows customers to easily pay bills and check their account via phones and other mobile devices. Building on accomplishments such as these, Authority staff and leadership will continue to pursue new operational efficiencies and improvements in Fiscal Year 2017.

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

Looking forward, the Authority must continue to spend the \$250 million to upgrade its sewage treatment plant and adding an additional \$36 million per year in Capital Implementation Program (CIP) funding to cover the costs of routine replacement of aging pipes, pumps and other infrastructure as recommended in a recent asset management study commissioned by the Authority. The CIP infrastructure renewal budget is planned to increase by \$3 million per year; this started in Fiscal Year 2015.

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

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

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

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

with distances for them to use around the premises. Downtown walking routes with distances will be mapped out and distributed for employees to walk during their breaks and lunches.

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

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

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

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

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

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

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

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

The Fiscal Year 2017 Budget represents a financial plan that will provide the necessary funding to perform all the varied operational and administrative functions, to provide customers with quality water and wastewater service and address the Authority's priorities for Fiscal Year 2017 to improve services and gain operating efficiencies.

INVESTMENT POLICIES AND PROCEDURES

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

The Investment Policy seeks to balance four primary objectives:

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

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

OTHER POST-EMPLOYMENT BENEFITS

Public Employees Retirement Association

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

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

PERA issues a publicly available financial report that includes financial statements and additional information. A copy of this report can be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico 87504-2123.

Actuarial information is shown below:

**State of New Mexico Public Employees Retirement Fund
Summary Information as of June 30, 2015**

Membership ¹	96,479
Actuarial Information	
Actuarial Accrued Liability ²	\$18,786,486,000
Actuarial Value of Assets ³	\$14,074,919,000
Unfunded Actuarial Accrued Liability	\$4,711,567,000
Funded Ratio	74.92%

¹ Includes both state and municipal divisions.

² Includes accrued liability of both the retired and active members.

³ The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.75% annual return are smoothed in over a four-year period.

Source: Public Employees Retirement Association

As of June 30, 2015, PERA has an amortization or funding period of 42 years based on the employer and member contribution rates in effect as of July 1, 2015. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 74.9% as of June 30, 2015 and the Unfunded Actuarial Accrued Liability ("UAAL") of the PERA Fund increased \$410 million to approximately \$4.7 billion. Prior to the 2013 pension reform⁽¹⁾, the funded ratio was 65.3%

(1) Senate Bill 27 significantly amends the Public Employees' Retirement Act by creating a new tier of reduced benefits for new hires. The law reduces the cost of living adjustments for all current and future retirees; delays the application of cost of living adjustments for certain future retirees; suspends the cost of living adjustments for certain return-to-work retirees; provides for an increase in the statutory employee contribution rate of 1.5% (subject to certain requirements) for employees earning \$20,000 or more in annual salary; provides for an increase in the statutory employer contribution of 0.4% beginning in Fiscal year 2015; increases age and service requirements; lengthens the base average salary calculation amount from three to five years for future employees; increases the vesting period for employees from five to eight years for most members; lowers the annual service credit by 0.5% for most members; and makes several other clarifying and technical changes.

and the UAAL of the PERA Fund was calculated to be approximately \$6.2 billion. The primary cause of the slight decrease in the funded ratio and increase in accrued actuarial liability is the lower than expected investment return from the 2015 plan years. On a market value basis, PERA's funded ratio is approximately 76.99% as of June 30, 2015.

Defined Contribution Retirement Plan

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

New Mexico Retiree Health Care Authority

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

Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, Public Employees Retirement Association, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act. Eligible retirees are: (1) retirees who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years.

During the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.000% of each employee's annual salary. The Authority's contributions (employer and employee) to the NMRHCA for the fiscal years ended June 30, 2016, 2015 and 2014 were \$948,912, \$931,393 and \$913,779, respectively, which equal the required contributions for each year.

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

As recently as 2007, the NMRHCA was projected to be insolvent as early as 2014. However, according to the most recent solvency report, actions taken by the NMRHCA, including decreasing subsidy levels, increasing premiums and modifying plan designs, coupled with increases in employer and employee contribution rates have extended the NMRHCA's solvency period through 2035. The NMRHCA issues a publicly available stand-alone financial report that includes financial statements and required supplementary information for the post-employment healthcare plan. That report and further information can be obtained by writing to the Retiree Healthcare Authority at 4308 Carlisle Blvd. NE, Suite 104, Albuquerque, New Mexico 87107.

Life Insurance Benefits

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

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

TAX MATTERS

General

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, to be delivered at the time of original issuance of the Bonds, under existing laws, regulations rulings and judicial decisions, and assuming compliance with covenants described herein, interest on Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax for individual corporations. Bond Counsel is also of the opinion, based on existing laws of the State of New Mexico as enacted and construed, that interest on the Bonds is exempt from all taxation by the State or any political subdivision of the State.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal tax purposes of interest on obligations such as the Bonds. The Authority has made various representations and warranties with respect to, and has covenanted in the Bond Ordinance and other documents, instruments and certificates to comply with the applicable provisions of the Code to assure that interest on the Bonds will not become includible in gross income. Failure to comply with these covenants or the inaccuracy of these representations and warranties may result in interest on the Bonds being included in gross income from the date of issue of the Bonds. The opinion of Bond Counsel assumes compliance with the covenants and the accuracy of such representations and warranties.

Although Bond Counsel has opined that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions contained in the Code, interest on the Bonds will be included in the adjusted current earnings of certain corporations, and such corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses).

Although Bond Counsel has rendered an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of

income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

The opinions expressed by Bond Counsel are based upon existing law as of the date of issuance and delivery of the Bonds, and Bond Counsel expresses no opinion as of any date subsequent thereto or with respect to any pending legislation.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted, it would apply to Bonds issued prior to enactment. Each purchaser of the Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

Internal Revenue Service Audit Program

The Internal Revenue Service (the "Service") has an ongoing program auditing tax-exempt obligations to determine whether, in the view of the Service, interest on such tax-exempt obligations is includable in the gross income of the owners thereof for federal income tax purposes. No assurances can be given as to whether the Service will commence an audit of the Bonds. If an audit is commenced, under current procedures the Service will treat the Authority as the taxpayer and the Bond owners may have no right to participate in such procedure. Neither the Financial Advisor, the initial purchasers of the Bonds nor Bond Counsel is obligated to defend the tax-exempt status of the Bonds. The Authority has covenanted in the Bond Ordinance not to take any action that would cause the interest on the Bonds to become includable in gross income except to the extent described above for the owners thereof for federal income tax purposes. None of the Authority, the Financial Advisor, the initial purchasers of the Bonds or Bond Counsel is responsible to pay or reimburse the costs of any Bond owner with respect to any audit or litigation relating to the Bonds.

Original Issue Discount

The Bonds may be offered at a discount ("original issue discount") equal generally to the difference between public offering price and principal amount. For federal income tax purposes, original issue discount on a bond accrues periodically over the term of the bond as interest with the same tax exemption and alternative minimum tax status as regular interest. The accrual of original issue discount increases the holder's tax basis in the bond for determining taxable gain or loss from sale or from redemption prior to maturity. Holders of Bonds offered at an original issue discount should consult their tax advisors for an explanation of the accrual rules.

Original Issue Premium

The Bonds may be offered at a premium ("original issue premium") over their principal amount. For federal income tax purposes, original issue premium is amortizable periodically over the term of a bond through reductions in the holders' tax basis in the bond for determining taxable gain or loss from sale or from redemption prior to maturity. Amortizable premium is accounted for as reducing the tax-exempt interest on the bond rather than creating a deductible expense or loss. Holders of Bonds offered at an original issue premium should consult their tax advisors for an explanation of the amortization rules.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2017 Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel, will deliver the bond opinion included in Appendix D hereto. Certain legal matters relating to the Series 2017 Bonds will be passed upon for the Authority by its Disclosure Counsel, Modrall, Sperling, Roehl, Harris & Sisk, P.A. Certain legal matters will also be passed upon for the Authority by Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., General Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by McCall, Parkhurst & Horton L.L.P.

INDEPENDENT ACCOUNTANTS

REDW LLC audited the financial statements of the Authority as of and for the year ended June 30, 2016 and delivered their report to the New Mexico State Auditor and the Authority. The complete Comprehensive Annual Financial Report of the Albuquerque Bernalillo County Water Utility Authority – Audited General Purpose Financial Statements – as of and for the Fiscal Year ended June 30, 2016 is a public document and is available from the New Mexico State Auditor and on the Authority website at <http://www.abcwua.org>. An excerpt from the 2016 audit is included in Appendix A to this Official Statement. REDW LLC has not been engaged to perform, and has not performed since June 30, 2016, any procedures on the financial statements shown in the excerpt. Further, REDW LLC has not been engaged to perform and has not performed any procedures relating to financial information or any other information contained in this Official Statement.

CONTINUING DISCLOSURE UNDERTAKING

In connection with the issuance of the Series 2017 Bonds, the Authority will execute a Continuing Disclosure Undertaking, a form of which is attached as Appendix E hereto, wherein it will agree for the benefit of the Owners of the Series 2017 Bonds (i) to provide certain annual financial information and operating data relating to the Authority by not later than 270 days after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2016, and (ii) to provide timely notice of certain enumerated events.

The Authority is currently in material compliance with all continuing disclosure undertakings entered in connection with Outstanding System Obligations. However, in March 2012, the Authority timely filed its audited financial statements related to Fiscal Year 2011 with

a nationally recognized securities information repository, which was required prior to July 1, 2009. Beginning on July 1, 2009, continuing disclosure filings were required to be filed with the Municipal Securities Rulemaking Board. The Authority subsequently filed its audited financial statement for Fiscal Year 2011 with the Municipal Securities Rulemaking Board in September 2013. Also, at the time the Authority filed annual financial information in March 2014 related to Fiscal Year 2013, the audited financial statement for such fiscal year was not complete and the Authority chose not to provide unaudited financial information. For the first ten years of the Authority's existence, the Authority's audited financial statements were interconnected with the City of Albuquerque's financial system which has experienced problems and resultant delays over the past several years. These delays resulted in the Authority having incomplete and unreliable financial information at the time it filed its annual financial information. To avoid providing investors with unreliable information, the Authority waited until the respective audited financial statements were available and timely filed them with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System. The Authority's audited financial statements are no longer contingent on, or interconnected with, the completion of the City's audited financial statements and the Authority does not anticipate any problems with the timely completion of its audited financial statements or providing reliable unaudited financial information as necessary.

LITIGATION

At the time of the initial delivery of the Bonds, the Authority will deliver a no-litigation certificate to the effect that no litigation or administrative action or proceeding is pending or, to the knowledge of the appropriate Authority officials, threatened, restraining or enjoining, or seeking to restrain or enjoin, the issuance and delivery of the Bonds, the effectiveness of the Bond Ordinance, or contesting or questioning the proceedings and authority under which the Bonds have been authorized and are to be issued, sold, executed or delivered, or the validity of the Bonds.

RATINGS

It is expected that, upon issuance of the Series 2017 Bonds, the Series 2017 Bonds will receive a senior lien rating of "Aa2" from Moody's Investors Service, Inc. and "AA+" from S&P Global Ratings. The ratings reflect only the respective views of the Rating Agencies, and the Authority makes no representation as to the appropriateness or meaning of any rating. An explanation of the significance of the ratings may be obtained from the respective Rating Agency. The Authority has furnished to each Rating Agency certain information and materials relating to the Series 2017 Bonds, the Authority and the System, some of which may not have been included in this Official Statement. Generally, Rating Agencies base their ratings on such information and materials and on investigation, studies and assumptions by the Rating Agencies. The respective ratings are not a recommendation to buy, sell or hold the Series 2017 Bonds, and there can be no assurance that a rating when assigned will continue for any given period of time or that it will not be lowered or withdrawn entirely by the respective Rating Agency if, in its judgment, circumstances so warrant. Any downward change in or withdrawal of a rating or ratings may have an adverse effect on the marketability and/or market price of the Series 2017

Bonds. The Authority has undertaken no responsibility to ensure the maintenance of the ratings or to oppose any revisions or withdrawals.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2017 Bonds from the Authority pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") at a price of \$_____ (being the par amount of the Series 2017 Bonds, plus a net reoffering premium of \$_____ and less an Underwriters' discount of \$_____). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2017 Bonds if any are purchased. The prices at which the Series 2017 Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the inside cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial prices to dealers and others.

J.P. Morgan Securities LLC ("J.P. Morgan"), one of the Underwriters of the Series 2017 Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Series 2017 Bonds from J.P. Morgan at the original issue price less a negotiated portion of the selling concession applicable to any Series 2017 Bonds that such firm sells.

VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS

The mathematical accuracy of (i) the computations of the adequacy of the principal amounts and the interest thereon of the Federal Securities and other funds to be deposited in the Escrow Fund, to provide for the payment, of the principal of and interest on the Advance Refunded Obligations when due or upon early redemption thereof, and (ii) the computations made supporting the conclusion that the yield on the Federal Securities held pursuant to the Escrow Agreement is less than the yield on the Bonds for federal income tax purposes, will be verified by Causey Demgen & Moore, P.C., Denver, Colorado. Such verification will be based, in part, upon information supplied to the certified public accountant and consultant by the Financial Advisor.

ADDITIONAL INFORMATION

All quotations from, and summaries and explanations of the laws, regulations and documents contained herein do not purport to be complete and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents, including the Authority's most recent Annual Information Statement, dated March 31, 2016, may be obtained upon request to the Authority at One Civic Plaza, N.W., Room 5012, Albuquerque, New Mexico 87102, Attention: Office Coordinator.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2017 Bonds.

APPROVAL BY THE AUTHORITY

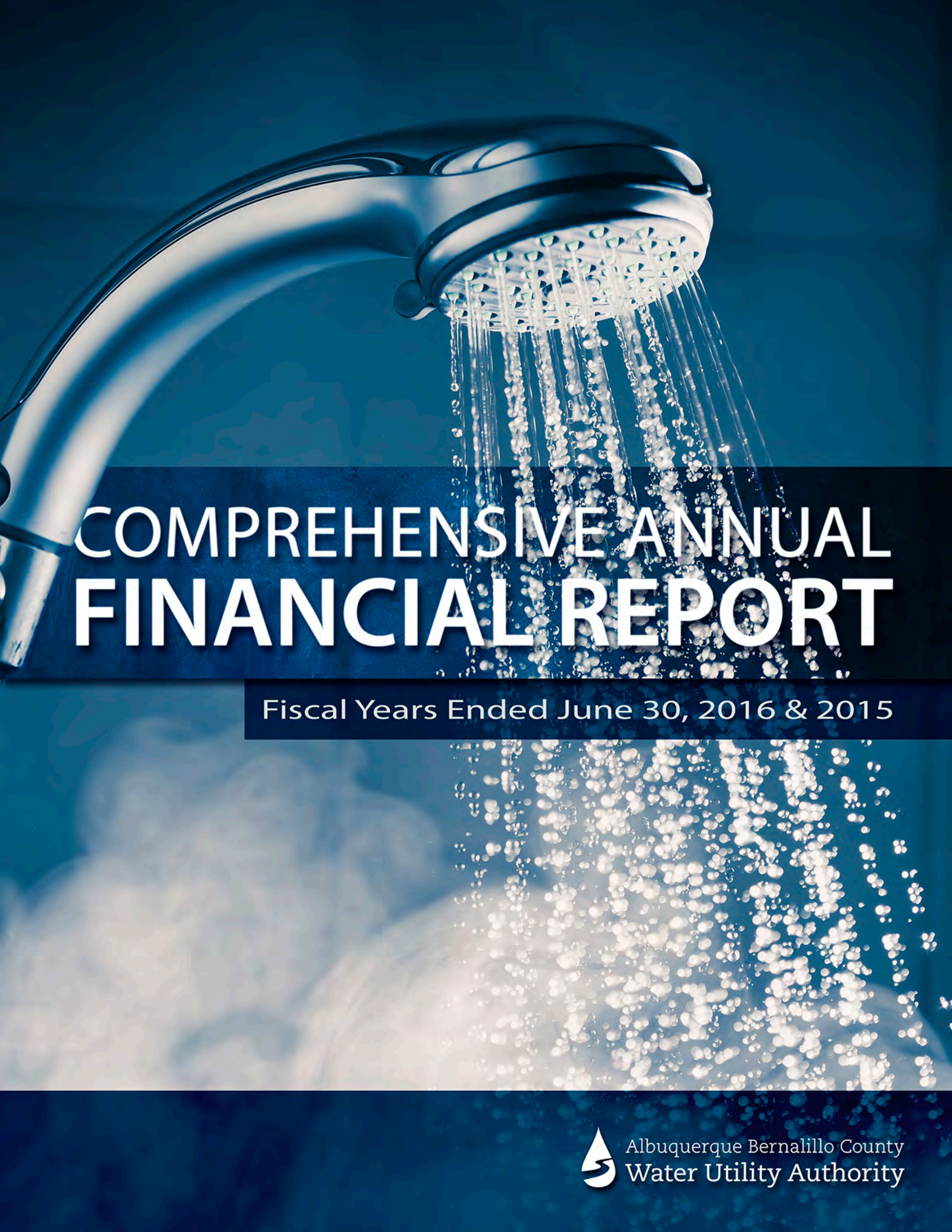
This Official Statement has been duly authorized and approved by the Authority and has been executed and delivered by the Chair of the Board on behalf of the Authority.

**ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY**

By: _____
Chair

APPENDIX A

**EXCERPT FROM THE AUDITED FINANCIAL REPORT OF THE
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Years Ended June 30, 2016 & 2015



Albuquerque Bernalillo County
Water Utility Authority

**ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY**

ALBUQUERQUE, NEW MEXICO

Prepared by the Finance/Business Services Division

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

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INTRODUCTORY SECTION



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November 16, 2016

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

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

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

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

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

Profile of the Water Authority

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

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

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

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

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

Factors Affecting Economic Condition

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

Summary of Local Economy

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

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

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

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

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

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

Long-term financial planning

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

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

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

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

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

Relevant Financial Policies

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

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

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

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

Major Initiatives

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

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

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

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

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

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

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

Awards and Acknowledgements

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

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

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

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

Respectfully submitted,

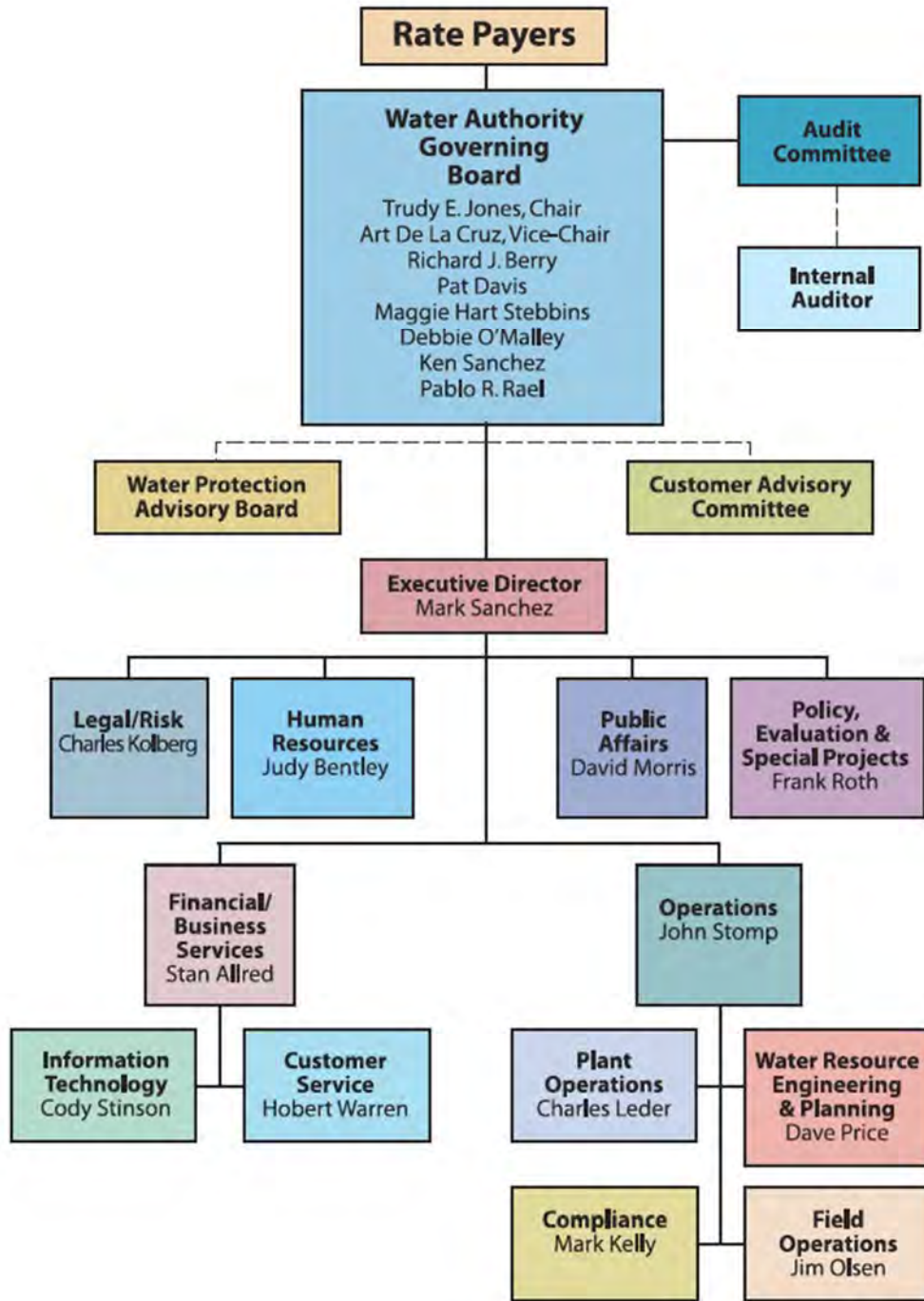


Mark S. Sanchez
Executive Director



Stanley Allred
Chief Financial Officer

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





Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

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

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

Executive Director/CEO

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SYSTEM OFFICIALS

Governing Board Members:

Trudy E. Jones, Chair

Art De La Cruz, Vice Chair

Richard R. Berry, Member

Pat Davis, Member

Maggie Hart Stebbins, Member

Debbie O'Malley, Member

Ken Sanchez, Member

Pablo R. Rael, Ex-Officio

Administrative Management Members:

Mark S. Sanchez, Executive Director

Stanley R Allred, Chief Financial Officer

John M. Stomp, Chief Operating Officer

Charles W. Kolberg, General Counsel

Judy M. Bentley, Human Resources Manager

Frank J. Roth, Senior Policy Manager

David R. Morris, Public Affairs Manager



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FINANCIAL SECTION



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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

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

Other Matters

Required Supplementary Information

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

Other Information

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

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

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

Other Reporting Required by Government Auditing Standards

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



Albuquerque, New Mexico
November 16, 2016

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

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

FINANCIAL HIGHLIGHTS

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

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

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

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

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

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

Measurement Focus / Basis of Accounting:

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

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

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

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

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

Basic Financial Statements

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

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

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

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

Notes to the Financial Statements

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

Other Information

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

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

Net Position

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

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

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

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

FINANCIAL ANALYSIS

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

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

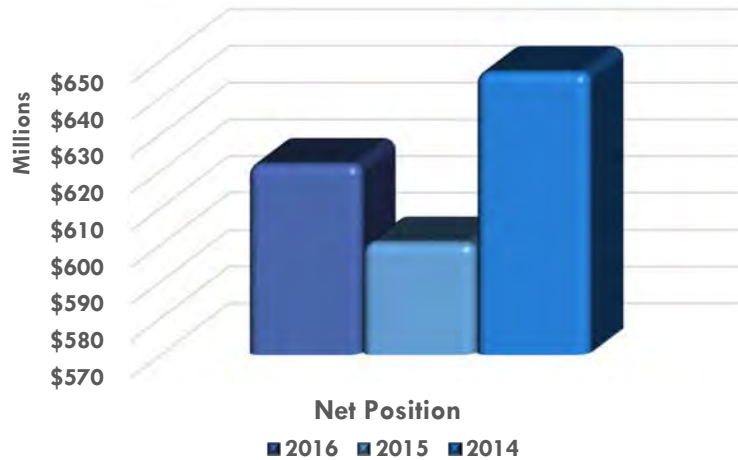
	Variance				
	FY2016	FY2015	FY2014	2016 v 2015	2015 v 2014
Assets					
Current assets	\$121,366	\$85,288	\$78,784	\$36,078	\$6,504
Other assets	50,489	81,668	36,613	(31,179)	45,055
Capital assets, net	1,187,301	1,220,391	1,245,562	(33,090)	(25,171)
Total assets	1,359,156	1,387,347	1,360,959	(28,191)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

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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As would be expected for a utility, the largest portion of the Water Authority’s net position is the net investment in capital assets (91.4 percent). This category reflects the Water Authority’s total investment in capital assets (e.g., infrastructure, buildings, machinery, and equipment); less any related outstanding debt used to acquire those assets. Capital assets are used to provide services to customers; consequently, these assets are not available for future spending. Although the Water Authority’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

Change in NET POSITION



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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(With Comparative Amounts for Year Ended June 30, 2015)

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

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

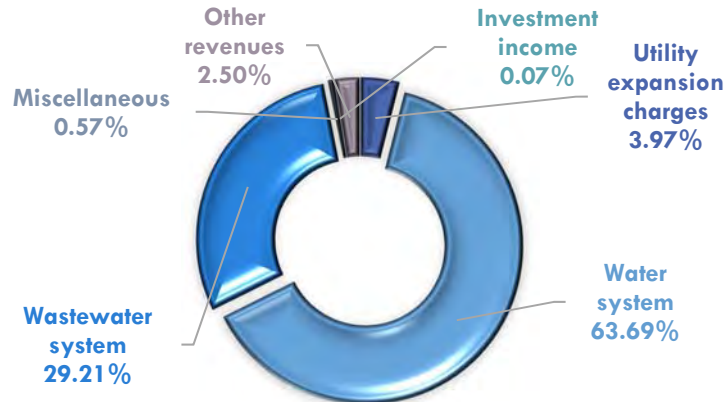
	Variance				
	FY2016	FY2015	FY2014	2016 v 2015	2015 v 2014
Operating Revenues					
Water system	\$148,623	\$126,818	\$119,791	\$21,805	\$7,027
Wastewater system	68,166	64,171	61,327	3,995	2,844
Miscellaneous	1,339	1,323	1,232	16	91
Total Operating Revenues	218,128	192,312	182,350	25,816	9,962
Non-Operating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

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

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

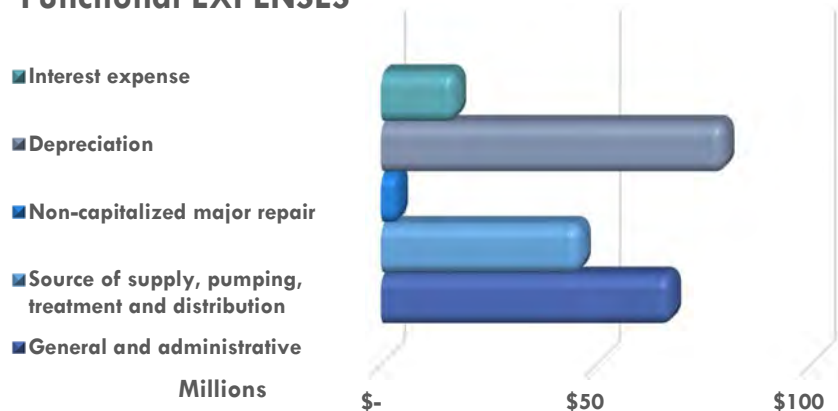
Table 2 shows operating revenues increased \$25.8 million from FY2015 and \$35.8 million from FY2014 primarily related to the implementation of a 5.0 % rate revenue increase on July 1, 2014 and 2015. Changes in water consumption from year to year are generally directly related to changes in temperature,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



Source of REVENUES

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

Functional EXPENSES



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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(With Comparative Amounts for Year Ended June 30, 2015)

BUDGETARY HIGHLIGHTS

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

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

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

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

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

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

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

Table 3
Condensed Capital Assets
(In thousands of dollars)

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

Major capital asset additions for the current fiscal year included:

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

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

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

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

DEBT ADMINISTRATION

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

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

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

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

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

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

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

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

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

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

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

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

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

REQUESTS FOR INFORMATION

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

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

ASSETS

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

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

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

LIABILITIES

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

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

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

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

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

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

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

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

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

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

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

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

I. Summary of Significant Accounting Policies

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

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

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

A. Reporting entity

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

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

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

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

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

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

C. Assets, liabilities, and net position

1. Accounts receivable

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

2. Capital assets

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

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

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

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

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

3. Accounts payable

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
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4. *Accrued compensated absences*

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

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

5. *Long-term obligations*

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

6. *Deferred outflows/inflows of resources*

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

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

7. *Net position*

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

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

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

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

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

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

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

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

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

8. *Statement of cash flows*

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

9. *Estimated amounts reported in financial statements*

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

10. *New accounting pronouncements*

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

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

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

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

II. Stewardship, Compliance and Accountability

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

III. Detailed Notes

A. Cash

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

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

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

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

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

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

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

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

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

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(With Comparative Information of June 30, 2015)

C. Capital assets

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

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

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D. Long-term liabilities

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

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

1. Senior Lien Obligations

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

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

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

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

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

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

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

2. Subordinate Lien Obligations

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

3. Super Subordinate Lien Obligations

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

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

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

4. Revenue bonds and loan agreements outstanding

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

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

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

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

5. Water Rights Contract

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

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

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

E. Defined benefit pension plan – Public Employees Retirement Association

Summary of Significant Accounting Policies

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

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General Information about the Pension Plan

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

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

Benefits provided. For a description of the benefits and recent changes to the benefits see Note 1 in the PERA audited financial statements for the fiscal year ended June 30, 2015 available at:
http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

F. Defined contribution retirement plan

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

G. Post-employment benefits

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

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1. Post-employment Life Insurance Benefit Plan

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

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

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

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

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

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

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

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

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

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

2. State Retiree Health Care Plan

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

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

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

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

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

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

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

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H. Risk management

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

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

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

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

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

The components of the claims liability at June 30 are:

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

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I. Commitments and contingencies

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

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

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

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

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

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
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J. Subsequent events

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

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

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

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

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

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

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

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

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

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

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

Changes of benefit terms.

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

http://www.pera.state.nm.us/pdf/AuditFinancialStatements/366_Public_Employees_Retirement_Association_2015.pdf.

Changes of assumptions.

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

http://www.pera.state.nm.us/pdf/Investments/RetirementFundValuationReports/6-30-2014%20PERA%20Valuation%20Report_FINAL.pdf.

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

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

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

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

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

APPENDIX B

BERNALILLO COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Bernalillo County (the "County") is the economic and population hub of New Mexico and is located in the north central region of the state at the conjunction of Interstate Highways 25 and 40. Its boundaries encompass the entire City of Albuquerque. With approximately 662,564 residents (2010 Census), the County comprises approximately 32% of New Mexico's total population. The County is home to the University of New Mexico, Kirtland Air Force Base and Sandia National Laboratories. Government employment is a large factor in the economic livelihood within the County. Kirtland Air Force Base, Sandia National Laboratories, the City of Albuquerque, Bernalillo County, the University of New Mexico and Albuquerque Public Schools are some of the largest employers in the County. Because of its accessibility and tourist facilities, the County and the surrounding area is the gateway for tourism in New Mexico as well as an attraction in its own right. The County and the City of Albuquerque feature tourist attractions which include: "Old Town," the Sandia Peak Tramway and ski area, the Albuquerque International Balloon Fiesta, the National Hispanic Cultural Center, the Gathering of Nations Native American event and the New Mexico State Fair. While economic diversification has increased in recent years, the recent financial crisis and global economic recession have had a negative effect on the continuation of growth in the County.

Population

The Albuquerque Metropolitan Statistical Area ("MSA") includes Bernalillo, Sandoval, Torrance and Valencia Counties. The Census added Torrance County to the MSA in the 2000 Census.

POPULATION

Year	City	Bernalillo County	Albuquerque MSA	State
1960	201,189	262,199	292,500 ⁽¹⁾	951,023
1970	244,501	315,774	353,800 ⁽¹⁾	1,017,055
1980	332,920	420,262	485,500 ⁽¹⁾	1,303,303
1990	384,736	480,577	589,131	1,515,069
2000 ⁽²⁾	448,607	556,678	729,649	1,819,046
2005 ⁽³⁾	497,543	606,502	797,146	1,912,884
2010 ⁽⁴⁾	545,852	662,564	887,077	2,059,179
2011 ⁽³⁾	551,742	669,604	897,091	2,078,407
2012 ⁽³⁾	555,621	672,995	901,016	2,084,594
2013 ⁽³⁾	556,495	674,883	903,345	2,086,895
2014 ⁽³⁾	557,169	675,551	904,587	2,085,572

- (1) Because Valencia County was split into two counties in 1981, official data is not available prior to that year for the Albuquerque MSA. Figures shown represent estimates by the University of New Mexico Bureau of Business and Economic Research.
- (2) April of 2000 is the month and year of the Census. It is reported as the benchmark; all other years are as of July of the year. The Census in 2000 expanded the Albuquerque MSA to include Torrance County, population of 16,911.
- (3) U.S. Dept. of Commerce, Bureau of the Census, Population Division.
- (4) 2010 decennial census U.S. Dept. of Commerce, Bureau of the Census.

Sources: U.S. Dept. of Commerce, Bureau of the Census, except as indicated in footnotes.

Age Distribution

The following table sets forth a comparative age distribution profile for the County, the State and the United States.

POPULATION BY AGE GROUP

<u>Age</u>	<u>City</u>	<u>State</u>	<u>United States</u>
0-17	23.40%	24.19%	22.97%
18-24	9.27%	9.87%	9.84%
25-34	13.97%	13.26%	13.35%
35-44	12.63%	11.84%	12.63%
45-54	12.79%	12.20%	13.33%
55 and older	27.94%	28.64%	27.88%

Source: © 2016 Nielsen Company, *Site Reports*.

Per Capita Income

The following table sets forth annual per capita personal income levels for the Albuquerque MSA, the State and the United States. The Bureau of Economic Analysis defines “earnings” to include wages and salaries, proprietor’s income and other labor income (such as bonuses).

PER CAPITA PERSONAL INCOME

<u>Calendar Year</u>	<u>Albuquerque MSA</u>	<u>New Mexico</u>	<u>United States</u>
2005	\$31,390	\$29,005	\$35,904
2006	32,967	30,497	38,144
2007	33,888	31,832	39,821
2008	35,011	33,374	41,082
2009	34,077	32,293	39,376
2010	34,183	33,019	40,277
2011	35,426	34,556	42,453
2012	36,093	35,585	44,266
2013	35,881	35,254	44,438
2014	37,345	37,091	46,049

Source: Bureau of Economic Analysis, U.S. Department of Commerce.

The following table reflects the Percent of Households by Effective Buying Income Groups (“EBI”). EBI is defined as money income less personal tax and non-tax payments described below. Money income is the aggregate of wages and salaries, net farm and nonfarm self-employment income, interest, dividends, net rental and royalty income, Social Security and railroad retirement income, other retirement and disability income, public assistance income,

unemployment compensation, Veterans Administration payments, alimony and child support, military family allotments, net winnings from gambling, and other periodic income. Deducted from this total money income are personal income taxes, personal contributions to social insurance (Social Security and federal retirement payroll deductions), and taxes on owner-occupied non-business real estate. Receipts from the following sources are not included as money income: money received from the sale of property; the value of “in kind” income such as food stamps, public housing subsidies, and employer contributions for persons; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; gifts and lump-sum inheritances, insurance payments, and other types of lump-sum receipts.

**PERCENT OF HOUSEHOLDS BY
EFFECTIVE BUYING INCOME GROUPS**

Effective Buying Income Group	Albuquerque MSA	New Mexico
Under \$25,000	26.77%	29.15%
\$25,000 - \$34,999	10.89%	11.18%
\$35,000 - \$49,999	13.41%	13.88%
\$50,000 - \$74,999	18.34%	17.21%
Over \$75,000	30.59%	28.57%
2014 Est. Median Household Income	\$44,391	\$44,292
2015 Est. Median Household Income	\$48,234	\$45,633
2016 Est. Median Household Income	\$48,792	\$45,445

Source: © 2016 The Nielsen Company, *Site Reports*.

BUILDING PERMITS ISSUED IN THE CITY OF ALBUQUERQUE

Fiscal Year	Single Family		Multi-Family		Commercial		Public		Additions & Alterations	Total Permits
	Permits	\$ Value	Units	\$ Value	Permits	\$ Value	Permits	\$ Value	\$ Value	\$ Value
2007	2,490	\$467,022,842	1,083	\$103,574,132	125	\$206,558,035	4	\$14,681,069	\$268,512,462	\$1,060,348,540
2008	1,214	222,075,316	638	45,836,909	124	220,788,429	10	79,282,230	225,299,537	793,282,421
2009	436	77,223,886	198	18,549,849	81	103,040,438	20	58,529,283	233,224,405	490,567,861
2010	876	140,369,408	168	14,763,081	34	26,197,123	8	18,076,792	209,624,603	409,031,007
2011	725	120,749,010	278	37,022,789	45	65,940,484	1	3,300,300	165,845,129	392,857,712
2012	846	153,465,589	350	32,509,563	36	46,257,090	4	31,907,654	165,883,476	430,023,373
2013	923	170,470,736	945	73,378,214	63	78,523,292	4	5,545,791	226,949,710	554,867,742
2014	841	163,980,975	898	81,296,532	152	103,214,914	7	16,859,014	198,430,162	563,781,597
2015	871	167,352,011	449	39,390,742	112	116,776,561	10	17,257,410	165,159,484	505,936,208
2016	915	184,770,209	567	43,676,768	88	119,913,663	13	27,886,373	230,591,376	606,838,389
Growth 2015 to 2016	5.1%	10.4%	26.3%	10.9%	(21.4)%	2.7%	30.0%	61.6%	39.6%	19.9%

Below

Total Housing Units in the City of Albuquerque	Total Units	Single Family	Multi-Family	Mobile Homes & Others
As of 1990 Census	166,870	101,780	55,931	9,159
1990-2000 Housing Units Added	31,844	24,863	7,354	(373)
As of 2000 Census	198,714	126,643	63,285	8,786
2000-2010 Housing Units Added	40,452	35,858	3,554	1,040
As of 2010 Census	239,166	162,501	66,839	9,826
2011-2016 Housing Units Added (permitted)	8,608	5,121	3,487	NA
Estimated Units as of July 2016	247,774	167,622	70,326	9,826

Sources: City of Albuquerque Planning Department; Census Bureau, U.S. Department of Commerce.

Employment

Employment in the Albuquerque area in the period from Fiscal Year 2006 to Fiscal Year 2015 declined at an average of 0.1% a year. From Fiscal Year 2008 to Fiscal Year 2012 approximately 27,700 jobs were lost. In the following three fiscal years (2013 through 2015) the economy added just over 10,000 jobs. While Albuquerque is now recovering from the recession, the recovery has been slower than the nation as a whole. Employment in the nation reached its pre-recession peak in June 2014, while Albuquerque is still about 17,000 jobs short of its pre-recession peak.

The information on non-agricultural employment for the State and the Albuquerque MSA reported in the following table represents estimates by the New Mexico Department of Workforce Solutions and U.S. Bureau of Labor statistics. More detailed information on non-agricultural employment can be found below under “Non-Agricultural Employment” in the table entitled “Civilian Employment/Unemployment Rates”.

NON-AGRICULTURAL EMPLOYMENT (000s)

Fiscal Year	<u>ALBUQUERQUE MSA</u>		<u>NEW MEXICO</u>		<u>UNITED STATES</u>	
	<u>Employment</u>	<u>% Chg.</u>	<u>Employment</u>	<u>% Chg.</u>	<u>Employment</u>	<u>% Chg.</u>
2007	396.5	2.4%	838.5	2.1%	137,354	1.5%
2008	397.9	0.4	847.4	1.1	138,151	0.6
2009	389.0	(2.3)	831.8	(1.8)	134,374	(2.7)
2010	375.7	(3.4)	805.4	(3.2)	130,173	(3.1)
2011	373.2	(0.6)	802.5	(0.4)	131,002	0.6
2012	370.2	(0.8)	801.6	(0.1)	133,093	1.6
2013	373.2	0.8	808.7	0.9	135,212	1.6
2014	375.3	0.6	813.3	0.6	137,563	1.7
2015	378.5	0.9	824.3	1.3	140,430	2.1
2016	383.0	1.2	827.2	0.4	143,134	1.9

Sources: Albuquerque MSA and New Mexico data based on figures from the New Mexico Department of Workforce Solutions; U.S. data from the U.S. Department of Labor.

CIVILIAN EMPLOYMENT/UNEMPLOYMENT RATES

Fiscal Year	Civilian Labor Force	Number Employed	Unemployment Rates		
			Albuquerque MSA	New Mexico	United States
2006	398,512	381,462	4.3%	4.28%	4.8%
2007	403,694	388,349	3.8	3.80	4.5
2008	405,568	389,723	3.9	3.91	4.9
2009	407,287	381,530	6.3	6.32	7.6
2010	413,500	380,448	8.0	7.99	9.8
2011	422,314	389,558	7.8	7.76	9.3
2012	418,739	387,222	7.5	7.53	8.5
2013	416,842	387,925	6.9	6.94	7.8
2014	413,153	385,339	6.7	6.73	6.8
2015	415,250	390,306	6.0	6.01	5.7

Sources: New Mexico Department of Workforce Solutions and United States Department of Labor.

The following table lists the major employers in the Albuquerque area and their estimated number of full-time and part-time employees for 2015.

MAJOR EMPLOYERS IN THE ALBUQUERQUE AREA By Number of Employees – 2015

Organization	Employees	Description
Albuquerque Public Schools	14,810	Education
Kirtland AFB (Civilian)	10,125	Defense
Sandia National Labs	8,400	Research Development
Presbyterian	7,310	Healthcare
UNM Hospital	5,950	Healthcare
City of Albuquerque	5,395	Government
State of New Mexico	4,950	Government
University of New Mexico	4,200	Education
Lovelace	4,000	Healthcare
Bernalillo County	2,648	Government
New Mexico Veterans Hospital	2,100	Healthcare
Rio Rancho Public Schools	2,000	Education
Sandia Resort and Casino	2,000	Resort & Casino

Source: Albuquerque Economic Development (as of 10-1-2016).

APPENDIX C

DESCRIPTION OF BOND ORDINANCE

The following statements are summaries and excerpts, supplementing the information in the body of the Official Statement, of certain provisions of the Bond Ordinance which authorized the issuance of the Series 2017 Bonds. These summaries and excerpts do not purport to be complete and reference is made to the Ordinance for a full and complete statement of such provisions. See "ADDITIONAL INFORMATION."

Definitions

As used in the Bond Ordinance, the following terms have the meanings specified, unless the context clearly requires otherwise:

ACQUISITION FUND. The "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Bonds Improvement Project Acquisition Fund."

ACT. Section 72-1-10 NMSA 1978, Sections 3-31-1 to 3-31-12 NMSA 1978, Sections 4-61-1 to 4-61-10 NMSA 1978, Sections 6-18-1 through 6-18-16 NMSA 1978, and enactments of the Board relating to the Bond Legislation.

AUTHENTICATING AGENT. The Registrar or any trust company, national or state banking association or financial institution qualified to act and appointed as the authenticating agent for the Bonds by an Authorized Officer from time to time.

AUTHORIZED DENOMINATIONS. Denominations of \$5,000 or integral multiples of \$5,000.

AUTHORIZED OFFICER. The Chair, the Executive Director, or other officer or employee of the Water Authority when designated by a certificate signed by the Chair from time to time.

BASIC CAPITAL PROGRAM. The Water Authority's basic capital program for funding annual capital needs for regular system improvements, expansion, maintenance and upgrades to operate a water and wastewater utility.

BENEFICIAL OWNERS. Beneficial Owners as defined in Section 7 (C).

BOARD. The governing body in which is vested the legislative power of the Water Authority.

BOND, BONDS OR SERIES 2017 BONDS. The Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2017 issued pursuant to the Bond Legislation.

BOND COUNSEL. An attorney at law or a firm of attorneys, designated by the Water Authority, of nationally recognized standing in matters pertaining to the issuance of bonds issued by states and their political subdivisions.

BOND INSURANCE POLICY. A municipal bond insurance policy issued by a Credit Source insuring the payment when due of the principal of and interest on Insured Obligations.

BOND LEGISLATION. Collectively, the Bond Ordinance and the Confirming Resolution.

BOND ORDINANCE. This ordinance, as amended or supplemented from time to time.

BOND PURCHASE AGREEMENT. The Bond Purchase Agreement between the Water Authority and the Purchaser of the Bonds to be approved with the adoption of the Pricing Resolution.

BUSINESS DAY. Any day during which any Credit Source, the Paying Agent or the Registrar, the offices of the Water Authority and the New York Stock Exchange are all open for business during normal business hours.

CHAIR. The duly elected Chair of the Board or the Vice Chair of the Board acting in the absence of the Chair.

CITY. The City of Albuquerque, in the County of Bernalillo and State of New Mexico.

CLOSING DATE. The date of delivery of the Bonds to the Purchaser or its designee.

CODE. The Internal Revenue Code of 1986, as amended, the federal income tax regulations of the Treasury Department (whether proposed, temporary or final) and any amendments of, or successor provisions to, the foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section of the Code in this Bond Ordinance means that Section of the Code and such applicable regulations, rulings, announcements, notices, procedures and determinations pertinent to that Section.

COMPLETION DATE. The date of completion of the Project, or, for purposes of the Prospective Test Period, the date of completion of the project for which the additional System Obligations are to be issued.

CONFIRMING RESOLUTION. A resolution adopted on the date of adoption of this Bond Ordinance declaring the necessity of the issuance of the Bonds and confirming the terms hereof for purposes of Section 72-1-10(M) NMSA 1978, as amended.

CONSULTING ENGINEER. Any registered or licensed professional engineer or firm of engineers, entitled to practice and practicing as such under the laws of the State, retained and

compensated by the Water Authority but not in the regular employ of the Water Authority, the City or the County; but, as to any construction drawings and specifications prepared for the System by Water Authority or City employees under the supervision of an engineer employed by the Water Authority or the City, this term may include such engineer.

CONTINUING DISCLOSURE UNDERTAKING. The undertaking of the Water Authority for the benefit of Owners pursuant to which the Water Authority will agree for the benefit of Owners that, while the Bonds are Outstanding, the Water Authority will annually provide certain financial information and operating data and audited financial statements and will provide notice of certain events in accordance with Rule 15c2-12 promulgated under the Securities Exchange Act of 1934.

COUNSEL. An attorney at law (who may be counsel to the Water Authority).

COUNTY. Bernalillo County, New Mexico.

CREDIT FACILITY. A letter of credit, line of credit, Bond Insurance Policy or Reserve Account Surety Bond, guaranty or similar agreement provided by a Credit Source to provide support to pay the purchase price of, or the payment when due of the principal of and interest on, System Obligations.

CREDIT SOURCE. Any bank, insurance company or other financial institution which provides a Credit Facility for a series of System Obligations.

DEBT SERVICE ACCOUNT. An account of the Debt Service Fund for the deposit of Net Revenues and proceeds of a series of System Obligations for the payment of Debt Service Requirements on that series of System Obligations.

DEBT SERVICE FUND. The Debt Service Fund previously established by the Water Authority and continued by this Bond Ordinance.

DEBT SERVICE REQUIREMENTS. With respect to System Obligations and for any given period, the sum of:

(1) the amount required to pay the interest, or to make reimbursements for payments of interest, becoming due on System Obligations during that period, plus

(2) the amount required to pay the principal or Accreted Value, or to make reimbursements for the payment of principal or Accreted Value, becoming due on System Obligations during that period, whether at maturity, an accretion term date or upon mandatory sinking fund redemption dates, plus

(3) the periodic payments required to be made by the Water Authority pursuant to a Qualified Exchange Agreement minus

(4) the periodic payments to be received by the Water Authority pursuant to a Qualified Exchange Agreement. No payments required for any System Obligations which may be tendered or otherwise presented for payment at the option or demand of the owners of System Obligations, or which may occur because of the exercise of an option by the Water Authority, or which may otherwise become due by reason of any other circumstance or contingency, including acceleration or early termination payments, which constitute other than regularly scheduled payments of principal, Accreted Value, interest or other regularly scheduled payments on System Obligations shall be included in any computation of Debt Service Requirements for that period.

Unless, at the time of computation of Debt Service Requirements, payments on System Obligations are owed to, or System Obligations are owned or held by, the provider of a Credit Facility pursuant to the provisions of that Credit Facility, the computation of interest for the purposes of this definition shall be made without considering the interest rate payable pursuant to a Credit Facility.

In any computation of Debt Service Requirements relating to the issuance of additional System Obligations, there shall be excluded from the computation of the Debt Service Requirements amounts and investments which are irrevocably committed to make designated payments on System Obligations during the applicable period, including, without limitation, money on deposit in any Debt Service Account and amounts on deposit in an escrow account irrevocably committed to make designated payments on System Obligations during the applicable period and earnings on such investments which are payable and committed to the payment of such System Obligations during the applicable period. For the purpose of the definition of Debt Service Requirements, the Accreted Value of Capital Appreciation Bonds becoming due shall be included in the calculation of accrued and unpaid and accruing interest and principal only from and after the date which is one year prior to the date on which the Accreted Value becomes payable.

Unless otherwise required by a Water Authority ordinance or resolution relating to a series of System Obligations, to determine Debt Service Requirements of Variable Rate Obligations, the Water Authority shall use the procedures set forth in the following paragraphs to determine the amount of interest or other payments to be paid by the Water Authority on Variable Rate Obligations.

(1) During any historical period for which the actual variable interest rate or rates are determinable, the actual variable interest rate shall be used. During any historical period when the actual variable interest rate is not determinable, the variable interest rate shall, for the purpose of determining Debt Service Requirements, be deemed to be the higher of:

(a) the actual variable interest rate, if any, at the time of computation; or

(b) a fixed annual rate equal to the prevailing rate on the Variable Rate Obligations on the date of computation (which, for the purpose of determining the

Debt Service Requirements, shall be a date which is no more than 60 days prior to the date of issuance of the applicable System Obligations) as certified by the Water Authority's financial advisor, the purchaser of the System Obligations, an investment banker designated by the Water Authority from time to time or a counterparty with respect to a Qualified Exchange Agreement.

(2) Prospective computations of interest payable on Variable Rate Obligations, including those relating to the issuance of additional System Obligations required by Section 27 or required by the Rate Covenant, shall be made on the assumption that such obligations bear interest at a fixed annual rate equal to:

(a) the average of the daily rates of such System Obligations during the 365 consecutive days (or any lesser period such System Obligations have been Outstanding) next preceding a date which is no more than 60 days prior to the date of the issuance of the additional System Obligations; or

(b) with respect to System Obligations initially issued or incurred as or being converted to Variable Rate Obligations, the estimated initial rate of interest of such System Obligations upon the date of issuance, exchange or conversion as certified by the Water Authority's financial advisor, another investment banker, as designated by the Water Authority from time to time, or a counterparty with respect to a Qualified Exchange Agreement.

DEFEASANCE OBLIGATIONS.

(1) Government Obligations; or

(2) if permitted by law, other obligations which would result in the defeased Bonds receiving the same rating from any national rating agency then rating such series of bonds as would have been received if the obligations described in clause (1) of this definition had been used.

DEPOSITORIES. The following registered securities depository: The Depository Trust Company, 570 Washington Boulevard, Jersey City, New Jersey 07310, <http://www.dtcc.com>; or in accordance with then-current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or no such depositories, as an Authorized Officer may designate in a certificate of the Water Authority.

DRINKING WATER STATE REVOLVING FUND LOAN AGREEMENT (2008). The loan agreement dated November 7, 2008 between the NMFA and the Water Authority in the original principal amount of \$12,000,000, authorized and approved by Water Authority Ordinance Enactment No. F/S O-08-4 and Resolution Enactment No. F/S R-08-13 as amended by Ordinance No. F/S O-14-2 and the Amendment to the Loan Agreement dated July 24, 2014 constituting a subordinate lien on the Net Revenues.

DRINKING WATER STATE REVOLVING FUND LOAN AGREEMENT (2009). The loan agreement between the NMFA and the Water Authority in the original principal amount of

\$1,010,000, authorized and approved by Water Authority Ordinance Enactment No. O-09-9 and Resolution Enactment No. R-09-24 constituting a senior lien on the Net Revenues.

ELECTRONIC MEANS. Telephone, telecopy, telegraph, email, facsimile transmission or any other similar means of electronic communication. Any communication by telephone as an Electronic Means shall promptly be confirmed in writing, which may be by one of the other means of electronic communication listed in this definition.

EMMA. The Municipal Securities Rulemaking Board's Electronic Municipal Market Access System located on its website at emma.msrb.org.

ESCROW AGENT. BOKF, NA, a commercial bank and a member of the Federal Deposit Insurance Corporation having full and complete trust powers, or its duly authorized successor.

ESCROW AGREEMENT. The escrow agreement relating to the refunding of the Refunded Obligations between the Water Authority and the Escrow Agent.

ESCROW FUND. The escrow fund for the Refunded Obligations created in the Bond Ordinance to be maintained by the Escrow Agent.

EXPENSE ACCOUNT. That account established for the purpose of paying Expenses and which is a separate account of the Debt Service Fund.

EXPENSES. The reasonable and necessary fees, costs and expenses incurred by the Water Authority with respect to the issuance of, including disclosure matters pertaining to, the Bonds, including, without limitation, attorneys' fees and costs, financial advisor's fees and costs, premiums and costs for any Credit Facility, costs of advertising and publication, underwriter's discounts, cost of printing bonds and disclosure documents, fees and costs of the Escrow Agent, legal fees and expenses, bidding agent's fees and costs relating to the initial purchase of securities for deposit with the Escrow Agent, including any fees and costs associated with any verification agent, and expenses of any Independent Accountant and all reasonable and necessary fees and administrative costs of the Water Authority relating to the foregoing.

FISCAL YEAR. The twelve-month period beginning on the first day of July of each year and ending on the last day of June of the next succeeding year, or any other consecutive twelve-month period, which the Water Authority designates.

GOVERNMENT OBLIGATIONS. Direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, or certificates or receipts established by the United States Government or its agencies or instrumentalities representing direct ownership of future interests or principal payments on direct obligations of, or obligations fully guaranteed by, the United States of America or any of its agencies or instrumentalities the obligations of which are backed by the full faith and credit of the United States, which obligations are held by a custodian in safekeeping on behalf of the

holders of such receipts, and rated or assessed in its highest Rating Category by S&P, if then rating the Bonds, by Fitch, if then rating the Bonds, and by Moody's, if then rating the Bonds.

GROSS REVENUES. All income and revenues directly or indirectly derived by the Water Authority from the operation and use of the System, or any part of the System, and includes, without limitation, all revenues received by the Water Authority, or any municipal corporation or agency succeeding to the rights of the Water Authority, from the System and from the sale and use of water, water services or facilities, sewer service or facilities or any other service, commodity or facility or any combination thereof furnished to the inhabitants of the geographic area served by the Water Authority by means of the System as the same may at any time exist to serve customers outside the Water Authority's geographical limits as well as customers within the Water Authority's geographical limits. Such term also includes:

(1) All income derived from the investment of any money in the Acquisition Fund, Joint Water and Sewer Fund, Debt Service Fund and Rate Stabilization Fund and income derived from surplus Net Revenues;

(2) Money released from the Rebate Fund to the Water Authority;

(3) Money released from the Rate Stabilization Fund to the Water Authority to the extent that the amount released is used to pay Operation and Maintenance Expenses or Debt Service Requirements on System Obligations in the year released; provided that withdrawals from the Rate Stabilization Fund shall not be included in Gross Revenues for the purposes of the Rate Covenant in any two consecutive calendar years;

(4) Property insurance proceeds which are not necessary to restore or replace the property lost or damaged and the proceeds of the sale or other disposition of any part of the System;

(5) Funds received from users of the System as a reimbursement of, or otherwise in connection with, franchise fees to be paid by the Water Authority;

Gross Revenues do not include:

(a) any money received as grants or gifts from the United States of America, the State or other sources, or the proceeds of any charge or tax intended as a replacement therefor or other capital contributions from any source which are restricted as to use; and

(b) condemnation proceeds or the proceeds of any insurance policy, except any property insurance proceeds described above in clause (4) of this definition or in Section 29.(L) or derived in respect of loss of use or business interruption.

HISTORIC TEST PERIOD. Any period of 12 consecutive months out of the 24 calendar months next preceding the delivery of additional Senior Obligations pursuant to Section 27.(B) or additional Subordinate Obligations pursuant to Section 27.(C).

IMPROVEMENT PROJECT. Acquiring additional System assets, extending, repairing, replacing and improving the Water Authority's System.

INDEPENDENT ACCOUNTANT. Any certified public accountant, registered accountant, or firm of accountants duly licensed to practice and practicing as such under the laws of the State, appointed and paid by the Water Authority who (i) is, in fact, independent and not under the domination of the Water Authority, the City or the County, (ii) does not have any substantial interest, direct or indirect, with the Water Authority, the City or the County, and (iii) is not connected with the Water Authority as an officer or employee of the Water Authority, but who may be regularly retained to make annual or similar audits of the books or records of the Water Authority, the City or the County.

INSURED BANK. A bank insured by an agency of the United States.

INSURED OBLIGATIONS. System Obligations insured by a Bond Insurance Policy or payable with the proceeds of another Credit Facility.

INTEREST PAYMENT DATE. January 1 and July 1 of each year (or if such day is not a Business Day, then the next succeeding Business Day) beginning on July 1, 2017.

JOINT WATER AND SEWER FUND. The "City of Albuquerque, New Mexico, Joint Water and Sewer Fund" originally established in Section 16 of Ordinance No. 18-1984 and continued by this Ordinance as the "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer Fund."

MOODY'S. Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation does not provide a rating for the Bonds, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency rating the Bonds.

NMFA. The New Mexico Finance Authority.

NMSA 1978. New Mexico Statutes Annotated, 1978 Compilation, as amended and supplemented.

NET REVENUES. The Gross Revenues after deducting Operation and Maintenance Expenses.

OFFICIAL STATEMENT. The final disclosure document relating to the offer and sale of the Bonds (including the cover page and all summary statement appendices and other

materials included or incorporated by reference or attached thereto), as amended or supplemented.

OPERATION AND MAINTENANCE EXPENSES. All reasonable and necessary current expenses of the System, paid or accrued, related to operating, maintaining and repairing the System including, without limiting the generality of the foregoing:

(1) legal and overhead expenses directly related and reasonably allocable to the administration of the System;

(2) insurance premiums for the System, including, without limitation, premiums for property insurance, public liability insurance and workmen's compensation insurance, whether or not self-funded;

(3) premiums, expenses and other costs (other than required reimbursements of insurance proceeds and other amounts advanced to pay Debt Service Requirements on System Obligations) for Credit Facilities;

(4) Expenses other than expenses paid from the proceeds of System Obligations;

(5) the costs of audits of the books and accounts of the Water Authority and the System;

(6) amounts required to be deposited in the Rebate Fund or otherwise required to make rebate payments to the United States Government;

(7) salaries, administrative expenses, labor costs, surety bonds and the cost of materials and supplies used for or in connection with the current operation of the System; and

(8) franchise tax payments to the City, County or any other local government.

Operation and Maintenance Expenses do not include any allowance for depreciation, payments in lieu of taxes, liabilities incurred by the Water Authority as a result of its negligence or other misconduct in the operation of the System or any charges or costs allocable to capital improvements or replacements. Operation and Maintenance Expenses do not include any payment of or reimbursement for the payment of Debt Service Requirements or premiums on the Bonds.

OUTSTANDING. When used in reference to System Obligations, on any particular date, the aggregate of all System Obligations issued and delivered under the applicable Water Authority ordinance authorizing the issuance of, System Obligations except:

(1) those canceled at or prior to such date or delivered to or acquired by the Water Authority at or prior to such date for cancellation;

(2) those which have been paid or are deemed to be paid in accordance with the Water Authority or City ordinance or resolution authorizing the issuance of the applicable System Obligations or otherwise relating thereto, provided that the payment of Insured Obligations with the proceeds of a Bond Insurance Policy shall not result in those Insured Obligations ceasing to be Outstanding;

(3) in the case of Variable Rate Obligations, System Obligations deemed tendered but not yet presented for payment;

(4) those Bonds which have been refunded in accordance with this Bond Ordinance or other ordinance of the Water Authority authorizing the defeasance of the applicable bonds; and

(5) those in lieu of or in exchange or substitution for which other System Obligations shall have been delivered, unless proof satisfactory to the Water Authority and the Paying Agent for the applicable System Obligations is presented that any System Obligation for which a new System Obligation was issued or exchanged is held by a bona fide holder in due course.

OWNER. The registered owner or owners of any Bond as shown on the registration books maintained by the Registrar.

PAYING AGENT. The chief financial officer or successor in function of the Water Authority or any trust company, national or state banking association or financial institution qualified to act, appointed as the paying agent for the Bonds by an Authorized Officer from time to time.

PERMITTED INVESTMENTS. Any of the following which at the time of the investment are legal investments for the Water Authority for the money to be invested and any other investments, subject to approval by S&P, Fitch and Moody's, if then rating the Bonds, which at the time of investment are legal investments of the Water Authority for the money to be invested:

(1) United States Government Obligations: Securities backed by the full faith and credit of the U.S. Government including direct obligations of the U.S. Treasury, such as U.S. treasury notes and bills and "Ginnie Mae" mortgage-backed certificates issued by the Government National Mortgage Association;

(2) United States Government Obligations: Securities issued or guaranteed by U.S. Government agencies, instrumentalities or sponsored enterprises, but which are not backed by the full faith and credit of the U.S. Government. These securities include Federal Farm Credit Bank "FFCB", Federal Home Loan Bank "FHLB", Federal Home Loan

Mortgage Corporation “FHLMC” and Federal National Mortgage Association “FNMA” and other entities that qualify as instrumentalities of the U.S. government. Additionally, mortgage-backed certificates, and debentures issued by “Freddie Mac” (Federal Home Loan Mortgage Corporation) and “Fannie Mae” (Federal National Mortgage Association) are allowable;

(3) Bank, Savings and Loan Associations or Credit Unions: Deposits in certified and designated New Mexico financial institutions, per the requirement in the New Mexico Constitution Article VIII, Section 4, whose deposits are insured by an agency of the United States. All deposits will comply with State law of the Board related to interest rate and collateral requirements. CD deposits shall not be made with custodial banks of the Water Authority. A deposit in any credit union shall be limited to the amount insured by an agency of the United States;

(4) Municipal Securities: Obligations, the interest on which is excluded from gross income of the recipient for federal income tax purposes, which comply with State law and the policies of the Board;

(5) Money market instruments and other securities of commercial banks, broker-dealers or recognized financial investors, which securities or institutions are rated in the highest Rating Category by S&P, Fitch or Moody’s, if then rating the Bonds, or which securities are guaranteed by a person or entity whose long-term debt obligations are rated in the highest Rating Category by S&P, Fitch and Moody’s, if then rating the Bonds, including, without limitation, securities of, or other interests in, any open-end or closed-end management type investment company or investment trust registered under the provisions of 15 U.S.C. Sections 80(a)-1 et. seq., which invest only in, or whose securities are secured only by, obligations of the type set forth in paragraphs (1) and (2) of this definition;

(6) The “participating government investment fund” described in Section 6-10-10.1 NMSA. 1978 or other similar pooled fund maintained by the State for the investment of public funds of local public bodies of the State; and Repurchase agreements involving the purchase and sale of, and guaranteed investment contracts, the par value of which is collateralized by a perfected first pledge of, or security interest in, or the payments of which are unconditionally guaranteed by, securities described in parts (1) and (2) of this definition, which collateral is held by the Water Authority, or for the benefit of the Water Authority, by a party other than the provider of the guaranteed investment contract or repurchase agreement, with a collateralized value of at least 102% of the par value of such repurchase agreement or guaranteed investment contract or 102% of the market value thereof, valued at intervals of no less than monthly and which collateral is not subject to any other pledge or security interest.

PRELIMINARY OFFICIAL STATEMENT. The initial disclosure document relating to the offer and sale of the Bonds (including the cover page and all summary statements, appendices and other materials included or incorporated by reference or attached thereto), as amended or supplemented.

PROJECT. Collectively, the Refunding Project, the Improvement Project and the payment of Expenses associated with the issuance of the Bonds.

PROSPECTIVE TEST PERIOD. The 12-month period commencing on the first day of the month following the estimated Completion Date of the project for which additional Senior Obligations or Subordinate Obligations are proposed to be issued pursuant to Section 27.(B) or Section 27.(C), respectively, or the first day of the thirty-sixth month following the delivery of such Senior Obligations or Subordinate Obligations, whichever is earlier.

PUBLIC PROJECT REVOLVING FUND LOAN AGREEMENT (2007). The loan agreement dated September 26, 2007 between the NMFA and the Water Authority in the principal amount of \$77,005,000 and approved by Ordinance No. O-07-6 and Resolution No. R-07-26 and as amended by Ordinance No. F/S O-14-2 and the Amendment to the Loan Agreement dated July 24, 2014 constituting a senior lien on the Net Revenues.

PUBLIC PROJECT REVOLVING FUND LOAN AGREEMENT (2011). The loan agreement dated December 15, 2011 between the NMFA and the Water Authority in the principal amount of \$53,400,000 and approved by Ordinance No. O-11-5 and Resolution No. R-11-17 constituting a senior lien on the Net Revenues.

QUALIFIED EXCHANGE AGREEMENT. Any interest rate exchange between the Water Authority and a counterparty which, when entered into by the Water Authority, satisfies the requirements of Section 6-18-8.1 NMSA 1978.

RATE COVENANT. The covenant in Section 29.(C) relating to charging rates for use of the System to pay Debt Service Requirements.

RATE STABILIZATION FUND. The Rate Stabilization Fund for System Obligations previously established by the Water Authority and continued by the Bond Ordinance.

RATING CATEGORY. A generic securities rating category, without regard, in the case of a long-term rating category, to any refinement or gradation of such long-term rating category by a numerical modifier or otherwise.

REBATE FUND. The Rebate Fund for System Obligations previously established by the Water Authority and continued by the Bond Ordinance.

RECORD DATE. The fifteenth day of the calendar month preceding each Interest Payment Date.

REFUNDED OBLIGATIONS. The Series 2009A-1 Bonds maturing on July 1, 2020.

REFUNDING PROJECT. The advance refunding of the Refunded Obligations.

REGISTRAR. The chief financial officer or successor in function of the Water Authority or any trust company, national or state banking association or financial institution qualified to act, appointed as the registrar for the Bonds by an Authorized Officer from time to time.

RESERVE ACCOUNT. The accounts of the Debt Service Fund to be established for Senior Obligations or Subordinate Obligations with a reserve requirement.

RESERVE ACCOUNT SURETY BOND. Any policy of insurance or surety bond or other Credit Facility issued to the Water Authority to be deposited in a Reserve Account, the proceeds of which shall be used to prevent deficiencies in the payment of the principal or interest on a series of System Obligations, written by an insurer whose policies of insurance, or issued by a Credit Source whose Credit Facility, would not adversely affect the rating of the System Obligations by either Moody's or S&P if the Bonds are then rated by Moody's or S&P. At the time of the issuance of such policy, such insurer or the component insurance companies thereof or the obligations thereof shall have received the highest policy claims rating accorded insurers by the A. M. Best Company or any comparable service and either of the two highest rating categories of Moody's or S&P if the Bonds are then rated by Moody's or S&P.

S&P. S&P Global Ratings, a division of S&P Global Inc., its successors and their assigns, and, if such corporation does not provide a rating for the Bonds, "S&P" shall be deemed to refer to any other nationally recognized securities agency rating the Bonds.

SENIOR OBLIGATIONS. The Public Project Revolving Fund Loan Agreement (2007), the Series 2009A-1 Bonds, the Drinking Water State Revolving Fund Loan Agreement (2009), the Public Project Revolving Fund Loan Agreement (2011), the Series 2013A&B Bonds, the Series 2014A Bonds, the Series 2015 Bonds, the Series 2017 Bonds, and obligations related thereto designated as Senior Obligations, in any ordinance or resolution of the Water Authority relating to those bonds, and any other System Obligations issued with a lien on the Net Revenues on a parity with the lien of the Outstanding Senior Obligations on Net Revenues.

SERIES 2009A-1 BONDS. The System Obligations designated as "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1" in the original principal amount of \$135,990,000, authorized and issued pursuant to Ordinance No. O-09-1 and Resolution No. R-09-7 constituting a senior lien on the Net Revenues.

SERIES 2013A&B BONDS. The System Obligations designated as the "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2013A" and the "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Refunding Revenue Bonds, Series 2013B" in the combined original principal amount of \$118,215,000, authorized and issued pursuant to Ordinance No. O-13-2 and Resolution R-13-13 constituting a senior lien on the Net Revenues.

SERIES 2014A BONDS. The Senior System Obligations designated as the "Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer

System Refunding Revenue Bonds, Series 2014A” in the original principal amount of \$97,270,000, authorized and issued pursuant to Ordinance No. F/S O-14-2 and Resolution F/S R-14-10 constituting a senior lien on the Net Revenues.

SERIES 2014B BONDS. The Subordinate System Obligations designated as the “Albuquerque Bernalillo County Water Utility Authority Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014B” in the original principal amount of \$87,005,000, authorized and issued pursuant to Ordinance No. F/S O-14-2 and Resolution F/S R-14-10 constituting a subordinate lien on the Net Revenues.

SERIES 2015 BONDS. The Senior Obligations designated as the “Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2015” in the original principal amount of \$211,940,000, authorized and issued pursuant to Ordinance No. O-15-2 and Resolution F/S R-15-6 constituting a senior lien on the Net Revenues.

SERIES 2017 BONDS DEBT SERVICE ACCOUNT. An account of the Debt Service Fund established for the deposit of amounts necessary to pay the Debt Service Requirements on the Series 2017 Bonds.

SERIES 2017 BONDS ACQUISITION ACCOUNT. An account of the Acquisition Fund established for the deposit of the portion of the proceeds of the Series 2017 Bonds to finance the Improvement Project.

STATE. The State of New Mexico.

SUBORDINATE OBLIGATIONS. The Drinking Water State Revolving Fund Loan Agreement (2008), the Series 2014B Bonds, and all other bonds and other obligations of the Water Authority now or hereafter issued with a lien on the Net Revenues subordinate to the lien of Senior Obligations and superior to the lien of the Super Subordinated Obligations on the Net Revenues.

SUPER SUBORDINATED OBLIGATIONS. The Water Trust Board Loans, and all other bonds and other obligations of the Water Authority now or hereafter issued with a lien on the Net Revenues subordinate to the liens of the Senior Obligations and the Subordinate Obligations on the Net Revenues.

SYSTEM. The public utility owned by the Water Authority and designated as the Water Authority’s water system and sanitary sewer system (continued as a joint utility system in the Bond Ordinance) consisting of all properties, real, personal, mixed or otherwise, now owned or hereafter acquired by the Water Authority, through purchase, construction or otherwise, including all extensions, enlargements and improvements of or to the water and sanitary sewer system and used in connection therewith or relating thereto, and any other related activity or enterprise of the Water Authority designated by the Board as part of the water and sanitary sewer system, whether situated within or without the geographical limits of the Water Authority.

SYSTEM OBLIGATIONS. All bonds and other similar indebtedness payable solely or primarily from Net Revenues, including, without limitation, the Senior Obligations, the Subordinate Obligations and the Super Subordinated Obligations.

UNDERWRITERS. J.P. Morgan Securities LLC, Robert W. Baird & Co., Incorporated, Stifel, Nicolaus & Company, Incorporated, and Piper Jaffray & Co., collectively, as the original purchasers of the Bonds.

VALUATION DATE. Unless stated otherwise in an ordinance or resolution of the Board, each January 1 and July 1 while Capital Appreciation Bonds are Outstanding, being the dates on which the Accreted Value of Capital Appreciation Bonds are listed in the applicable ordinance or resolution.

VARIABLE RATE OBLIGATIONS. System Obligations, including reimbursement obligations pursuant to a Credit Facility, the interest rate on which is subject to change from time to time.

WATER AUTHORITY. The Albuquerque Bernalillo County Water Utility Authority created by Section 72-1-10 NMSA 1978 as a joint agency of the City and the County and operating under the name Albuquerque Bernalillo County Water Utility Authority.

WATER TRUST BOARD. The board created by Section 72-4A-4 NMSA 1978.

WATER TRUST BOARD LOANS. As of the date of adoption of the Bond Ordinance, the 2017 loan to be made to the Water Authority by the Water Trust Board, evidenced by that loan agreement #3544-WTB in the amount of \$669,550.

Priority on Net Revenues

System Obligations may be issued as Senior Obligations by complying with the requirements for the issuance of additional Senior Obligations set forth in the Bond Ordinance or as Subordinate Obligations by complying with the requirements for the issuance of additional Subordinate Obligations. See "DESCRIPTION OF THE SERIES 2017 BONDS – Issuance of Additional System Obligations."

Payment of Series 2017 Bonds

The principal of and premium, if any, on the Series 2017 Bonds are payable upon presentation and surrender of the Series 2017 Bonds at the principal office of the Paying Agent at or after their maturity or prior redemption dates. Interest on Series 2017 Bonds is payable by check or draft mailed to the Owner (or by such other arrangement as may be mutually agreed to by the Paying Agent and an Owner). The Owner will be deemed to be that person or entity shown on the registration books for the Series 2017 Bonds maintained by the Registrar at the address appearing in the registration books at the close of business on the applicable Record Date. Interest which is not timely paid or provided for will cease to be payable to the Owner of

the applicable Series 2017 Bonds (or of one or more predecessor Series 2017 Bonds) as of the Record Date, but will be payable to the Owners of those Series 2017 Bonds (or of one or more predecessor Series 2017 Bonds) at the close of business on a special record date for the payment of the overdue interest. The special record date will be fixed by the Paying Agent and Registrar whenever money becomes available for payment of the overdue interest and notice of the special record date will be given to the Owners of the Series 2017 Bonds not less than ten days prior to that date. Payment shall be made in the coin or currency of the United States of America that is at the time of payment legal tender for the payment of public and private debts. If the principal amount of any Series 2017 Bond presented for payment remains unpaid at maturity, the unpaid principal will bear interest at the rate designated in that Series 2017 Bond. Payments of Series 2017 Bonds will be made without deduction for exchange or collection charges.

The Authority shall transfer, or cause to be transferred, funds to the Paying Agent on a timely basis so that the Paying Agent may make payments of the principal of, premium, if any, and interest on the Series 2017 Bonds, when due, to the Owners and comply with the requirements of any Credit Source. The Authority shall notify the Paying Agent if there is or will be an insufficient amount of money of the Authority legally available to pay principal and interest on the Series 2017 Bonds when due.

Registration, Transfer, Exchange and Ownership of Series 2017 Bonds

The Authority will cause books for registration, transfer and exchange of the Series 2017 Bonds to be kept at the principal office of the Registrar. Upon surrender for transfer or exchange of any Series 2017 Bond at the principal office of the Registrar duly endorsed by the Owner or his attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer or exchange in form satisfactory to the Registrar and properly executed, the Authority will execute and the Registrar will authenticate and deliver in the name of the transferee or Owner replacement Series 2017 Bonds of the same maturity, interest rate and aggregate principal amount in Authorized Denominations.

The person in whose name any Series 2017 Bond is registered will be deemed and regarded as its absolute Owner for all purposes, except as may otherwise be provided with respect to the payment of overdue interest on Series 2017 Bonds in Section 7(D) of the Ordinance. Payment of either the principal of or interest on any Series 2017 Bond is to be made only to or upon the order of its Owner or his legal representative. All such payments shall be valid and effectual to satisfy and discharge the liability on Series 2017 Bonds to the extent of the amount paid.

If any Series 2017 Bond is lost, stolen, destroyed or mutilated, the Registrar, upon receipt of that Series 2017 Bonds, if mutilated, and the evidence, information or indemnity which the Registrar may reasonably require, if lost, stolen or destroyed, authenticate and deliver a replacement Series 2017 Bond of the same aggregate principal amount, maturity and interest rate, bearing a number or numbers not then outstanding. If any lost, stolen, destroyed or mutilated Series 2017 Bond has matured or been called for redemption, the Registrar may direct the Paying Agent to pay that Series 2017 Bond in lieu of replacement.

Exchanges and transfers of Series 2017 Bonds are to be made without charge to the Owner or any transferee except that the Registrar may make a charge sufficient to reimburse the Registrar for any tax, fee or other governmental charge required to be paid with respect to that transfer or exchange.

Except for any Series 2017 Bonds which may be and is tendered for purchase, the Registrar will not be required to transfer or exchange (i) any Series 2017 Bond during the five-day period preceding the mailing of notice calling Series 2017 Bonds, as applicable, for redemption and (ii) any Series 2017 Bond called for redemption.

Funds and Accounts

Joint Water and Sewer Fund

All Gross Revenues are to be set aside and credited to the Joint Water and Sewer Fund.

Acquisition Fund

The Acquisition Fund is continued for deposit of proceeds from the Series 2017 Bonds for completion of the Improvement Project.

Debt Service Fund

The Debt Service Fund shall be continued as a separate fund for the deposit of Net Revenues for the payment of System Obligations and the Series 2017 Bonds Debt Service Account as a separate account of the Debt Service Fund.

Rate Stabilization Fund

The Rate Stabilization Fund is continued as a separate fund.

Escrow Fund

The Escrow Fund is created as a separate fund for the advance refunding of the Refunded Obligations.

Use of Gross Revenues

As long as any Series 2017 Bonds are outstanding, all Gross Revenues are to be deposited in the Joint Water and Sewer Fund and transferred from that Fund to the following funds and accounts or for payment of the following amounts in the order listed:

Operation and Maintenance Expenses

A sufficient amount of Gross Revenues is to be set aside each month to be used to pay the current Operation and Maintenance Expenses as they become due.

Debt Service Accounts for Senior Obligations

Net Revenues are to be transferred to the Debt Service Accounts established for the Senior Obligations to pay Debt Service Requirements on Senior Obligations as they become due, including amounts owed to any Credit Source to reimburse that Credit Source for the payments of Debt Service Requirements on Senior Obligations.

Reserve Accounts for Senior Obligations

Net Revenues are to be transferred to a Reserve Account, if any, to the extent that amounts on deposit in that Reserve Account are less than the amount (including coverage available under any applicable Reserve Account Surety Bond) required to be on deposit therein. The Net Revenues deposited shall be used first to reimburse the Credit Source for the proceeds of a Reserve Account Surety Bond used to pay Debt Service Requirements, second to replace money drawn from the Reserve Account and third to pay the Credit Source interest accrued and owed on amounts advanced pursuant to the Reserve Account Surety Bond.

Debt Service Accounts for Subordinate Obligations

Net Revenues shall be transferred to the Debt Service Accounts established for Subordinate Obligations to pay Debt Service Requirements on Subordinate Obligations, as they become due, including amounts owed to any Credit Source to reimburse that Credit Source for the payments of Debt Service Requirements on Subordinate Obligations.

Reserve Accounts for Subordinate Obligations

Net Revenues shall be transferred to a Reserve Account, if any, to the extent that amounts on deposit in that Reserve Account are less than the amount (including coverage available under any applicable Reserve Account Surety Bond) required to be on deposit therein. The Net Revenues deposited shall be used first to reimburse the Credit Source for the proceeds of a Reserve Account Surety Bond used to pay Debt Service Requirements, second to replace money drawn from the Reserve Account and third to pay to the Credit Source interest accrued and owed on amounts advanced pursuant to the Reserve Account Surety Bond.

Super Subordinated Obligations

Net Revenues shall be used to pay Debt Service Requirements on Super Subordinated Obligations, and to fund any Reserve Requirement for Super Subordinated Obligations.

Rate Stabilization Fund

At the option of the Authority, Net Revenues may be transferred to the Rate Stabilization Fund to be used for the purposes stated in the Bond Ordinance.

Surplus Net Revenues

Surplus Net Revenues are to be retained in the Joint Water and Sewer Fund or used for any other lawful System purpose including, but not limited to, redeeming or purchasing System Obligations or paying costs and expenses of the Authority relating to the administration of System Obligations.

Accumulation of Revenues

Net Revenues need not be retained for any use or in any fund or account described above in excess of the Net Revenues required for any current use or deposit. For purposes of this subparagraph, the term "current" means the month during which the Net Revenues are being distributed and the immediately following month.

Series 2017 Bonds Debt Service Account

Net Revenues are required to be transferred to the Series 2017 Bonds Debt Service Account sufficient to pay when due Debt Service Requirements of the Series 2017 Bonds.

Except as stated in the Bond Legislation, substantially equal monthly deposits of Net Revenues shall be made to the Series 2017 Bonds Debt Service Account beginning six months before each Interest Payment Date in order to make the next payment of interest on the Bonds when due. However, if the first Interest Payment Date for the Bonds is less than six months after the date of the original issuance of the Bonds, substantially equal monthly deposits of Net Revenues before the first Interest Payment Date shall begin in the first full month following the date of issuance of the Bonds in order to make the first payment of interest on the Bonds when due.

Except as stated in the Bond Legislation, substantially equal monthly deposits of Net Revenues shall be made to the Series 2017 Bonds Debt Service Account beginning 12 months before each principal payment date for the Bonds payable from such account in order to make the next scheduled payment of principal on the Bonds when due at maturity. However, if the first principal payment date for the Bonds is less than thirteen months after the date of the original issuance of the Bonds, substantially equal monthly deposits of Net Revenues before the first principal payment date shall begin in the first full month following the date of issuance of the Bonds in order to make the first payment of principal on the Bonds when due at maturity.

If, in the month immediately preceding any payment date for the Series 2017 Bonds, the Authority determines that there are not sufficient funds accumulated in the Series 2017 Bonds Debt Service Account to pay the amount becoming due on that payment date, the Authority is

required to promptly deposit any available Net Revenues in the Series 2017 Bonds Debt Service Account in an amount equal to the deficiency. If, prior to any payment date for the Series 2017 Bonds, there has accumulated in the Series 2017 Bonds Debt Service Account the entire amount necessary to pay the amount becoming due on the Series 2017 Bonds payable from such account on that payment date, no additional Net Revenues need be deposited in the Series 2017 Bonds Debt Service Account prior to that payment date. In making the determinations permitted by this paragraph, the Authority may take into account the amount on deposit in any other fund or account or escrow relating to the Series 2017 Bonds irrevocably set aside for the next payment of the Series 2017 Bonds.

Amounts on deposit in the Series 2017 Bonds Debt Service Account will be applied first to the payment of interest and then to pay or satisfy any payment of principal on the respective Bonds. Except as provided in the Bond Legislation, money in the Series 2017 Bonds Debt Service Account shall be used only to pay the Debt Service Requirements on the Bonds. Transfers of amounts equal to the periodic Debt Service Requirements on the Bonds shall be made by the Water Authority on a timely basis to the Paying Agent.

Series 2017 Bonds Termination Upon Deposits to Maturity

No payments need be made into the Series 2017 Bonds Debt Service Account if the amount in the Series 2017 Bonds Debt Service Account is no less than the Debt Service Requirements due and to become due on and before the final maturity date of the Series 2017 Bonds, both accrued and not accrued, and all proceeds paid under any Credit Facility for the Series 2017 Bonds have been reimbursed. The money retained in that account shall be used only to pay the Debt Service Requirements on the Series 2017 Bonds when due except that any money on deposit in the Series 2017 Bonds Debt Service Account which is not necessary to pay such Debt Service Requirements shall be used as surplus Net Revenues.

Rate Stabilization Fund

Money on deposit in the Rate Stabilization Fund may be withdrawn at any time and used for any purpose for which Gross Revenues may be used.

Pro Rata Deposits

If the amount of Net Revenues available for deposit in the Debt Service Fund is not sufficient to pay the entire amount required to be deposited in the debt service accounts and/or reserve accounts for System Obligations, the Net Revenues available will be deposited in the debt service accounts and reserve accounts pro rata based upon the amount required to be deposited in each account to the total Net Revenues available for deposit but with the priorities established in Section 21(A) of the Ordinance.

With respect to each applicable series of System Obligations, reimbursements owed to a Credit Source for amounts used to pay Debt Service Requirements on those System Obligations shall be paid on the same pro rata basis and with the same priority as are amounts to be deposited

in the Debt Service Account or Reserve Account, as applicable, for those System Obligations; provided that such reimbursements for payments of Debt Service Requirements made pursuant to a Credit Facility shall be made with the priorities set forth in the Bond Legislation.

Variable Rate Obligations

Interest on variable rate obligations which cannot be computed exactly will be deemed to bear the interest rate required by the definition of Debt Service Requirements in the Bond Legislation. To determine the amount required to be on deposit in any debt service account for the payment of interest, computations of the interest rate on variable rate obligations will be made whenever there is a change in the interest rate on the applicable variable rate obligations except that the computation need not be made more often than once in any month.

General Administration of Funds

The funds and accounts described above are to be administered as follows:

Investment of Money

To the extent practicable, any money in any such fund or account is to be invested in Permitted Investments, provided however that money in the Escrow Funds shall be invested as provided in the Escrow Agreement. Obligations purchased as an investment of money in any fund or account are to be deemed at all times to be part of that fund or account, and the interest accruing and any profit realized on those investments are to be credited to that fund or account, unless otherwise stated in the Bond Legislation or related document (subject to withdrawal at any time for the uses directed and permitted for such money by the Bond Legislation or related document), and any loss resulting from such investment is to be charged to that fund or account. The custodian for any such fund or account is required to present for redemption or sale on the prevailing market any Permitted Investment in a fund or account when necessary to provide money to meet a required payment or when required to be transferred from that fund or account.

Deposits of Funds

The money and investments which are part of the funds and accounts designated in the Ordinance shall be kept in an Insured Bank or Banks, or otherwise in Permitted Investments or may be held in book-entry form in the name of the Authority or by an agent or custodian of or for the Authority for the benefit of the Authority as permitted by State law and the money and investments deposited in the Escrow Funds shall be held by the Escrow Agent. Each payment or deposit shall be made into and credited to the proper fund or account at the designated time, except that when the designated time is not a Business Day, then the payment is to be made on the next succeeding Business Day unless otherwise required in the Bond Legislation or related documents. The Authority may establish one or more accounts in Insured Banks for all of the funds and accounts with any other Insured Bank account or accounts for other funds and accounts of the Authority.

Valuation of Investments

In the computation of the amount in any account or fund for any purpose under the Bond Legislation, except as otherwise expressly provided in the Bond Legislation, Permitted Investments shall be valued according to the accounting standards applicable to the Water Authority and the Board's investment policy.

Protective Covenants

The Authority has covenanted and agreed with the Owners in the Ordinance as follows:

Use of Bond Proceeds

The Authority will promptly apply the proceeds of the Bonds to the Project and for the other purposes permitted by the Bond Ordinance.

Payment of Series 2017 Bonds

The Authority will promptly pay the Debt Service Requirements on Series 2017 Bonds at the place, on the dates and in the manner specified in the Bond Legislation and the Series 2017 Bonds.

Rate Covenants

(1) Senior Lien Obligations

The Authority will charge all purchasers of services of the System, including the Authority, the City and the County, such reasonable and just rates as are sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the Outstanding Senior Obligations (excluding accumulation of any reserves therefor).

(2) Subordinate Lien Obligations

The Authority will charge all purchasers of services of the System, including the Authority, the City and the County, such reasonable and just rates as are sufficient to produce Net Revenues annually to pay 120% of the annual Debt Service Requirements on the Outstanding Senior Obligations and the Outstanding Subordinate Obligations (excluding accumulation of any reserves therefor).

Quarterly, the Authority shall determine that the Net Revenues are sufficient to satisfy the Rate Covenants. If the Net Revenues are not sufficient to satisfy the Rate Covenant upon the approval of the annual audit for a Fiscal Year, the Authority will either: (i) promptly increase the rates for use of the Services of the System in order to generate sufficient Net Revenues to satisfy the Rate Covenants or (ii) employ a consultant or manager for the System who shall have a favorable national reputation for skill and experience in the management, operation and financial

affairs of water and sanitary sewer systems and who is not an employee or officer of the Authority. The Authority will request that consultant or manager to make its recommendations, if any, as to revisions of the Authority's rate structure and other charges for use of the System, its Operation and Maintenance Expenses and the method of operation of the System in order to satisfy the Rate Covenants as soon as practicable. Copies of any such requests and recommendations of the consultant or manager shall be filed with the Board. So long as the Authority substantially complies with the recommendations of the consultant or manager on a timely basis, the Authority will not be deemed to have defaulted in satisfying the Rate Covenants even if the resulting Net Revenues are not sufficient to be in compliance with the Rate Covenants, if there is no other default under the Bond Legislation.

No free service, facilities or commodities shall be furnished by the System. If the Authority, the City or the County elects to use water supplied by, or the sanitary sewer facilities of, the System or in any other manner use the System, such use of the System by such entity shall be paid from lawfully available money of such entity at the reasonable value of the use made, service rendered or facility or commodity supplied as is charged to other similar users of the System.

Nothing contained in this section shall be interpreted to require the Authority to take any action in violation of any applicable requirement imposed by law.

Lien on Lands Serviced by System

To the extent permitted by law, the Authority will cause a lien to be perfected upon each lot or parcel of land for delinquent charges imposed for water and sanitary sewer services supplied by the System to the owner of such lot or parcel. The Authority will take all necessary steps to enforce the lien against any parcel of property the owner of which is delinquent for more than six months in the payment of charges imposed by the Authority.

Levy of Charges

The Authority will promptly fix, establish and levy the rates and charges which are required by Section 29.(C) of the Bond Ordinance. No reduction in any initial or existing rate schedule for the System may be made unless:

(1) the Authority has fully complied with the provisions of Section 21 of the Bond Ordinance for any 12 consecutive months out of the 16 calendar months immediately preceding the reduction of the rate schedule, and

(2) the audit required by Section 29.(I) of the Bond Ordinance or a separate certificate by an Independent Accountant for or relating to any 12 consecutive months out of the 16 calendar months immediately preceding any reduction discloses that the estimated Net Revenues resulting from the proposed reduced rate schedule would have been sufficient to meet the applicable Rate Covenant during the applicable 12-month period.

Efficient Operation

The Authority will maintain the System in efficient operating condition and make such improvements, extensions, enlargements, repairs and betterments to the System as may be necessary or advisable for its economical and efficient operation at all times and to supply reasonable public and private demands for System services within the area served by the Authority.

Records; Right to Inspect

So long as Series 2017 Bonds remain Outstanding, the Authority will keep or cause to be kept proper books of records and accounts, separate from all other records and accounts, showing complete and correct entries of all transactions relating to the System. Owners, or their duly authorized agents, shall have the right to inspect at reasonable times all records, accounts and data relating to the System; however, pursuant to Section 6-14-10(E) NMSA 1978, records with regard to the ownership or pledge of the Series 2017 Bonds are not subject to inspection or copying.

Audits

So long as the Series 2017 Bonds are Outstanding, within 270 days following the close of each Fiscal Year, the Authority will cause an audit of the books and accounts of the System to be made by an Independent Accountant. Each audit of the System shall include those matters determined to be proper by the Independent Accountant.

Billing Procedure

Bills for water, water services or facilities, sanitary sewer service or facilities, or any combination thereof, furnished by or through the System are to be provided to customers on a regular basis each month following the month in which the service was rendered and shall be due as required by Authority Ordinance. If permitted by law, if a bill is not paid within the period of time required by Authority ordinance, water and sanitary sewer services are to be discontinued as required by Authority ordinance, and the rates and charges due are to be collected in a lawful manner, including but not limited to the cost of disconnection and reconnection.

Charges and Liens Upon System

The Authority will pay when due from Gross Revenues or other legally available funds all taxes and assessments or other municipal or governmental charges, lawfully levied or assessed upon the System and will observe and comply with all valid requirements of any municipal or governmental authority relating to the System. The Authority will not create or permit any lien or charge upon the System or the Gross Revenues or Net Revenues except as permitted by the Bond Ordinance, or it will make adequate provisions to satisfy and discharge within 60 days after the same accrue, all lawful claims and demands for labor, materials, supplies or other objects, which, if unpaid, might by law become a lien upon the System or the Gross Revenues or the Net

Revenues. However, the Authority will not be required to pay or cause to be discharged, or make provision for any tax assessment, lien or charge before the time when payment becomes due or so long as the validity thereof is contested in good faith by appropriate legal proceedings and there is no adverse effect on Owners.

Insurance

In its operation of the System, the Authority will carry fire and extended coverage insurance. As required by law, the Authority will acquire insurance or maintain a self-insurance fund to cover workmen's compensation insurance and public liability insurance. In the event of property loss or damage to the System, insurance proceeds are to be used first for the purpose of restoring or replacing the property lost or damaged and any remainder is to be treated as Gross Revenues.

Alienating System

Except as permitted in the Bond Ordinance, while any Series 2017 Bonds are Outstanding, the Authority will not sell, lease, mortgage, pledge or otherwise encumber, or in any manner dispose of, or otherwise alienate, any part of the System, except that the Authority may sell any portion of the property of the System which is replaced by other property of at least equal value, or which ceases to be necessary for the efficient operation of the System. In the event of any sale of System property, the proceeds of such sale which are not used to purchase other System property will be distributed as Gross Revenues.

Extending Interest Payments

To prevent any accumulation of claims for interest after maturity, except as permitted by the Bond Legislation, the Authority will not directly or indirectly extend or assent to the extension of the time for the payment of any claim for interest on Series 2017 Bonds. If the time for payment of interest is extended contrary to the provisions described in this paragraph, the installments of interest extended will not be entitled, in case of an event of default under the Bond Legislation, to the benefit or security of the Bond Legislation until the prior payment in full of the principal of and interest on all other Series 2017 Bonds then Outstanding.

Competent Management; Performing Duties

The Authority will employ experienced and competent personnel to manage the System, and will faithfully and punctually perform all duties with respect to the System required by State, City and County laws including, but not limited to, making and collecting reasonable and sufficient rates and charges for services rendered or furnished by the System as required by the Bond Ordinance and the proper segregation and application of the Gross Revenues.

Other Liens

Other than as stated in or provided by the Bond Legislation, there are no liens or encumbrances of any nature whatsoever, on or against the System or Gross Revenues or Net Revenues.

Authority's Existence

The Authority will maintain its corporate identity and existence as long as Series 2017 Bonds remain outstanding.

Tax Compliance

The Authority covenants that it will use and will restrict the use and investment of the proceeds of the Series 2017 Bonds in such manner and to such extent as may be necessary so that the Series 2017 Bonds will not (i) constitute private activity bonds, arbitrage bonds or hedge bonds under Sections 141, 148 or 149 of Code or (ii) be treated other than as bonds to which Section 103(a) of the Code applies, and (iii) the interest thereon will not be treated as a preference item under Section 57 of the Code. The Authority further covenants (i) that it will also take or cause to be taken such actions that may be required of it for the interest on the Series 2017 Bonds to be and remain excluded from gross income for federal income tax purposes, (ii) that it will not take or authorize to be taken any actions that would adversely affect that exclusion, and (iii) that it, or persons acting for it, will, among other acts of compliance, (i) apply the proceeds of the Series 2017 Bonds to the governmental purposes of the borrowings, (ii) restrict the yield on investment property, (iii) make timely and adequate rebate payments or payments of alternative amounts in lieu of rebate to the federal government, (iv) maintain books and records and make calculations and reports, and (v) refrain from certain uses of those proceeds and, as applicable, of property financed with such proceeds, all in such manner to the extent necessary to assure such exclusion of that interest under the Code.

Authorized Officers are authorized (i) to make or effect any election, selection, designation, choice, consent, approval, or waiver on behalf of the Authority as the Authority is permitted or required to make or give under the federal income tax laws including, without limitation thereto, any of the elections provided for in Section 148(f)(4)(C) of the Code or available under Section 148 of the Code, for the purpose of assuring, enhancing or protecting favorable tax treatment or status of the Series 2017 Bonds or interest thereon or assisting in the compliance with requirements for that purpose, reducing the burden or expense of such compliance, reducing the rebate amount or payments of penalties, or making payments of special amounts in lieu of making computations to determine, or paying, excess earnings as rebate, or obviating those amounts or payments, as determined by that officer, which action shall be in writing and signed by the Authorized Officer, (ii) to take any and all other actions, make or obtain calculations, make payments, and make or give reports, covenants and certifications of and on behalf of the Authority, as may be appropriate to assure the exclusion of interest from gross income and the intended tax status of the Series 2017 Bonds, and (iii) to give one or more appropriate certificates of the Authority, for inclusion in the transcripts of the proceedings for the

Series 2017 Bonds, setting forth the reasonable expectations of the Water Authority regarding the amount and use of all the proceeds of the Series 2017 Bonds, the facts, circumstances and estimates on which they are based, and other facts and circumstances relevant to the tax treatment of the interest on and the tax status of the Series 2017 Bonds.

Events of Default

Each of the following events is declared an "event of default" under the Bond Legislation:

- (1) Failure to pay the principal or Accreted Value of the Series 2017 Bonds when due and payable, either at maturity or otherwise.
- (2) Failure to pay any installment of interest on the Series 2017 Bonds when due and payable.
- (3) For any reason, the Authority becomes incapable of fulfilling its obligations under the Bond Legislation.
- (4) Default by the Authority in the due and punctual performance of its covenants, conditions, agreements and provisions contained in System Obligations or in any Authority ordinance authorizing those System Obligations and the continuance of such default (other than a default as described above) for 60 days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by any Credit Source or the Owners of 25% in principal amount and Accreted Value of the System Obligations then Outstanding.

Remedies upon Default

Upon the happening and continuance of any of the events of default stated in the Ordinance: (i) any applicable Credit Source may proceed with any available remedies under any Credit Facility; and (ii) the Owners of not less than 66% in principal amount and Accreted Value of the System Obligations then Outstanding, including but not limited to a trustee or trustees therefor, with the consent of the Credit Source with respect to Insured Obligations, may proceed against the Authority or the Board or both to:

- (1) protect and enforce the rights of the Owners by mandamus or other suit, action or special proceedings in equity or at law, in any court of competent jurisdiction, either for the appointment of a receiver or for the specific performance of any covenant or agreement contained in the Bond Legislation or for the enforcement of any proper legal or equitable remedy as those Owners may deem necessary or desirable to protect and enforce their rights,
- (2) to enjoin any act or thing which may be unlawful or in violation of any right of any Owner,

- (3) to require the Board to act as if it were the trustee of an express trust, or
- (4) any combination of those remedies.

All proceedings shall be instituted and maintained for the equal benefit of all Owners of System Obligations then Outstanding, subject to the provisions of Section 21 of the Bond Ordinance with respect to the use of Gross Revenues. The Owners by purchasing System Obligations consent to the appointment of a receiver to protect the rights of the Owners. The receiver may enter and take possession of and operate and maintain the System and will prescribe rates, fees or charges and collect, receive and apply all Gross Revenues as required by the Bond Ordinance. The failure of any Owner to exercise any right granted by this section shall not relieve the Authority of any obligation to perform any duty. Each right or privilege of any Owner (or trustee or receiver therefor) is in addition and cumulative to any other right or privilege and the exercise of any right or privilege by or on behalf of any Owner will not be deemed a waiver of any other right or privilege of any Owner.

Notwithstanding any other provision in the Bond Legislation, no recourse may be had for the payment of any Series 2017 Bond or for any claim based on any other obligation, covenant or agreement contained in the Bond Legislation against any past, present or future officer, employee or agent of the Authority or member of the Board, and all such liability of any such officers, employees, agents or member (as such) is released as a condition of and consideration for the adoption of the Bond Legislation and the issuance of the Series 2017 Bonds.

Upon the occurrence and continuance of an Event of Default, so long as the Credit Source, if any, is not in default in its payment obligations under the Bond Insurance Policy, the Credit Source shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners with respect to Insured Obligations and such Credit Source shall also be entitled to direct and approve all waivers of Events of Default with respect to Insured Obligations.

Duties upon Default

Upon the happening of any of the events of default under Section 31 of the Bond Ordinance, the Authority will do and perform all proper acts on behalf of and for the Owners necessary to protect and preserve the security created for the payment of the System Obligations and for the payment of the Debt Service Requirements on the System Obligations promptly as the same become due. As long as any of the System Obligations are Outstanding, all Gross Revenues will be distributed and used for the purposes and with the priorities set forth in Section 21 of the Bond Ordinance. If the Authority fails or refuses to proceed as provided in the Bond Ordinance, the Owners of not less than 66% in principal amount and Accreted Value of the System Obligations then Outstanding after demand in writing, may proceed to protect and enforce the rights of the Owners as provided in the Bond Legislation.

Defeasance

When all principal, interest and prior redemption premiums, if any, in connection with all or any part of the Series 2017 Bonds have been paid or provided for (including amounts owed to the Credit Source, if any under any Bond Insurance Policy), the pledge and lien and all obligations under the Bond Legislation with respect to those Series 2017 Bonds and any Bond Insurance Policy will be discharged and those Series 2017 Bonds will no longer be deemed to be Outstanding within the meaning of the Bond Legislation.

Without limiting the preceding paragraph, there shall be deemed to be such payment when: (i) the Board has caused to be placed in escrow and in trust with an escrow agent located within or without the State and exercising trust powers, an amount sufficient (including the known minimum yield from Defeasance Obligations in which such amount may be initially invested) to pay all requirements of principal, interest and prior redemption premium, if any, on the Series 2017 Bonds to be defeased as the same become due to the final maturities or upon designated prior redemption dates, and (ii) any Series 2017 Bonds to be redeemed prior to maturity shall have been duly called for redemption or irrevocable instructions to call such Series 2017 Bonds for redemption have been given to the Registrar. The escrow agent shall have received evidence satisfactory to it that the cash and Defeasance Obligations delivered will be sufficient to provide for the payment of the Series 2017 Bonds to be defeased as stated above. Neither the Defeasance Obligations nor money deposited with the escrow agent shall be withdrawn or used for any purpose other than as provided in the escrow agreement and the Defeasance Obligations and money shall be segregated and held in trust for the payment of the principal and premium, if any, and interest on the Series 2017 Bonds with respect to which such deposit has been made. The Defeasance Obligations shall become due prior to the respective times at which the proceeds are needed in accordance with a schedule established and agreed upon between the Board and the escrow agent at the time of the creation of the escrow, or the Defeasance Obligations shall be subject to redemption but only at the option of the holders or owners thereof to assure the availability of the proceeds as needed to meet the schedule.

Until reimbursement is made by the Authority to the applicable Credit Source, if the principal and/or interest due on Insured Obligations is paid by a Credit Source pursuant to a Credit Facility, the applicable Insured Obligations shall remain Outstanding, shall not be defeased or otherwise satisfied and shall not be considered to be paid by the Authority. In such case, the assignment and pledge of the Net Revenues for the payment of the Insured Obligations paid by the Credit Source and all covenants, agreements and other obligations of the Authority to the Owners of those Insured Obligations shall continue to exist and shall run to the benefit of that Credit Source and that Credit Source shall be subrogated to the rights of the owners of those Insured Obligations, until all obligations of the Authority to that Credit Source have been paid.

Notwithstanding the foregoing, any provisions of the Bond Legislation which relate to indemnification and the payment of fees and expenses, the payment of the principal of and premium of Series 2017 Bonds at maturity or on a prior redemption date, interest payments and dates thereof, exchange, registration of transfer and registration of Series 2017 Bonds, replacement of mutilated, destroyed, lost or stolen Series 2017 Bonds, the safekeeping and

cancellation of Series 2017 Bonds, non-presentment of Series 2017 Bonds, the holding of money in trust, the obligations set forth in the Bond Legislation regarding rebate, and the duties of the Registrar, Authenticating Agent and Paying Agent in connection with all of the foregoing shall remain in effect and be binding upon the Owners, the Registrar, Authenticating Agent and Paying Agent notwithstanding the release and discharge of the Bond Legislation. The provisions of this Section shall survive the release, discharge and satisfaction of the Bond Legislation.

Bonds Not Presented When Due

If any Series 2017 Bonds are not duly presented for payment when due at maturity or on any prior redemption date, and if money sufficient for the payment of those Series 2017 Bonds is on deposit with the Paying Agent, and, in the case of Series 2017 Bonds to be redeemed, if notice of redemption has been given as provided in the Bond Ordinance, all liability of the Authority to the Owners of those Series 2017 Bonds will be discharged, those Series 2017 Bonds will no longer be Outstanding and it will be the duty of the Paying Agent to segregate and to hold such money in trust, without liability for interest thereon, for the benefit of the Owners of those Series 2017 Bonds.

Amendment of Ordinance

The Bond Legislation may be amended by ordinance or resolution of the Board without the consent of Owners but with the consent of any Credit Source providing a Credit Facility which is in effect and which pertains to the Series 2017 Bonds and is affected by the amendment if the Credit Source is not in default in its obligations under the Credit Facility:

- (1) To cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the Bond Legislation;
- (2) To grant to the Owners any additional rights, remedies, powers or authority that may lawfully be granted to them;
- (3) To obtain or maintain a rating on the Series 2017 Bonds from any rating agency if the amendment, in the judgment of Bond Counsel, does not materially adversely affect the Owners of the Series 2017 Bonds;
- (4) To achieve compliance with federal securities or tax laws; and
- (5) To make any other changes in the Bond Legislation which, in the opinion of Bond Counsel, are not materially adverse to the Owners.

Additional Amendments

Except as provided above, the Bond Legislation may only be amended or supplemented by ordinance or resolution adopted by the Board in accordance with the laws of the State, without receipt by the Authority of any additional consideration, but with the written consent of the

Owners of a majority of the principal amount of the Series 2017 Bonds then outstanding which are affected by the amendment or supplement (not including any Series 2017 Bonds which are then owned by or for the account of the Authority) and of any Credit Source providing a Credit Facility which is in effect affected by the amendment or supplement if the Credit Source is not in default in its obligations under the Credit Facility; provided, however, that no such ordinances or resolutions may have the effect of permitting:

- (1) An extension of the maturity of any Series 2017 Bond; or
- (2) A reduction in the principal amount of, premium, if any, or interest rate on any Series 2017 Bond; or
- (3) The creation of a lien on or a pledge of Net Revenues ranking prior to the lien or pledge of Senior Obligations on Net Revenues; or
- (4) A reduction of the principal amount of Series 2017 Bonds required for consent to such amendment or supplement.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

_____, 2017

Albuquerque Bernalillo County Water Utility Authority
Albuquerque, New Mexico

\$ _____
Albuquerque Bernalillo County Water Utility Authority
Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds,
Series 2017

Ladies and Gentlemen:

We have acted as bond counsel to the Albuquerque Bernalillo County Water Utility Authority (the “Water Authority”) in connection with the issuance and sale of its \$ _____ Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2017 (the “Bonds”). The Bonds are issued pursuant to the Constitution and laws of the State of New Mexico (the “State”) and Authority Ordinance WUA O-17-__ and Authority Resolution No. WUA R-17-__ adopted by the Authority on January 25, 2017 (the “Bond Ordinance”). Except as expressly defined herein, capitalized terms used herein have the same meanings as such terms have in the Bond Ordinance.

We have examined the laws of the State and the United States of America relevant to the opinions herein, and other proceedings and documents relevant to the issuance by the Water Authority of the Bonds. As to the questions of fact material to our opinion, we have relied upon representations of the Water Authority contained in the certified proceedings and other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, and subject to the assumptions and qualifications set forth below, we are of the opinion that, under existing law on the date of this opinion:

1. The Bonds are valid and binding special, limited obligations of the Water Authority under and in accordance with the Bond Ordinance.
2. The Bond Ordinance has been duly authorized, executed and delivered by the Water Authority and the provisions of the Bond Ordinance are valid and binding on the Water Authority.

3. The Bonds are payable as to principal, interest and any prior redemption premium, solely from, and are secured by a pledge (but not an exclusive pledge) of System Net Revenues of the Water Authority, as more fully described in the Bond Ordinance. The owners of the Bonds have no right to have taxes levied by the State or any political subdivision thereof for the payment of principal, interest and any prior redemption premium on the Bonds. The Water Authority does not have taxing power,

4. The Bond Ordinance creates the liens on the System Net Revenues that it purports to create.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is not includible in gross income for federal income tax purposes. We are also of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions contained in the Internal Revenue Code of 1986, as amended (the "Code"); however, such interest on the Bonds will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum tax 75% of the excess of a corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). Although we are of the opinion that interest on the Bonds is not includible in gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

6. The Bonds and the income from the Bonds are exempt from all taxation by the State or any political subdivision of the State.

The opinions set forth above in paragraph 5 are subject to continuing compliance by the Water Authority with covenants regarding federal tax law contained in the proceedings and other documents relevant to the issuance by the Water Authority of the Bonds. Failure to comply with these covenants may result in interest on the Bonds being included in gross income retroactive to their date of issuance.

The opinions expressed herein are based upon existing legislation as of the date of issuance and delivery of the Bonds, and we express no opinion as of any date subsequent thereto or with respect to any pending legislation.

The obligations of the Water Authority related to the Bonds are subject to the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State and to the exercise by the United States of the powers (including bankruptcy powers) delegated to it by the United States Constitution. The obligations of the Water Authority and the security provided therefor, as contained in the Bond Ordinance, may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result. We are passing upon only those matters set forth in this opinion and are not passing upon the accuracy or completeness of any statement made in connection with any sale of the Bonds or upon any tax consequences arising from the receipt or accrual or interest on, or the ownership of, the Bonds except those specifically addressed in paragraphs 5 and 6 above.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

\$87,945,000*

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds
Series 2017**

This instrument constitutes the written undertaking by the Albuquerque Bernalillo County Water Utility Authority (the "Issuer") for the benefit of the holders of the above-captioned bonds (the "Bonds") required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 C.F.R. Part 240, § 240.15c2-12) (the "Rule"). Capitalized terms used in this undertaking and not otherwise defined in the Issuer's Ordinance WUA O-17-__ adopted by the Authority on January 25, 2017 (the "Ordinance") shall have the meanings assigned such terms in subsection 3 hereof.

(1) The Issuer undertakes to provide the following information as provided herein:

- (a) Annual Financial Information;
- (b) Audited Financial Statements, if any; and
- (c) Material Event Notices.

(2) (a) The Issuer shall, while any Bonds are Outstanding, provide the Annual Financial Information on or before March 31 of each year (the "Report Date"), beginning in 2017, to EMMA. The Issuer may adjust the Report Date if the Issuer changes its fiscal year by providing written notice of the change of fiscal year and the new Report Date to EMMA provided that the new Report Date shall be 270 days after the end of the new fiscal year and provided further that the period between the final Report Date relating to the former fiscal year and the initial Report Date relating to the new fiscal year shall not exceed one year in duration. It shall be sufficient if the Issuer provides to EMMA the Annual Financial Information by specific reference to documents previously provided to EMMA or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the Municipal Securities Rulemaking Board.

*Preliminary, subject to change.

(b) If not provided as part of the Annual Financial Information, the Issuer shall provide the Audited Financial Statements when and if available while any Bonds are Outstanding to EMMA.

(c) If a Material Event occurs while any Bonds are Outstanding, the Issuer shall provide a Material Event Notice in a timely manner not in excess of ten (10) business days after the occurrence of the event, a notice of such occurrence with EMMA. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(d) The Issuer shall provide in a timely manner to the Municipal Securities Rulemaking Board notice of any failure by the Issuer while any Bonds are Outstanding to provide to EMMA Annual Financial Information, if any, on or before the Report Date.

(3) The following are the definitions of the capitalized terms used herein and not otherwise defined in the Ordinance:

(a) "**Annual Financial Information**" means the financial information (which shall be based on financial statements prepared in accordance with generally accepted accounting principles ("GAAP") for governmental units as prescribed by the Governmental Accounting Standards Board ("GASB")) or operating data with respect to the Issuer, provided at least annually, of the type included in the final official statement with respect to the Bonds; which Annual Financial Information may, but is not required to, include Audited Financial Statements.

(b) "**Audited Financial Statements**" means the Issuer's annual financial statements, prepared in accordance with GAAP for governmental units as prescribed by GASB, which financial statements shall have been audited by such auditor as shall be then required or permitted by the laws of the State.

(c) "**EMMA**" means the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System located on its website at emma.msrb.org.

(d) "**Material Event**" means any of the following events with respect to the Bonds:

- (i) Principal and interest payment delinquencies;
- (ii) Non-payment related defaults, if material;
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

(vii) modifications to rights of owners of the Bonds, if material;

(viii) bond calls, if material, or tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) rating changes;

(xii) bankruptcy, insolvency, receivership or a similar event with respect to the Issuer or an obligated person;

(xiii) the consummation of a merger, consolidation, or acquisition involving the Issuer or another obligated person or the sale of all or substantially all of the assets of the Issuer or another obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) appointment of a successor or additional trustee, or a change of name of a trustee, if material.

(e) "**Material Event Notice**" means written or electronic notice of a Material Event.

(4) The Issuer shall employ such methods of electronic or physical information transmission as shall be requested or recommended by EMMA, the MSRB or the Securities and Exchange Commission.

(5) The continuing obligation hereunder of the Issuer to provide Annual Financial Information, Audited Financial Statements, if any, and Material Event Notices shall

terminate immediately once Bonds no longer are Outstanding. This undertaking or any provision hereof, shall be null and void in the event that the Issuer delivers to EMMA an opinion of nationally recognized bond counsel to the effect that those portions of the Rule which require this undertaking, or any such provision, are invalid, have been repealed retroactively or otherwise do not apply to the Bonds. This undertaking may be amended without the consent of the owners of the Bonds, but only upon the delivery by the Issuer to EMMA of the proposed amendment and an opinion of nationally recognized bond counsel to the effect that such amendment, and giving effect thereto, will not adversely affect the compliance of this undertaking by the Issuer with the Rule.

(6) Any failure by the Issuer to perform in accordance herewith shall not constitute an "Event of Default" under the Bonds and the Ordinance, and the rights and remedies provided by the Ordinance upon the occurrence of an "Event of Default" shall not apply to any such failure; however, owners of the Bonds may sue to enforce performance of the undertakings set forth herein.

(7) *Beneficiaries.* This certificate shall inure solely to the benefit of the Issuer, the Underwriters and owners from time to time of the Bonds, and shall create no rights in any other persons or entity.

DATE: MARCH __, 2017

**ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY**

Chair