

OFFICIAL STATEMENT DATED OCTOBER 16, 2018

New Issue – Book-Entry Only

S&P: AAA
Moody's: Aa2
(See "RATINGS" herein.)

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under the existing laws, regulations, rulings and judicial decisions and assuming continuous compliance with certain covenants set forth in the documents relating to the Series 2018 Bonds (defined herein) and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, interest on the Series 2018 Bonds is (a) excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Code, and (b) is not a specific preference item for purposes of the federal alternative minimum tax for individuals. 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 Series 2018 Bonds is exempt from all taxation by the State of New Mexico or any political subdivision thereof. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the accrual or receipt of interest on, the Series 2018 Bonds. See "TAX MATTERS" herein.

\$75,085,000 **ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY** **Senior Lien Joint Water and Sewer System Improvement Revenue Bonds,** **Series 2018**

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 Improvement Revenue Bonds, Series 2018 (the "Series 2018 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 2018 Bonds through its nominee, Cede & Co. One fully registered bond equal to the principal amount of each maturity of the Series 2018 Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2018 Bonds will be made in book-entry form only, and beneficial owners of the Series 2018 Bonds will not receive physical delivery of bond certificates representing their ownership of the Series 2018 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 2018 Bonds, as more fully described herein.

The Bonds are being issued pursuant to the Constitution of the State of New Mexico (the "State"), the laws of the State, a bond ordinance (the "Bond Ordinance") adopted by the Authority Board (the "Board") of the Albuquerque Bernalillo County Water Utility Authority (the "Water Authority") on September 19, 2018, and a Confirming Resolution (the "Resolution") also adopted on September 19, 2018, delegating the authority to approve final sale terms to an authorized delegate of the Water Authority (the "Delegate"). The Delegate executed the Bond Purchase Agreement finalizing the sale of the Bonds on October 16, 2018.

The Series 2018 Bonds are being issued to provide funds for: (i) acquiring additional water and sewer system (the "System") assets, and extending, repairing, replacing and improving the System, and (ii) the payment of costs of issuance related to the Series 2018 Bonds.

Interest on the Series 2018 Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2019. Payments of principal of and interest on the Series 2018 Bonds will be made directly to DTC or its nominee, Cede & Co., by the Chief Financial Officer of the Water Authority, as Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Principal of the Series 2018 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 2018 Bonds are subject to optional redemption as described herein.

The Series 2018 Bonds are special, limited obligations of the Water Authority, payable solely from and secured by the Net Revenues of the Water Authority's System. The lien of the Series 2018 Bonds on the Net Revenues is on parity with the Senior Obligations of the Water Authority (currently outstanding in the aggregate principal amount of \$552,507,397), inclusive of the Series 2018 Bonds. The issuance of the Series 2018 Bonds, or other incidental costs related thereto, 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 Water Authority does not have taxing power.

In connection with the issuance of the Series 2018 Bonds, the Water Authority will commit to provide certain annual information and notice of certain significant events as described herein in "APPENDIX E – FORM OF CONTINUING DISCLOSURE UNDERTAKING." The Series 2018 Bonds are offered when, as, and if issued by the Water Authority and purchased by the underwriters identified below (the "Underwriters") and subject to the delivery of approving opinions by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, and certain other conditions. Certain legal matters will be passed on for the Water Authority by its General Counsel, 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 their counsel, Norton Rose Fulbright US LLP. Delivery of the Series 2018 Bonds is expected on or about October 31, 2018 through the facilities of DTC, against payment therefor.

J.P. MORGAN
BAIRD

MATURITY SCHEDULE

\$75,085,000

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Improvement Revenue Bonds,
Series 2018

Maturity Date (July 1)	Principal Amount	Interest Rate	Yield	CUSIP No.⁽¹⁾
2020	\$5,285,000	5.000%	2.070%	013493HR5
2021	5,550,000	5.000%	2.140%	013493HS3
2022	5,825,000	5.000%	2.260%	013493HT1
2023	6,120,000	5.000%	2.350%	013493HU8
2024	6,425,000	5.000%	2.460%	013493HV6
2025	6,745,000	5.000%	2.560%	013493HW4
2026	7,080,000	5.000%	2.670%	013493HX2
2027	7,435,000	5.000%	2.760% ^C	013493HY0
2028	7,810,000	5.000%	2.840% ^C	013493HZ7
2029	8,200,000	5.000%	2.930% ^C	013493JA0
2030	8,610,000	5.000%	3.000% ^C	013493JB8

(Interest to accrue from the Date of Delivery of the Bonds)

The Water Authority reserves the option to redeem the Bonds maturing on and after July 1, 2027, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on July 1, 2026 or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

^C Yield calculated based on the assumption the Bonds denoted and sold at a premium will be redeemed on July 1, 2026, the first optional redemption date for such Bonds, at a price of par plus accrued interest to such date of redemption. See “DESCRIPTION OF THE SERIES 2018 BONDS – Redemption Prior to Maturity” herein.

⁽¹⁾ 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 2018 Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence 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. None of the Water Authority, the Financial Advisor, or the Underwriters takes any responsibility for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2018 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2018 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

WATER UTILITY AUTHORITY BOARD

Councilor Trudy E. Jones, Chair
Commissioner Debbie O'Malley, Vice-Chair
Mayor Timothy M. Keller
Councilor Pat Davis
Commissioner Steven Michael Quezada
Councilor Klarissa J. Peña
Commissioner Lonnie C. Talbert
Trustee Pablo R. Rael (ex-officio member)

WATER UTILITY AUTHORITY ADMINISTRATION

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

FINANCIAL ADVISOR

RBC Capital Markets, LLC
Albuquerque, New Mexico

No dealer, salesperson or other person has been authorized by the Water 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 2018 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 Water Authority and from other sources believed by the Water 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 Water 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 Financial Advisor provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the Water Authority and to investors under the federal securities laws as applied to the facts and circumstances of these transactions, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

None of the Water Authority, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its book-entry-only system described under “DESCRIPTION OF THE SERIES 2018 BONDS – Book-Entry Only System” as such information has been provided by DTC.

The Series 2018 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 2018 Bonds in accordance with applicable provisions of the securities law of the states in which the Series 2018 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 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 2018 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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 2018 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 2018 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2018 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 WATER AUTHORITY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED.

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OFFICIAL STATEMENT

\$75,085,000

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Improvement Revenue Bonds,
Series 2018

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 Improvement Revenue Bonds, Series 2018 (the “Series 2018 Bonds” or “Bonds”) by the Albuquerque Bernalillo County Water Utility Authority (the “Water Authority” or “Authority”). Capitalized terms used herein and not defined have the meanings specified in Water Authority Ordinance WUA O-18-7 (the “Ordinance”) and Water Authority Resolution No. WUA R-18-20 (the “Resolution”) adopted by the Authority on September 19, 2018 (collectively, the “Bond Ordinance”). See “DESCRIPTION OF BOND ORDINANCE – Definitions” in APPENDIX C hereto.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Water Authority, its joint water and wastewater system (the “System”), and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the Water Authority, One Civic Plaza, N.W., Room 5012, Albuquerque, New Mexico 87102, Attn: Office Coordinator, by electronic mail or upon payment of reasonable copying, handling, and delivery charge.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the Final Official Statement will be filed with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “APPENDIX E – FORM OF CONTINUING DISCLOSURE UNDERTAKING” for a description of the Water Authority’s undertaking to provide certain information on a continuing basis.

Albuquerque Bernalillo County Water Utility Authority

The System is owned and operated by the Water Authority pursuant to Section 72-1-10, NMSA 1978. The Water Authority has the statutory powers provided to all public water and wastewater utilities in the State of New Mexico (the “State”) and is recognized as a political subdivision of the State. The Water Authority has a minimal relationship with the City of Albuquerque, New Mexico (the “City”) under the current Memorandum of Understanding, dated July 1, 2013, by and between the Water Authority and the City, which expired on June 30, 2018 but has been extended to June 30, 2019 by mutual agreement of the parties. In addition to the Water Authority’s rental of space and computer equipment from the City, the Water Authority employees may participate in certain City employment benefits such as medical, dental, vision, and life insurance. Other than these limited connections, and the representation of such entities on the Water Authority’s governing Board, as described below, the Water Authority operates independently of the City and Bernalillo County, New Mexico (the “County”).

The Water Authority’s Board (the “Board”) governs the System for all of the City and County. 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 governing board includes three County Commissioners, three City Councilors, the Mayor of the City and a Village of Los Ranchos de Albuquerque Trustee as an Ex Officio member. The current members of the Board are as follows: Councilor Trudy E. Jones, Chair; Commissioner Debbie O’Malley, Vice-Chair; Mayor Timothy M. Keller; Councilor Pat Davis; Commissioner Steven Michael Quezada; Councilor Klarissa J. Peña, Commissioner Lonnie C. Talbert and Trustee Pablo R. Rael, Ex-Officio (non-voting). The Executive Director of the Water Authority is Mark Sanchez.

The Water Authority is focused regionally on providing a safe and sustainable water supply to its service area for the next 100-years. The new water supply plan, entitled “Water 2120 Securing our Future,” consists of multiple policies to guide water resources management for the Water Authority including additional water conservation, reuse for

irrigation and indirect potable reuse, protection of watersheds and the environment. The plan also includes preserving and protecting the aquifer for the long-term by adopting a new groundwater management plan that reduces overall use of the aquifer and preserves portions of it for generations to come. The Water Authority utilizes an asset management approach to infrastructure including replacing or renovating existing surface and groundwater treatment and distribution systems and sewer collection and wastewater treatment facilities. In addition, the Water Authority is working towards realizing better management efficiencies for rate payers and providing long range planning and delivery for water and wastewater in the service area.

Joint Water and Sanitary Sewer System

The 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 water customers of the Water System. As of January 1, 2018, 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 2017, the Water Authority's water resources use consisted of 28.9% from groundwater and 69.9% from San Juan-Chama surface water and 1.5% from reuse of treated effluent for irrigation. The groundwater supply is produced from 60 wells grouped in 17 well fields located throughout the City's metropolitan area and the surface water is diverted from the Rio Grande. Total well production capacity is approximately 255 million gallons per day ("MGD"). Eliminating high arsenic wells (those greater than 10 parts per billion arsenic) results in available production capacity of 176 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 System's sanitary sewer component 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 for nutrient removal, final clarification, and effluent ultraviolet disinfection prior to discharge in the Rio Grande. See "JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY."

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 2018 Bonds are set forth in the following table.

PRINCIPAL AMOUNT OF SERIES 2018 BONDS.....	\$75,085,000.00
Reoffering Premium	<u>9,556,201.75</u>
TOTAL SOURCES OF BOND PROCEEDS	
	<u>\$84,641,201.75</u>
USES OF BOND PROCEEDS:	
Deposit to Acquisition Fund.....	\$84,000,000.00
Underwriters' Discount ⁽¹⁾	219,762.41
Costs of Issuance ⁽²⁾	<u>421,439.34</u>
TOTAL USES OF BOND PROCEEDS.....	<u>\$84,641,201.75</u>

(1) See "UNDERWRITING".

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

The Project

Proceeds of the Series 2018 Bonds will be allocated to the project as follows: (i) \$56 million of Bond proceeds will be used for capital projects under the Water Authority's Decade Plan, (ii) \$12 million for special projects including clarifiers, (iii) \$9 million for the Water Authority's consolidated customer services and filed operations, (iv) \$2 million for intellectual technology projects, (v) \$2 million for aquifer storage and recover (large scale), and (vi) \$3 million for the solids dewatering plant. Proceeds of the Series 2018 Bonds will also be used to pay costs of issuance of the Series 2018 Bonds.

DESCRIPTION OF THE SERIES 2018 BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2018 Bonds. This summary is qualified in its entirety by reference to the Bond Ordinance and the Series 2018 Bonds. See "DESCRIPTION OF BOND ORDINANCE" in APPENDIX C. Copies of the form of the Bond Ordinance are available from the Water Authority upon request.

The Series 2018 Bonds will be dated the date of initial delivery to the Underwriters. Interest on the Series 2018 Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2019, with a record date of the fifteenth day of the calendar month preceding each January 1 and July 1. The Series 2018 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 2018 Bonds will be issued in denominations of \$5,000 or integral multiples thereof.

Purpose of the Bonds

Proceeds from the sale of the Series 2018 Bonds will be used to provide funds for (i) acquiring additional System assets and extending, repairing, replacing and improving the System, and (ii) payment of costs of issuance of the Series 2018 Bonds.

Authority for Issuance

The Series 2018 Bonds are issued under the authority of and pursuant to the Constitution and laws of the State, the Bond Ordinance, and the Resolution, each adopted on September 19, 2018, delegating the authority to approve final sale terms to an authorized delegate of the Water Authority (the "Delegate"). The Delegate executed the Bond Purchase Agreement between the Water Authority and the Underwriters finalizing the sale of the Bonds on October 16, 2018.

Security and Sources of Payment for the Bonds

Special Limited Obligations . . . The Series 2018 Bonds are special, limited obligations of the Water 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 2018 Bonds are outstanding, the Bond Ordinance prohibits the Water Authority from issuing additional System Obligations with a lien on Net Revenues prior and superior to the lien of the Series 2018 Bonds. System Obligations with a lien on Net Revenues on parity with the Series 2018 Bonds or subordinate thereto may be issued under certain circumstances as set forth in the Bond Ordinance.

Net Revenues . . . Net Revenues are defined in the Bond Ordinance as 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 Water 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 "JOINT WATER AND SANITARY SEWER SYSTEM" and "SECURITY AND SOURCES OF PAYMENT."

Terms of the Bonds

Payments . . . The Series 2018 Bonds will be dated the date of initial delivery to the Underwriters identified on the cover page hereof. Interest on the Series 2018 Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2019. The Series 2018 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 hereof.

Record Date . . . The record date for determining to whom is payable the interest on the Series 2018 Bonds is the fifteenth day of the calendar month preceding each January 1 and July 1.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent (identified herein), if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the register at the close of business on the last business day next preceding the date of mailing of such notice.

Denominations . . . The Series 2018 Bonds will be issued in denominations of \$5,000, or integral multiples thereof.

Redemption Prior to Maturity

Optional Redemption . . . The Series 2018 Bonds maturing on and after July 1, 2027 may be optionally redeemed, in whole or in part, at any time, on or after July 1, 2026, upon the payment of the principal amount of the Series 2018 Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption. Interest on any Series 2018 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 2018 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 2018 Bonds called for redemption is not received by that time, (i) the Paying Agent will redeem only those Series 2018 Bonds for which the redemption price was received and the Series 2018 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 2018 Bonds for which the redemption price was not received and those Series 2018 Bonds will not be redeemed. The Registrar (identified herein) will give notice to the owners of the Series 2018 Bonds not redeemed in the manner in which the notice of redemption was given, identifying the Series 2018 Bonds previously called for redemption which were not redeemed and stating that the redemption did not take place with respect to those Series 2018 Bonds, and the Registrar will promptly return any Series 2018 Bonds not redeemed to the owners thereof.

Notice of Redemption . . . Notice of redemption shall be given by the Registrar (defined herein) by sending notice thereof to the registered Owner of each Series 2018 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 2018 Bonds of a series subject to redemption will be redeemed at any one time, the Series 2018 Bonds to be redeemed will be selected by the Registrar in the manner and from the series and maturities designated by the Water Authority. If less than all of the Series 2018 Bonds within a maturity will be redeemed, the Series 2018 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 2018 Bond of such series to be redeemed and the portion of that Series 2018 Bond not to be redeemed are both to be in Authorized Denominations.

Defeasance

The Bond Ordinance provides for the defeasance of the Bonds when payment of the principal amounts of the Bonds plus accrued interest on the Bonds to their due date (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the Water Authority will have no further responsibility with respect to amounts available to such paying agent, or other authorized escrow agent, for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent, or other authorized escrow agent, to receive payment when due on the Defeasance Securities. The Bond Ordinance provides that Defeasance Securities means (i) direct, noncallable

obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the Water Authority adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, or (iv) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Defeasance Securities, will be maintained at any particular rating category.

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 Water Authority believes to be reliable, but none of the Water 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 S&P Global Ratings 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 Water 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 2018 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2018 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2018 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 2018 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 2018 Bonds, except in the event that use of the book-entry system for the Series 2018 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2018 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 2018 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 2018 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2018 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 2018 Bonds are in the book-entry only system, redemption notices will be sent to DTC. If less than all of the Series 2018 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 2018 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 2018 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 2018 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 Water 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 Water 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 2018 Bonds at any time by giving reasonable notice to the Water Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2018 Bonds are required to be printed and delivered.

The Water 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 2018 Bonds will be printed and delivered to the Beneficial Owners.

Outstanding Obligations

Senior Obligations . . . Upon issuance, the Series 2018 Bonds will have a lien on Net Revenues that is on parity with the lien thereon and pledge thereof securing the following series of Outstanding Senior Obligations:

- 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;
- Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2015;
- Senior Lien Joint Water and Sewer System Refunding and Improvement Revenue Bonds, Series 2017;

- New Mexico Finance Authority Drinking Water State Revolving Fund Loan Agreement #4200 (2018); and
- New Mexico Finance Authority Drinking Water State Revolving Fund Loan Agreement #4202 (2018).

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 2018 Bonds is expected to be approximately \$552,507,397.

Subordinate Obligations . . . Upon issuance, the Series 2018 Bonds will have a prior and superior lien on and pledge of Net Revenues that is senior to the lien thereon and pledge thereof securing the following series Outstanding Subordinate Obligations:

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

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 Obligations.” The total principal amount of the Outstanding Subordinate Obligations as of September 1, 2018 was \$65,725,187.

Super Subordinate Obligations . . . The Water Authority has no Outstanding Super Subordinate Obligations.

Other Obligations . . . 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, 2017 is \$7,579,189.

For more information related to the Water Authority and its outstanding obligations, 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, 2017” is available from the New Mexico State Auditor and on the Water Authority website at <http://www.abcwua.org>. An excerpt from the 2017 audit is included in APPENDIX A to this Official Statement.

Issuance of Additional System Obligations

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

Senior Obligations . . . The Bond Ordinance permits the Water 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 Water Authority must meet the following tests prior to the issuance of additional Senior Obligations:

- (1) The Water 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 Water 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 of the Water Authority 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 Water 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 Water Authority, subject to the following requirements, to issue additional System Obligations with a lien on and pledge of Net Revenues subordinate to the lien thereon and pledge thereof securing the Senior Obligations. See “SECURITY AND SOURCES OF PAYMENT – Outstanding System Obligations – Subordinate Obligations”.

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

- (1) The Water 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
- (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

(1) This requirement is applicable only for so long as the Series 2009A-1 Bonds, Series 2013A&B Bonds, 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 Water Authority shall be required to only meet the tests set forth in (i) and (iii) under paragraph (1).

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 Water 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 of the Water Authority 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 Water 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 Subordinate Obligations . . . The Water Authority may issue Super Subordinate Obligations with a lien on the Net Revenues subordinate to the liens of the Senior Obligations and the Subordinate Obligations. The Water Authority is not required to meet any threshold tests prior to the issuance of Super Subordinate Obligations. In addition, there is no minimum debt service coverage requirement established for super subordinate lien obligations.

Offering and Delivery of the Bonds

The Series 2018 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 October 31, 2018.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2018 Bonds, Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Bond Counsel, will deliver the bond opinion a form of which is included in APPENDIX D hereto. Certain legal matters relating to the Series 2018 Bonds will be passed on for the Water Authority by its 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 their counsel, Norton Rose Fulbright US LLP. See “LEGAL MATTERS.”

RBC Capital Markets, LLC (“RBC” or the “Financial Advisor”) is employed as Financial Advisor to the Water Authority in connection with the issuance of the Series 2018 Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Series 2018 Bonds is contingent upon the issuance and delivery of the Series 2018 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 or completeness 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.

Other Information

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

References to web site addresses presented herein are for informational purposes only and may be in the form of hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in the Rule.

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 Water Authority and the owners of any of the Series 2018 Bonds.

RISK FACTORS

Each prospective investor in the Series 2018 Bonds should read this Official Statement in its entirety, including the Appendices hereto. The following is a discussion of certain investment considerations that should be considered by any prospective purchaser of the Series 2018 Bonds prior to an investment in the Series 2018 Bonds. For example, the ability of the Water Authority to pay principal of and interest on the Series 2018 Bonds depends primarily upon the receipt by the Water Authority of sufficient Net Revenues. Some of the following events could prevent the Water Authority from receiving a sufficient amount of Net Revenues to enable it to pay the principal of and interest of the Series 2018 Bonds. Such discussion is not, and is not intended to be, exhaustive and should be read in conjunction with the other parts of this Official Statement, including the Appendices hereto. Particular attention should be given to the considerations described below which, among others, could affect the receipt of Net Revenues to pay debt service of the Series 2018 Bonds, and which could also affect the marketability of the Series 2018 Bonds to an extent that cannot be determined.

Limited Obligations

The obligation of the Water Authority to pay debt service on the Series 2018 Bonds is a limited obligation of the Water Authority and is not secured by a legal or equitable pledge or charge or lien upon any property of the Water Authority or any of its income or receipts, except the Net Revenues (as further discussed herein). The obligation of the Water Authority to pay debt service on the Series 2018 Bonds does not constitute an obligation of the Water Authority to levy or pledge any form of taxation or for which the Water Authority has levied or pledged any form of taxation or make any appropriation for their payment. **The Water Authority does not have any taxing power.** The Water Authority is obligated under the Bond Ordinance to pay debt service on the Series 2018 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), population fluctuations, costs associated with conforming to environmental regulations, general and local economic conditions, and changes in State or federal 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 Water Authority, the ability of the Water Authority to provide water and wastewater service to its customers, the ability of the Water Authority to establish,

maintain and collect charges for the water and wastewater service to its customers and the ability of the Water Authority to establish, maintain and collect rates and charges sufficient to pay debt service on the Series 2018 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, regulatory compliance, labor and administration can substantially affect System expenses. Although the Water Authority has covenanted to prescribe, revise and collect rates and charges in amounts sufficient to pay debt service on the Series 2018 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 Water 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 publicly owned 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 Water 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 2018 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 Water 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 cybersecurity breaches, vandalism, sabotage, or terrorist activities may adversely impact the operations and finances of the System. There can be no assurance that the Water 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. With these concerns in mind, the Water Authority completed a vulnerability assessment in mid-2018 and will be implementing the recommended security measures over the next three fiscal years. The Water Authority has obtained appropriate insurance coverage and established reserve funds, which may be used by the Water 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

Major economic disruptions and recession have adversely affected the economic activity of the region in general, resulting in decreased economic activity, increased unemployment and a reduction in residential and commercial construction. The Water 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 2018 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 2018 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.

SECURITY AND SOURCES OF PAYMENT

Special, Limited Obligations

The Series 2018 Bonds are special, limited obligations of the Water 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 2018 Bonds are equally and ratably secured by Net Revenues. The Series 2018 Bonds are being issued with a senior lien on Net Revenues on parity with the lien of the other Outstanding Senior Obligations. The Water Authority has the right, subject to meeting specified conditions, to issue additional Senior Obligations. The Bond Ordinance permits the Water 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 Water 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 2018 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 Water 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 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 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. Gross Revenues do 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 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 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 the table entitled “SYSTEM – DEBT SERVICE COVERAGE CALCULATION – FISCAL YEARS 2014-2018”.

Reserve Fund

No debt service reserve fund will be funded for the Series 2018 Bonds, nor has a debt service reserve fund been funded for any of the Water Authority’s Outstanding System Obligations.

Covenant as to Lien for Delinquent Charges

To the extent permitted by law, the Water 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 Water 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 Water Authority covenants in the Bond Ordinance to charge all purchasers of services of the System, including the Water Authority, the City and the County, and collect therefrom, reasonable and just rates sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the Series 2018 Bonds and all other Outstanding Senior Obligations and to pay 120% of the annual Debt Service Requirements on the Series 2018 Bonds and all other Outstanding Senior Obligations and all other Outstanding Subordinate Obligations (excluding accumulation of any reserves therefor).

The Water 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 Water 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 Water Authority. The Water Authority will request that the consultant or manager make recommendations, if any, as to revisions of the Water 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 Water Authority. So long as the Water Authority substantially complies with the recommendations of the consultant or manager on a timely basis, the Water 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 the table entitled “ESTIMATED TOTAL COMBINED DEBT SERVICE AND COVERAGE RATIOS” under this caption.

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Outstanding System Obligations

Senior Obligations . . . Upon issuance, the Series 2018 Bonds will have a senior lien on Net Revenues. System Obligations with a senior lien on Net Revenues as of October 16, 2018 are shown in the table on the following page:

OUTSTANDING SENIOR OBLIGATIONS AS OF OCTOBER 16, 2018

<u>System Issue</u>	<u>Principal Amount of Original Issue</u>	<u>Outstanding Principal Amount</u>
Revenue Bonds, Series 2009A-1	\$135,990,000	\$8,395,000
NMFA – Drinking Water State Revolving Fund Loan Agreement (2009)	1,010,000	672,397
NMFA – Public Project Revolving Fund Loan Agreement (2011)	53,400,000	32,120,000
Revenue Bonds, Series 2013A-B	118,215,000	74,685,000
Revenue Bonds, Series 2014A	97,270,000	79,995,000
Revenue Bonds, Series 2015	211,940,000	196,710,000
Revenue Bonds, Series 2017	87,970,000	84,090,000
NMFA – Drinking Water State Revolving Fund Loan Agreement #4200 (2018)	1,010,000	505,000
NMFA – Drinking Water State Revolving Fund Loan Agreement #4202 (2018)	1,000,000	250,000
Revenue Bonds, Series 2018	75,085,000	<u>75,085,000</u>
Total Senior Obligations		<u><u>\$552,507,397</u></u>

Subordinate Obligations . . . System Obligations payable on a subordinate basis from Net Revenues, as of October 16, 2018 are shown below:

OUTSTANDING SUBORDINATE OBLIGATIONS AS OF OCTOBER 16, 2018

<u>Obligation</u>	<u>Principal Amount of Original Issue</u>	<u>Outstanding Principal Amount</u>
New Mexico Finance Authority Drinking Water Loan (2008)	\$9,627,877	\$6,860,187
Revenue Bonds, Series 2014B	87,005,000	<u>58,865,000</u>
Total Subordinate Obligations		<u><u>\$65,725,187</u></u>

DEBT SERVICE REQUIREMENTS FOR THE SERIES 2018 BONDS

The following tables show the annual Debt Service Requirements on the Series 2018 Bonds for each period ending on July 1.

\$75,085,000 SERIES 2018 BONDS

Period Ending (July 1)	Principal Amount	Interest	Total Debt Service
2019	--	\$2,513,262	\$2,513,262
2020	\$5,285,000	3,754,250	9,039,250
2021	5,550,000	3,490,000	9,040,000
2022	5,825,000	3,212,500	9,037,500
2023	6,120,000	2,921,250	9,041,250
2024	6,425,000	2,615,250	9,040,250
2025	6,745,000	2,294,000	9,039,000
2026	7,080,000	1,956,750	9,036,750
2027	7,435,000	1,602,750	9,037,750
2028	7,810,000	1,231,000	9,041,000
2029	8,200,000	840,500	9,040,500
2030	<u>8,610,000</u>	<u>430,500</u>	<u>9,040,500</u>
	<u>\$75,085,000</u>	<u>\$26,862,012</u>	<u>\$101,947,012</u>

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TOTAL COMBINED DEBT SERVICE AND COVERAGE RATIOS

The following table shows the total combined debt service and coverage ratio for each period ending on July 1 for the Series 2018 Bonds and all other Outstanding System Obligations through their final maturity dates.

<u>Period End (July 1)</u>	<u>Outstanding Senior Lien Debt Service</u>	<u>Series 2018 Bonds Debt Service</u>	<u>Combined Senior Lien Debt Service</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>
2019	\$69,509,825	\$2,513,262	\$72,023,087	\$11,669,460	\$83,692,547	\$128,124,948	1.78x	1.53x
2020	63,694,825	9,039,250	72,734,075	11,397,037	84,131,112	128,124,948	1.76x	1.52x
2021	64,126,815	9,040,000	73,166,815	11,005,031	84,171,846	128,124,948	1.75x	1.52x
2022	57,802,065	9,037,500	66,839,565	10,793,287	77,632,852	128,124,948	1.92x	1.65x
2023	58,148,401	9,041,250	67,189,651	10,441,563	77,631,214	128,124,948	1.91x	1.65x
2024	53,085,152	9,040,250	62,125,402	10,079,542	72,204,943	128,124,948	2.06x	1.77x
2025	47,843,902	9,039,000	56,882,902	9,717,906	66,600,808	128,124,948	2.25x	1.92x
2026	42,655,653	9,036,750	51,692,403	651,185	52,343,588	128,124,948	2.48x	2.45x
2027	31,985,705	9,037,750	41,023,455	651,215	41,674,670	128,124,948	3.12x	3.07x
2028	23,835,150	9,041,000	32,876,150	651,245	33,527,395	128,124,948	3.90x	3.82x
2029	23,844,888	9,040,500	32,885,388	651,256	33,536,644	128,124,948	3.90x	3.82x
2030	16,953,547	9,040,500	25,994,047	<u>651,308</u>	26,645,355	128,124,948	4.93x	4.81x
2031	16,956,070		16,956,070		16,956,070	128,124,948	7.56x	7.56x
2032	16,898,453		16,898,453		16,898,453	128,124,948	7.58x	7.58x
2033	16,893,202		16,893,202		16,893,202	128,124,948	7.58x	7.58x
2034	8,528,377		8,528,377		8,528,377	128,124,948	15.02x	15.02x
2035	2,471,340		2,471,340		2,471,340	128,124,948	51.84x	51.84x
2036	2,467,528		2,467,528		2,467,528	128,124,948	51.92x	51.92x
2037	1,394,214		1,394,214		1,394,214	128,124,948	91.90x	91.90x
2038	1,392,965		1,392,965		1,392,965	128,124,948	91.98x	91.98x
2039	43,715		43,715		43,715	128,124,948	2,930.90x	2,930.90x
2040	43,716		43,716		43,716	128,124,948	2,930.88x	2,930.88x
TOTAL	<u>\$620,575,509</u>	<u>\$101,947,012</u>	<u>\$722,522,521</u>	<u>\$78,360,034</u>	<u>\$800,882,555</u>			

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

**SYSTEM
DEBT SERVICE COVERAGE CALCULATION
FISCAL YEARS 2014-2018**

	<u>2018⁽¹⁾</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total operating revenues	\$226,396,492	\$215,193,982	\$210,056,776	\$192,311,627	\$182,350,427
Non-operating revenues (expenses):					
Interest	483,793	86,073	155,431	44,453	75,920
Expansion charges	10,397,749	8,545,978	9,256,938	7,541,201	7,872,237
Other Expenses	-	-	-	-	-
Other Revenues	<u>3,687,967</u>	<u>3,217,905</u>	<u>7,304,796</u>	<u>3,936,638</u>	<u>8,935,575</u>
Total adjusted revenues	<u>\$240,966,001</u>	<u>\$227,043,938</u>	<u>\$226,773,941</u>	<u>\$203,833,919</u>	<u>\$199,234,160</u>
Total operating expenses	\$202,889,542	\$198,769,769	\$191,539,658	\$197,155,094	\$198,664,257
Less:					
Franchise fees	-	-	-	-	-
Bad debt expense	-	-	-	-	(56,973)
Non-capitalized system obligations	(7,586,879)	(5,795,924)	(4,285,103)	(6,428,665)	(5,641,663)
OPEB Life Insurance Benefits	-	-	-	(34,339)	-
Depreciation	(82,461,610)	(81,648,334)	(80,357,265)	(83,094,979)	(84,788,418)
Amortization	-	-	-	-	-
Total adjusted operating expenses	<u>\$112,841,053</u>	<u>\$111,325,511</u>	<u>\$106,897,290</u>	<u>\$107,597,111</u>	<u>\$108,177,203</u>
Release from Rate Stabilization Fund	-	-	-	-	-
Net revenues available for debt service	<u>\$128,124,948</u>	<u>\$115,718,427</u>	<u>\$119,876,651</u>	<u>\$96,236,808</u>	<u>\$91,056,957</u>
Total senior debt service	<u>\$42,812,915</u>	<u>\$48,989,966</u>	<u>\$53,957,932</u>	<u>\$47,351,384</u>	<u>\$67,968,843</u>
Senior debt service coverage	2.99x	2.36x	2.22x	2.03x	1.34x
Subordinate debt service	<u>\$14,552,587</u>	<u>\$13,177,074</u>	<u>\$5,004,682</u>	<u>\$3,838,983</u>	<u>\$1,316,774</u>
Combined total debt service	<u>\$57,365,502</u>	<u>\$62,167,041</u>	<u>\$58,962,614</u>	<u>\$51,190,367</u>	<u>\$69,285,617</u>
All in debt service coverage	2.23x⁽²⁾	1.86x	2.03x	1.87x	1.31x

⁽¹⁾ Unaudited.

Source: Albuquerque Bernalillo County Water Utility Authority.

JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY

Water System

Surface water from the San Juan-Chama Project that is utilized through the San Juan-Chama Drinking Water Project is the primary source of potable water supply for the Water Authority. Groundwater is used to supplement surface water supplies to meet peak demands and to provide supply during drought periods or other times when surface water is not available. The Water Authority also owns and operates two non-potable water systems to provide irrigation and industrial water in the service area. In calendar year 2017, the Water Authority's water resources use consisted of 28.90% from groundwater and 69.6% from San Juan-Chama surface water and 1.50% 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 255 million gallons per day ("MGD"). Eliminating high arsenic wells (those greater than 10 parts per billion arsenic) results in available production capacity of 176 MGD. Maximum historical peak day demand is 214 MGD. Peak day demand for 2017 was 144 MGD. The Water Authority also has four arsenic treatment facilities that remove naturally occurring arsenic from ground water. Each well field includes chlorination for disinfection as required by the Safe Drinking Water Act.

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-one (61) 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 128 boosters, with a total capacity of 748 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 Water 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 Water Authority's pumping to 132,000 acre-feet per year. The 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 Water 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 Water Authority acquired New Mexico Utilities, Inc. in 2009.

The average annual groundwater withdrawal for the five years ending in Calendar Year 2017 was 42,808 acre-feet with a maximum occurring in Calendar Year 2013. Additionally, the Water 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, pre-1907 water rights of 4,916.7 acre-feet, vested water rights of 17,875 acre-feet from the New Mexico State Engineer's Rio Grande Basin declaration in 1956, and other native 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 Water Authority also has approximately 155,000 acre-feet of San Juan-Chama water (as of August 2018) from prior year deliveries stored in reservoirs located in northern/central New Mexico (Abiquiu and Heron Reservoirs). In July 2003, the Water Authority began diversions of San Juan-Chama water under the Non-Potable Surface Water Reuse Project.

The total surface water diversions for Calendar Year 2017 were 68,706 acre-feet with an average of 55,380 acre-feet over the last five years.

The Water Authority believes that water received pursuant to the contract for San Juan-Chama water and the native water 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 (“GPCD”) 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 was approximately 128 GPCD (during Calendar Year 2017), down from an average of 250 GPCD when compared to the period of 1987 through 1993. The Water Authority believes this decrease can be attributed to the Water 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 40 feet and it is predicted to continue to rise for the next ten years. The San Juan-Chama Drinking Water Project provides Water 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 Water 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 Water Authority’s wastewater return flows were sufficient to offset the annual seepage from the Rio Grande associated with the Water Authority’s groundwater pumping.

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 Water 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 Water 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 Water 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 Water 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 completed the legal process. The Water 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 concluded 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 the City. 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 numerous droughts, the water supply is increasing in the City's area as a result of the Water Authority's transition to surface water (San Juan-Chama Drinking Water Project), reuse and significant water conservation efforts. To date, the Water Authority has saved more than 1,000,000 acre-feet of ground water.

Following the past successful water planning work in 1997 and 2007, in September 2016 the Water Authority Board adopted Water 2120. Water 2120 is a long-range water supply plan that 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 Water Authority's understanding of the new water resources to 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 Water 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 Water Authority with additional water conservation. Additional water reuse and storage provide flexibility for the future along with increased ASR (defined below). Watershed restoration and management are also part of the new

plan to ensure the Water Authority is 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. ASR is another water resources management tool that the Water Authority is implementing to ensure a safe and sustainable water supply. The Water 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 Water Authority received the full-scale permit for the Bear Canyon ASR Project and began regular operations in 2014. In 2015, the Water Authority recovered 1,357 acre-feet from the Bear Canyon storage account. The Water Authority 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 provide for additional storage that will assist in further expanding the drought supply for the Water Authority. The large-scale ASR project is currently under construction and will begin operations in early 2019. 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 completed in phases and is managed by the Bernalillo County Public Works Department. The Water Authority is the significant financial sponsor of the project. The project will construct water system infrastructure in the Southwest Valley of the 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 Water Authority contributed \$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 Water 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 Water Authority committed to providing \$8.4 million. The Water Authority and County are partnering to complete Phase VII of the water line project in the Los Padillas area. The Water Authority contributed \$250,000 in addition to the labor and equipment to install the water lines. The County contributed \$1.7 million toward the project which is scheduled to continue throughout the remainder 2018. The Water Authority appropriated an additional \$ 2.575 million for the next phase of the Los Padillas area which we anticipate should complete Phase VII.

New Arsenic Standard Applicable to Water Supply . . . The 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 Water 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.

Since 2009, the Water Authority continues to be in compliance with EPA’s arsenic regulations but 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 Water 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 Water 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 GCPD to achieve the 30% conservation savings goal. At the end of 2005, Water Authority customers had reduced their per capita use 33% compared with use during the established baseline period.

In 2004, the Water 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 GPCD. This goal was achieved three years early in 2011.

In 2013, the Water 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 Water Authority Board. The new elements consist of increased public education, “test your toilet month,” new rebate programs, and revisions to the xeriscape program. In 2017, usage was reduced to 128 GPD. As part of Water 2120, the Water Authority adopted a new conservation goal of 110 GPCD by 2037. In March 2018, an updated water conservation plan was adopted which revises the rebate programs and places a greater emphasis on outdoor efficiency in order to achieve the new goal.

Elements of the current long-term water conservation strategy will stay in place including public education and marketing effort, converting high water use landscaping with xeriscaping, replacing high water use washing machines with low use models, installing rain water harvesting equipment, rain sensors, and more efficient sprinkler system heads. Free irrigation audits are available to all customers. The Water Authority has developed water management software to assist large water users such as Albuquerque Public Schools, the City, and the County in tracking and reducing their water usage. Finally, the Water 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 most successful water conservation programs in the United States. The Water Authority has imposed 5% rate increases in Fiscal Years 2012, 2014, 2015, 2016 and 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 the 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 Water Authority started its use of the San Juan-Chama Project water. The Water 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 Water 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 the County. The Water Authority has plugged or discontinued use of wells that were affected by the various contamination sites. Additionally, the Water 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 2017 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 the Southeast portion of the City. 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 and began utilizing a groundwater treatment system in 2015 which utilizes three extraction wells located inside the contamination plume. The Air Force conducts quarterly groundwater monitoring of 138 monitoring wells and semi-annual monitoring of 284 soil vapor monitoring points. The Water Authority’s groundwater supply remains safe and has not experienced contamination. In July 2017, the Air Force completed a Risk Assessment Report which analyzed the potential for adverse impacts on human health or the environment as a result of the contamination. The risk assessment found no adverse health or ecological affects from the contamination based upon current land use. The Air Force, New Mexico Environment Department, and the Water 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 Water 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. For additional information concerning the Air Force fuel spill, please see www.kirtlandjetfuelremediation.com.

Drought Relief Measures . . . The Water Authority adopted the City’s Drought Management Strategy when the Water Authority was created in 2004. The Drought Management Strategy was updated and approved over the years by the Board, most recently 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. In March 2018, the Drought Management Strategy was renamed “The Plan for Customer Demand Reduction During Drought” and was incorporated into the water conservation plan. All elements of the plan remained the same which identified four levels of drought as follows: 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 System’s water component 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 2013-2017, the Water System supplied the following volumes to customers within the service area including contributions from both surface water and groundwater supplies:

**USAGE⁽¹⁾
2013-2017**

<u>Calendar Year</u>	<u>Gallons Produced</u> (in 000s)	<u>Gallons Billed</u> (in 000s)	<u>Percentage</u> Billed
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	28,250,591	91.96%
2017	30,895,000	28,357,626	91.79%

- ⁽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. In addition, the above usage figures do not account for reuse of non-potable water for reuse as part of the Southside Water Reuse Project.

Source: Albuquerque Bernalillo County Water Utility Authority

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The top ten water customers of the System are:

WATER SYSTEM TOP TEN CUSTOMERS⁽¹⁾
Fiscal Year 2017

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total FY 2017 Revenue</u>	<u>% of Total FY 2017 Revenue</u>
City of Albuquerque	2,884,365	\$9,134,660	5.98%
Albuquerque Public Schools	742,653	3,169,349	2.08%
University of New Mexico	136,463	1,299,145	0.85%
Bernalillo County	231,851	828,899	0.54%
Kirtland Air Force Base	148,765	684,830	0.45%
Water Authority	86,736	324,528	0.21%
Lovelace Health Systems	93,113	291,783	0.19%
Central NM Community College	64,321	278,331	0.18%
Sumitomo	110,990	270,565	0.18%
Albuquerque Academy	104,396	255,004	0.17%
Total	<u>4,603,653</u>	<u>\$16,537,094</u>	<u>10.83%</u>
Total Revenue for Water System		<u>\$152,676,463</u>	

(1) Includes non-potable water customers.
Source: Albuquerque Bernalillo County Water Utility Authority.

Wastewater Plant and Collection System

The System's wastewater component 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 51.3 MGD over the past five years, but these figures do not reflect the amount of non-potable water being reused for irrigation and industrial use at the Southside Water Reclamation Plant. The Water Authority has an operational industrial pretreatment program approved by the EPA. The EPA recognized that the Water Authority's pollution prevention efforts have been largely responsible for the Water Authority maintaining compliance with strict standards contained in NPDES Permit #NM0022250. The Water Authority's wastewater effluent discharge consistently meets all NPDES permit requirements. In February 2017, the Water Authority submitted a NPDES permit renewal application. In February 2018, EPA issued a Proposed NPDES Permit and the Water Authority provided comments to EPA on June 25, 2018. To date, the Water Authority has not received a new NPDES permit.

The Water Authority received an Administrative Order (an "AO") 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 Water Authority received two additional AOs for an overflow which occurred on February 27, 2015 as a result of a major power failure. The first AO required that the Water 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 project completion report was filed with EPA. The second AO includes adoption of the Corrective Action Plan items that were scheduled to be completed within the next five years. All projects in the second AO have been completed and a project completion report was submitted to EPA in June 2018.

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 Water Authority continues to research how to sell its RECs to increase revenue.

The Water Authority currently manages wastewater sludge using two methods: surface disposal and production of compost. The Water Authority sells the compost, primarily to the State Department of Transportation. A 660-acre dedicated surface disposal site is used when seasonal market conditions are not favorable for sale of compost product. During 2017, 56% of all sludge produced at the treatment plant was beneficially recycled into compost and sold. The Water 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 entire laboratory is also accredited by the American Association for Laboratory Accreditation. The Water Authority reduces expenses by analyzing a majority of the bacteriological samples at the Water Authority’s internal water quality lab.

The following table sets forth the quantity of wastewater treated and customers served through the Wastewater System for Calendar Years 2013-2017:

**TREATED WASTEWATER
2013-2017**

<u>Calendar Year</u>	<u>Gallons Treated (in 000s)</u>	<u>Average # of Customers</u>
2013	20,378,630	192,387
2014	18,214,780	194,360
2015	18,122,990	193,922
2016	18,250,000	195,140
2017	18,597,000	196,921

Source: Albuquerque Bernalillo County Water Utility Authority.

The top ten wastewater customers of the System are:

**WASTEWATER SYSTEM TOP TEN CUSTOMERS
Fiscal Year 2017**

<u>Customer Name</u>	<u>Consumption Rate (Kgal)</u>	<u>Total Collected FY 2017 Revenue</u>	<u>% of Total FY 17 Revenue</u>
Kirtland Air Force Base	746,335	\$1,273,411	1.84%
University of New Mexico	566,858	901,821	1.31%
Albuquerque Public Schools	130,320	758,774	1.10%
Creamland Dairies	49,381	648,381	0.94%
City of Albuquerque	93,915	643,308	0.93%
Lovelace Health	56,804	196,583	0.28%
Bernalillo County	59,627	190,554	0.28%
Central NM Community College	29,383	113,967	0.16%
Sandia Peak Services	76,759	80,507	0.12%
Four Hills Mobile Home Park	33,565	73,920	0.11%
Total	\$1,842,947	\$4,881,225	7.07%
Total Revenue Wastewater System		\$69,101,505	

Source: Albuquerque Bernalillo County Water Utility Authority.

Management of the System

Water 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 Water Authority.

Mark Sanchez, Executive Director. Mr. Sanchez has been the Executive Director of the Water Authority since its inception in 2004, 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 water, reuse and wastewater, business and government policy, housing and community development, health, human and social services, job training and economic development. Mr. Sanchez serves as Chairman of the New Mexico Interstate Stream Commission, President of the National Association of Clean Water Agencies and is a member of the United States Environmental Protection Agency Drinking Water Advisory Council. He has been very active at the local, State and national levels on water, reuse and wastewater utility issues.

John M. Stomp, P.E., Chief Operating Officer. Mr. Stomp is responsible for the Water Authority's operations group including the water and wastewater treatment plants, wastewater collection systems and lift/vacuum stations, and water distribution and transmission lines. In addition, Mr. Stomp is responsible for managing the Planning and Engineering Division and the Compliance Divisions. 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 Water Authority as successor, since April 1996. Prior to employment with the Water 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 30 years. He has a Bachelor's and Master's Degree in Civil Engineering from the University of New Mexico. Mr. Stomp is a certified Level IV Water and Wastewater Operator in the State 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 Water Authority warehouse functions. He has approximately 30 years of financial and cost accounting experience. Prior to employment with the Water 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.

Hubert "H" Warren, Field Operations Manager. Mr. Warren has held the manager position since 2012. . He obtained his Bachelor of Business Administration from the University of New Mexico. His career has spanned over 21 years in the areas of operations, compliance, collections, construction, transition planning, automated meter reading implementation, smart water, billing systems, and rate studies. Prior to employment with the Water 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.

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 over 41 years of experience in planning, design, construction, and operations of water and wastewater facilities. Mr. Leder has a B.S. from the Johns Hopkins University, and an M.S. in Sanitary Engineering from the Georgia Institute of Technology.

David J. Price, P.E., Planning & Engineering Division Manager. Mr. Price has been in his current position since April 2010. Prior, he was the Chief Engineer for the Plant Division – Drinking Water. Before joining the Water Authority, 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 19 years of Information Technology experience, including work for the New Mexico State Judiciary, and as Deputy Chief Information Officer for the 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 Water 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 State 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's litigation section before joining the 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 30 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.

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 14 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.

Katherine M. Yuhas, Water Resources Division Manager. Ms. Yuhas has been in her current position since 2016. Prior to that she served as the Water Authority's Water Conservation Officer from 2003-2016. Ms. Yuhas has 23 years of experience working in water resources management in New Mexico. She holds a B.S. in Geology/Environmental Science from the University of Pennsylvania.

Administrative Services

The City provides certain services to the Authority pursuant to a Memorandum of Understanding ("MOU"), dated July 1, 2013 with an initial termination date of June 30, 2018, which has been extended for one year by mutual agreement. The City and the Authority intend to enter into another memorandum of understanding prospectively.

Since July 1, 2013, the operations of the Authority are largely autonomous from the City and County. 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 portion of the Bond proceeds will be utilized to continue to expand the Water Authority's independence from the City.

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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, 2014-2018.

	<u>2018⁽¹⁾</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
ASSETS					
Current Assets					
Cash and investments	\$148,798,235	\$125,990,458	\$101,195,934	\$68,886,433	\$23,118,415
Cash held for debt service	0	0	0	0	37,717,945
Accounts receivable	19,518,630	19,607,343	18,981,742	14,678,230	14,513,349
Due from other governments	-	1,295	447,969	932,227	2,616,356
Prepaid assets	27,705	57,380	0	0	0
Notes receivable	741,487	715,219	740,459	790,870	817,849
Total Current Assets	\$169,086,057	146,371,695	121,366,104	85,287,760	78,783,914
Noncurrent Assets					
Long-term receivables	4,863,339	4,174,174	3,958,777	3,754,006	3,946,792
Restricted Assets					
Cash and investments	9,467,562	56,956,621	46,529,971	77,114,772	31,848,311
Post-Employment life insurance benefit trust	0	0	0	798,900	818,273
Total Restricted Assets	14,330,901	61,130,795	50,488,748	81,667,678	32,613,376
Capital Assets, net of accumulated depreciation					
Buildings and other improvements	1,062,682,635	1,075,561,839	1,099,794,736	1,094,473,803	1,146,008,251
Purchased water rights	49,251,368	49,251,368	48,862,906	48,240,385	45,116,733
Land	25,204,443	25,170,378	25,170,378	25,724,125	25,702,293
Machinery and equipment	11,825,842	9,684,964	9,680,793	3,754,006	3,946,792
Construction work in progress	32,261,354	22,764,278	3,791,893	42,578,965	16,202,781
Total Capital Assets	1,181,225,642	1,182,432,827	1,187,300,706	1,220,391,650	1,245,562,198
Capitalized bond issuance costs	0	0	0	0	0
Total Noncurrent Assets	1,195,556,543	1,243,563,622	1,237,789,454	1,302,059,328	1,282,175,574
TOTAL ASSETS	1,364,642,600	1,389,935,317	1,359,155,558	1,387,347,088	1,360,959,488
DEFERRED OUTFLOWS OF RESOURCES					
Deferred amounts related to other post-employment benefits	851,337				
Deferred amounts related to pensions	12,103,929	20,395,732	3,020,719	6,425,778	0
Deferred amounts on refunding	20,142,951	23,089,446	23,114,769	25,878,691	0
Total deferred outflows of resources	33,098,217	43,485,178	26,135,488	32,304,469	0
LIABILITIES					
Current Liabilities					
Accounts payable	13,091,914	15,530,540	12,910,228	10,500,449	10,860,709
Accrued payroll	1,663,520	1,495,559	2,582,062	2,129,109	2,305,108
Claims payable, current portion	1,411,264	671,543	993,586	563,865	0
Accrued compensated absences	3,955,443	3,569,503	3,019,584	2,663,822	3,349,805
Deposits	818,630	766,608	687,857	727,676	766,419
Construction contracts payable	0	0	0	0	5,272,729
Current portion debt obligation bonds	49,210,000	37,930,000	37,265,000	35,530,000	24,735,000
Loan agreements/lines of credit	4,481,483	4,285,917	9,710,054	8,508,529	10,109,815
Water rights contract	1,206,021	1,170,372	1,135,776	1,102,203	1,069,622
Accrued interest payable	0	0	0	0	276,343
Accrued interest for debt obligations	11,894,018	12,726,908	13,278,888	12,568,850	13,326,311
Total Current Liabilities	87,732,293	78,146,950	81,583,035	74,294,503	66,822,789
Noncurrent Liabilities					
Debt obligations					
Bonds net premium/discounts	549,231,176	609,982,924	584,931,928	634,147,215	508,809,453
Loan agreements/line of credit	36,841,939	41,934,953	48,078,533	58,704,590	127,174,021
Water rights contract	5,202,796	6,408,817	7,579,189	8,714,965	9,817,168
Unamortized premium	0	0	0	0	23,863,736
Total Debt Obligations	591,275,911	658,326,694	640,589,650	701,566,770	645,800,642
Other Noncurrent Liabilities					
Claims payable, net of current position	2,078,628	2,280,290	1,429,794	1,188,165	0
Net pension liability	51,278,088	59,008,103	38,165,167	29,351,538 ⁽²⁾	0
Net post-employment benefit obligation liability	36,642,124	385,874	389,848	415,763	390,711
Accrued compensated absences	140,834	176,298	367,674	889,528	1,222,954
Total Other Noncurrent Liabilities	90,139,674	61,850,565	40,352,483	31,844,994	1,613,665
Total Noncurrent Liabilities	681,415,585	720,177,259	680,942,133	733,706,267	647,414,307
TOTAL LIABILITIES	769,147,878	798,324,209	762,525,168	807,706,267	714,237,096
DEFERRED INFLOWS OF RESOURCES					
Deferred amounts related to other post-employment benefits	8,204,942				
Deferred amounts related to pensions	3,483,273	1,089,646	1,095,992	11,502,989	0
NET POSITION					
Net investment in capital assets	564,662,740	560,765,911	568,244,966	576,677,611	595,695,430
Unrestricted	52,241,984	73,240,729	53,424,920	23,764,690	51,026,962
TOTAL NET POSITION	\$616,904,724	\$634,006,640	\$621,669,886	\$600,442,301	\$646,722,392

⁽¹⁾ Unaudited.

⁽²⁾ Due to the Water Authority's adoption of GASB Statement No. 68 *Accounting and Reporting Pensions*, which was amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, during Fiscal Year 2015.

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

The following table shows the historical revenues and expenditures for the System for Fiscal Years ended June 30, 2014-2018:

Revenues and Expenditures

	<u>2018⁽¹⁾</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues					
Charges for services	<u>\$226,396,492</u>	<u>\$215,193,982</u>	<u>\$210,056,776</u>	<u>\$192,311,627</u>	<u>\$182,350,428</u>
Operating Expenses					
General and administrative	64,227,419	63,307,749	59,910,588	61,106,551	-
Source of supply, pumping, treating, distr.	48,334,427	48,017,762	46,986,703	46,524,899	-
Non-capitalized major repair	7,586,879	5,795,924	4,285,103	6,428,665	-
Salaries and fringe benefits	-	-	-	-	50,381,058
Professional services	-	-	-	-	1,726,252
Utilities	-	-	-	-	15,076,188
Supplies	-	-	-	-	1,504,730
Fuels, repairs and maintenance	-	-	-	-	18,749,564
Chemicals	-	-	-	-	5,943,487
Contractual services	-	-	-	-	9,179,077
Franchise fees	-	-	-	-	6,714,627
Tort and other legal fees	-	-	-	-	2,306,928
Workman's compensation costs	-	-	-	-	351,186
Administrative fees other governments	-	-	-	-	271,588
Other operating expenses	-	-	-	-	1,671,153
Depreciation	82,461,610	81,648,334	80,357,265	83,094,979	84,788,418
Amortization	-	-	-	-	448,100
Bad debt expense	-	-	-	-	56,973
Total Expenses	<u>202,610,335</u>	<u>198,769,769</u>	<u>191,539,659</u>	<u>197,155,094</u>	<u>199,169,329</u>
Operating Income/Loss	<u>23,786,157</u>	<u>16,424,213</u>	<u>18,517,117</u>	<u>(4,843,467)</u>	<u>(16,818,901)</u>
Non-operating revenues (expenses)					
Interest on investments	483,793	86,073	155,431	44,453	159,870
Interest expense	(18,294,865)	(18,448,939)	(18,034,371)	(19,856,948)	(27,545,590)
Utility expansion charges	10,397,749	8,545,978	9,256,938	7,541,201	7,872,236
Debt issuance costs	-	(710,270)	-	(2,272,566)	(812,445)
Lease of stored water	78,537	1,181,658	1,615,215	99,627	3,536,037
Other revenues	<u>2,372,131</u>	<u>1,735,797</u>	<u>4,212,925</u>	<u>2,057,745</u>	<u>4,766,159</u>
Total non-operating income	<u>(4,962,655)</u>	<u>(7,609,703)</u>	<u>(2,793,862)</u>	<u>(12,386,488)</u>	<u>(12,023,733)</u>
Income (loss) before contributions	18,823,502	8,814,510	15,723,255	(17,229,955)	(28,842,634)
Capital contributions	<u>6,907,008</u>	<u>3,522,244</u>	<u>5,504,330</u>	<u>7,347,569</u>	<u>9,388,162</u>
Change in Net Position	25,730,510	12,336,754	21,227,585	(9,882,386)	(19,454,472)
Net Position July 1, as restated	<u>591,174,214⁽²⁾</u>	<u>621,669,886</u>	<u>600,442,301</u>	<u>610,324,687⁽³⁾</u>	<u>653,350,620</u>
Net Position June 30	<u>616,904,724</u>	<u>\$634,006,640</u>	<u>\$621,669,886</u>	<u>\$600,442,301</u>	<u>\$633,896,148</u>

⁽¹⁾ Unaudited.

⁽²⁾ Net position as of July 1, 2017 was restated to conform to GASB No. 75, reflecting an adjustment to record the Water Authority's net other post-employment liability.

⁽³⁾ Net position as of July 1, 2015 was restated to conform to GASB No. 68, reflecting an adjustment to record the Water Authority's net pension liability.

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

Operating Revenue

The following table outlines the Water Authority's revenue from water and wastewater charges and other operating revenue as measured in the Statement of Revenues, Expenses and Change in Net Position for the past five years.

REVENUE FROM WATER AND WASTEWATER CHARGES AND OTHER OPERATING REVENUE

Fiscal Year	Revenue from Water Charges		Revenue Wastewater Charges	Other Operating Revenue⁽³⁾	Total Operating Revenue
	For General Operations⁽¹⁾	For WRMS⁽²⁾			
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	140,551,140	-	68,166,636	1,339,000	210,056,776
2017	144,342,932	-	69,101,050	1,750,000	215,193,982
2018 ⁽⁴⁾	148,315,450	-	76,253,042	1,828,000	226,396,492

(1) The General Operations revenues are excluding franchise fees as revenue for the Water Authority. Franchise fees are a pass-through, and therefore should not be included as revenue for the Water Authority.

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

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

(4) Unaudited.

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, NMSA 1978 Sections 5-8-1 through 5-8-42, as amended from time to time, 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 Water Authority and the City. Under the Development Fees Act, the Water 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 Water 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 Water 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 herein.

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"	\$3,151	\$2,364
1"	5,251	3,939
1 ½"	10,502	7,877
2"	16,808	12,602
3"	33,608	25,266
4"	52,514	40,382
6"	105,031	80,769
8" & over	168,048	126,030

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

During Fiscal Years 2014 through 2018, the following revenue from the collection of UECs was received.

REVENUE FROM UTILITY EXPANSION CHARGES

<u>Fiscal Year</u>	<u>Total UEC Revenues</u>
2014	\$7,872,237
2015	7,541,201
2016	9,256,938
2017	8,545,978
2018	10,397,749

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

Water Authority policy requires that expansion or improvement of the System for development purposes be at no net expense to the Water 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 Water 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 Resource Charge

The Water Resource Charge ("WRC") is assessed by the Water 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 Water 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 Water Authority's Regional Water Plan and WRMS and other guiding principles adopted by the Water Authority. The amount of the WRC is adjusted annually by BCI or CCI as published by ENR. The WRC does not apply to non-potable water service. The Water Authority's rate consultant has reviewed the methodology used in the calculation in developing the WRC and has agreed to its development and it is one that is widely applied in the industry.

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The following table sets forth the current water resource charges.

CURRENT WATER RESOURCE CHARGES

<u>Meter Size</u>	<u>Water Resource Charge</u>
¾"	\$1,669
1"	2,793
1 ½"	5,564
2"	8,902
3"	17,806
4"	27,627
6"	55,760
8" & over	89,023

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 \$7 million for Fiscal Year 2018. Consistent with the Rate Stabilization Fund's intended use, the Water Authority withdrew \$4 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 Water 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 WRC 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 \$1.682 per unit for residential, commercial, industrial and institutional customers and \$0.878 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 Water 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 ("AWWA"), 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 Water Authority imposes all rates and charges through a water and wastewater rate ordinance (the “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 Water Authority is notified that the tenant will have payment responsibility). Property liens may be filed and foreclosed as provided by State law.

The Water 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 Water 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 Water 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 1.39%.

Rates and Charges of the System

The Water 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 (the “Amendments”) 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 Water Authority receives federal grant funds through the EPA, the requirements under the Amendments must be met. Accordingly, the Water 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 Water Authority’s water conservation efforts. Residential customers pay fixed water rates (depending on service size) between \$15.91 and \$3,028.15, while commercial customers pay between \$16.67 and \$3,141.01. For wastewater

service, residential customers pay a fixed wastewater rate (depending on service size) between \$10.53 and \$1,173.95, while commercial customers pay between \$13.03 and \$1,491.33.

Increases to Rates and Charges . . . The Water Authority has increased System rates and charges by the following percentage increases during Fiscal Years 2012-2018 as described below due to a decrease in consumption levels.

**IMPLEMENTED AND APPROVED
INCREASES IN RATES AND CHARGES**

<u>Fiscal Year</u>	<u>% Increase</u>		
	<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 2014 through 2018.

<u>Meter Size</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
¾"	171,395	184,743	185,894	182,232	183,398
1" and 1 ¼"	17,474	17,447	17,392	17,796	17,975
1 ½"	2,238	2,269	2,300	2,381	2,467
2"	2,303	2,349	2,386	2,509	2,575
3"	578	575	590	603	606
4"	270	276	278	282	284
6"	60	63	64	68	66
8" and over	42	40	41	42	43
Non-metered	-	-	-	4,302	4,485
Total	194,360	207,762	208,945	210,215	211,899

Source: Albuquerque Bernalillo County Water Utility Authority.

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HISTORY OF WATER USERS BY CLASS

<u>Class</u>	<u>Fiscal Year</u>				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Residential	174,193	186,461	187,479	181,814	183,018 7,851
Multi-Family	6,569	7,115	7,268	7,801	
Commercial	11,303	11,923	11,901	11,913	12,023
Institutional	2,196	2,150	2,187	3,650	3,680
Industrial	99	113	110	119	122
Other Meter	-	-	-	616	720
Solid Waste					
Only	-	-	-	1,362	1,365
Non-meter	-	-	-	2,940	3,120
Total	<u>194,360</u>	<u>207,762</u>	<u>208,945</u>	<u>210,215</u>	<u>211,899</u>

Source: Albuquerque Bernalillo County Water Utility Authority.

According to the Water Authority's records for Fiscal Year 2017, 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 System's wastewater and 7.05% of the total revenue of the System's wastewater.

During Fiscal Year 2017, 51.18% of billed water consumption was residential, while 15.52% was classified as commercial. The balance consisted of multi-family users consuming 16.73%, institutional users consuming 6.08%, industrial users at 1.20% and special contracts and hydrants meters at 9.27%.

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**SELECTED WATER/WASTEWATER SYSTEM STATISTICS
(CALENDAR YEAR)**

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Estimated Population (Service Area)	643,881	656,305	658,238	670,779	676,298
Number of Meters Billed	205,316	206,944	208,200	208,140	206,606
Estimated Persons Per Meter	3.14	3.17	3.16	3.22	3.27
Annual Pumpage (1,000 Gallons)	33,222,000	30,836,000	29,498,000	30,720,000	30,895,000
Annual Water Billed (1,000 Gallons)	28,113,371	28,075,612	27,195,260	28,250,591	28,357,626
Average Daily Pumpage (Gallons)	91,019,178	84,482,192	80,816,438	84,164,384	84,357,626
Peak Day Pumpage (Gallons)	157,000,000	144,000,000	146,000,000	159,000,000	150,600,000
Average Daily Production Per Meter (Gallons)	443	408	388	404	410
Well Pumping Capacity (per 24 Hour Period)	187,000,000	183,000,000	184,000,000	178,000,000	176,000,000
Storage Capacity (Gallons)	249,000,000	253,000,000	245,000,000	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	15,249	15,344	15,572	15,646	15,731
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	2,680	2,691	2,721	2,729	2,739
-Wastewater	1,875	1,879	1,900	1,904	1,908
Surface Water	37	37	37	37	37

⁽¹⁾ Estimated.

Source: Albuquerque Bernalillo County Water Utility Authority

Financial Management

Financial Policies . . . The Water Authority has implemented various financial policies to facilitate its performance based budgeting process which requires balanced budgets. The Water Authority expects to spend approximately \$54 million in Fiscal Year 2018, and increase \$3 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 Water 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 Water 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 Water Authority's budget process and Capital Implementation Program ("CIP") are described in greater detail below.

Budget Process . . . The Water Authority operates on a fiscal year basis, from July 1 through June 30. The Board adopted a Budget Ordinance on September 19, 2018 that provides for the formulation and approval of the Water 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 Water Authority's appropriations by fund. Expenditures may not legally exceed appropriations. The Water 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 Water 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 Water Authority's capital assets. Maintenance, rehabilitation, and replacement of assets are linked to the Water 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 Water 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.

Approved Fiscal Year 2018 Budget . . . The approved Fiscal Year 2018 budget is the Water Authority's financial plan for Fiscal Year 2018. The development of this financial plan has been guided by the Water Authority's Ten-year Financial Plan, Five-Year Goals, One-year Objectives, Performance Plan and the Guiding Principles. In the development of the approved budget, the Water Authority has taken a conservative financial approach to provide effective and efficient water and wastewater services balanced against projected resources, and is balanced, fiscally conservative and sound.

The Fiscal Year 2018 Budget 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 Water Authority generating the same or a greater amount in savings. This incentive program has been an effective tool in the reduction of the Water Authority's Workers Compensation expense in the last three fiscal years.

In the preparation of the Fiscal Year 2018 Budget, the Water Authority developed a maintenance of effort budget within the projected estimated revenues. Staffing levels have an increase of one net position in Fiscal Year 2018.

There is a 1% increase in other employee benefits. General operating expenditures increased by \$1.4 million. The most significant expense of the Water Authority continues to be debt service payments which will comprise 32% of the total operating expense in Fiscal Year 2018.

Revenue for Fiscal Year 2018 is estimated to be \$229.9 million, representing an increase of \$12.9 million from the budgeted Fiscal Year 2017 amount. The Fiscal Year 2018 Budget shows a net increase of one new position. Three labor unions represent 500 of the 633 Water Authority employees.

For Fiscal Year 2018 revenues are expected to be \$7 million over proposed expenditures, which include funding the Rate Stabilization Fund. This amount brought the Working Capital or Fund Balance to \$11.8 million at June 30, 2018 (unaudited). The Water Authority continues to strive to achieve a Fund Balance to 1/12 of the annual budgeted operating expenditures. For Fiscal Year 2018, \$2 million will be added to the Rate Stabilization Fund.

2019 Budget . . . Also submitted in a separate resolution was the CIP budget for Fiscal Year 2019. The appropriation for Fiscal Year 2019 for CIP is \$84.3 million. \$55 million was appropriated for the level one priority basic capital programs, an additional \$15 million appropriated for the covers for the large primary clarifiers at the Southside Water Reclamation Plant, \$0.62 million for vehicles and heavy equipment, \$5 million for growth related projects, and \$8.3 million is appropriated for special projects. The \$8.3 million for special projects is comprised of \$2 million for the Automated Meter Infrastructure (AMI), \$1.0 million for steel water line replacement, \$400,000 for various renewable energy projects, and \$5.0 million for the Consolidated Customer Services and Field Operations Facility.

The Fiscal Year 2019 Budget represents a financial plan to 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 Fiscal Year 2019 to improve services and gain operating efficiencies.

Capital Implementation Program . . . The blueprint for the Water 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 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 capital program budget.

The Water 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 Water 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 debt 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 Water Authority capital projects. UEC revenue is considered cash for purposes of meeting the 50% test.

Decade Plan . . . The current Decade Plan, Fiscal Year 2018 – Fiscal Year 2027, 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 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 2018 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 Water Authority's capital resources should be expended in order to maximize the benefit to rate payers. The Water 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 Water Authority. Project prioritization resulted from discussions within the Water Authority and with outside consultants engaged to assist the Water Authority in charting a path for its Basic Capital Program.

The internal assessment of the condition of the Water Authority's infrastructure and future system needs as well as changes in the external environment in which the Water Authority operates will necessarily lead to changes in revenue allocation over time. The next Decade Plan, Fiscal Year 2018 – Fiscal Year 2027, which was in place before the start of Fiscal Year 2018, reflects some change in priorities from the previous decade plan.

Asset Management Plan . . . The Water 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 Water 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 Water 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 Water 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, wastewater treatment plant, and groundwater and collection system facilities). The 10-year plans are generated to provide the Water Authority with a more accurate understanding of the short and intermediate-term renewal requirements. In Fiscal Year 2016, the Water Authority completed the planned 10-year asset management plans and will continue to improve on its asset management practices going forward.

In Fiscal Year 2019, the Water Authority continues to improve on its asset management practices by upgrading its Maximo® Enterprise Asset Management System/Computerized Maintenance Management System and integrating mobile work order technology to improve the accuracy of the asset data. The Water Authority will also be updating its UWAMP.

The Water Authority anticipates \$680 million in capital needs through Fiscal Year 2027.

CAPITAL NEEDS*

	<u>FY2018</u>	<u>FY2019</u>	<u>FY2020</u>	<u>FY2021</u>	<u>FY2022</u>	<u>FY2023</u>	<u>FY2024</u>	<u>FY 2025</u>	<u>FY 2026</u>	<u>FY 2027</u>	<u>Total</u>	<u>%</u>
Capital Needs	\$64,600	\$61,850	\$64,850	\$67,850	\$70,850	\$73,850	\$76,850	\$79,850	\$82,850	82,850	\$726,250	100%
Bond Proceeds	\$29,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$28,000	\$281,000	41%
Difference Funded with Cash	\$35,600	\$33,850	\$36,850	\$39,850	\$42,850	\$45,850	\$48,850	\$51,850	\$54,850	\$54,850	\$445,250	59%

* Projections are subject to change. Amounts indicated are rounded.

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 2018 growth program budget continues 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 Water Authority continues to participate in the AWWA'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 Water Authority in identifying what it does well and areas where improvement is necessary. The Water 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 Water Authority.

Successes and Benchmarks. . . 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 2017 this recognition included:

- Platinum Award for Utility Excellence – Association of Metropolitan Water Agencies.
- 2018 Source Water Protection Award – AWWA.
- Water Resources Utility of the Future Award.
- The National Association of Clean Water Agencies National Environmental Achievement Award for the Water Authority's school outreach and conservation education program.
- Water Environment Federation Public Communication and Outreach Award.
- Partnership for Safe Water – Distribution System Operations Directors Award.
- American Advertising Association Gold Award for the 2016 popular annual financial report.
- The Government Finance Officers Association ("GFOA") Distinguished Budget Presentation Award.
- GFOA Certificate of Achievement for Excellence in Financial Reporting (both Popular and Comprehensive).
- Recognition in the U.S. Water Alliance "Spotlight" for conservation and aquifer preservation efforts.

Other achievements in the preceding fiscal year include the debut of a new and improved online payment system; completion of a new large solar array to help power the utility's surface water treatment plant; successful rehabilitation of a well that had been taken off-line because of high arsenic levels; and groundbreaking on a major sewer realignment project in Southwest Albuquerque to improve flows and odor control. Additionally, the extensive multi-year, \$250 million refurbishment of the Southside Water Reclamation Plant continued on schedule. Water Authority representatives were also elected to become part of the Executive Board of the Rio Grande Water Fund and were invited to participate in the Water Research Foundation Emerging Opportunities Program.

Looking forward, the Water Authority must continue to spend \$76 million (2010 dollars) per year in 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 Water Authority. The CIP infrastructure renewal budget is scheduled to increase by \$3 million per year, an effort that started in Fiscal Year 2015.

The Water Authority continues to participate in AWWA Benchmarking program which allows the utility to compare its performance against other utilities at least every two years. The Water Authority utilizes performance measures or indicators to help guide the operating and capital budgets in prioritizing and allocating the Water Authority's financial resources. The Water Authority also uses these measures to help improve its operational efficiency and effectiveness through the One-Year Objectives.

Other Projects . . . The operational cornerstone of the Water 2120 is the San Juan-Chama Drinking Water Project, which will continue to have a major positive impact on the ground water resources in the Middle Rio Grande. After almost ten years of operation, the San Juan-Chama Drinking Water Project – 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 San Juan-Chama Drinking Water Project provided about 70% of all water distributed to Water Authority customers in calendar year 2017. The Water Authority's goal is to have the San Juan-Chama Drinking Water Project supply 70-75% of all customer demand in the future. Flow conditions in the Rio Grande may limit the ability to fully

realize this goal. At the end of calendar year 2017, the Water Authority still had more than two years of stored water available through the San Juan-Chama Drinking Water Project.

Customer Service Division (“CSD”) and Northwest Service Area (“NWSA”) have been successfully integrated into one group that handles call center, treasury, billing, new service applications, field operations and meter maintenance functions. CSD, Field Division – Distribution Section and NWSA work together to implement the Clevest mobile workforce management system, which provides a bridge for Maximo (work order and asset management) and Customer Care & Billing in order to create operating procedures for a paperless, real-time work order system, where field activities are dispatched, updated and closed out on a mobile platform. In addition, Clevest is used to manage line spots and schedule and record the preventative maintenance activities on the meter change outs, box and valve replacement initiatives.

INVESTMENT POLICIES AND PROCEDURES

The Water Authority’s funds are invested by the Water Authority’s Chief Financial Officer pursuant to the Water 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 Water Authority’s portfolio; and
- Recognize the impact of the Water Authority’s investment program on the local economy.

The Investment Policy permits the Water 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 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) SEC Rule 2a-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 Water Authority participates in a pension plan organized on a statewide basis and operated by the State. 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 the State participate in the Plan. The Water Authority’s liability under the Plan is limited to the periodic employer contributions that it is required to make for its participating employees. The Water 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 (“GASB”) approved Statement No. 68, as subsequently amended by GASB Statement No. 71, 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 Water 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. As of June 30, 2017, the Water Authority reported a net pension liability of \$59,008,103 for its proportionate share of the net pension liability. See “Detailed Notes (E) – Defined Benefit Pension Plan – Public Employees Retirement Association” in APPENDIX A hereto. For the year ended June 30, 2017, the Water Authority implemented the provisions of GASB Statement No. 82, Pension Issues. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

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 Water Authority is required to contribute 9.15% of the gross covered salary. The Water Authority has elected to pay a percentage of the employee’s contributions. The contribution requirements of plan members and the Water 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 Water Authority’s employer contribution to PERA for the fiscal years ended June 30, 2017, 2016 and 2015 were \$3,129,931, \$3,020,667 and \$2,959,288, respectively, which equal the amount of the required contributions for each fiscal year. The Water Authority’s total paid contributions for fiscal year ended June 30, 2017 were \$3,477,339.

PERA issues a publicly available financial report that includes financial statements and additional information. A copy of this report can be obtained from PERA at www.pera.state.nm.us.

Actuarial information is shown below:

**STATE OF NEW MEXICO PUBLIC EMPLOYEES RETIREMENT FUND
SUMMARY INFORMATION AS OF JUNE 30, 2017 (IN THOUSANDS)**

Membership ⁽¹⁾	103,130
Actuarial Information	
Accrued Liability ⁽²⁾	\$20,194,698
Actuarial Value of Assets ⁽³⁾	\$15,124,167
Unfunded Actuarial Accrued Liability (“UAAL”)	\$5,070,530

(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 7.25% annual return for the first 10 years and 7.75% thereafter. Annual returns are smoothed in over a four-year period.

As of June 30, 2017, PERA has an amortization or funding period of 55 years, based on the employer and member contribution rates in effect as of July 1, 2017. Member and employer rates are established pursuant to Section 10-11-1 through 10-11-142 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 74.9% as of June 30, 2017 and the UAAL of the PERA Fund increased \$251 million to approximately \$5.1 billion. The State’s portion of the UAAL of the PERA Fund is 53.1%, or \$2.7 billion. On a market value basis, PERA’s funded ratio is approximately 73.1% as of June 30, 2017. Current 30-year projections indicate the PERA Fund will be 87.3% funded in 2043.

Defined Contribution Retirement Plan

The Water Authority approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Water 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 of 1986, as amended. 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 Water 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 Water Authority contributions to the plan were \$271,617 in fiscal year 2017.

New Mexico Retiree Health Care Authority

Water 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. The purpose of the Retiree Health Care Act is to provide eligible retirees, their spouses, dependents, and surviving spouses and dependents with health insurance consisting of a plan, or optional plans, of benefits that can be purchased by funds deposited by the employer into the Retiree Health Care Fund (the "RHCF") and by co-payments or out-of-pocket payments of eligible retirees. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical plus life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's Retiree Health Care Act effective date. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the State Legislature, and that the act does not create any contract, trust or other rights in public employees to health care benefits. The Water Authority's contributions (employer and employee) to the NMRHCA for the fiscal years ended June 30, 2017, 2016 and 2015 were \$983,240, \$948,912 and \$931,393, respectively, which equal the required contributions for each year.

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 or at nmrhca.org/financial-documents.aspx.

Life Insurance Benefits

The Water Authority, as of the fiscal year ended June 30, 2017, participated in the City'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, 2017 was 177. The number of active employees at June 30, 2017 was 498.

In Fiscal Year 2014, the City and the Water Authority created the City of Albuquerque Pooled Post-Employment Benefit 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 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, 2017 equaled the annual required contribution. The Water Authority's contributions to the trust for the fiscal year ended June 30, 2017 were \$43,046.

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 the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Bond Counsel is also of the opinion, based on existing laws of the State as enacted and construed, that interest on the Bonds is excludable from net income for present State of New Mexico income tax purposes.

For taxable years that began before January 1, 2018, interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than a S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

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 City 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 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. Before purchasing any of the Bonds, potential purchasers should 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 Water Authority as the taxpayer and the Bond owners may have no right to participate in such procedure. Neither the Municipal Advisor nor Bond Counsel is obligated to defend the tax-exempt status of the Bonds. The Water 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 Water Authority, the Municipal Advisor nor 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 Premium

The Bonds were 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.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Bonds should consult their own tax advisors with respect to the

determination for federal, State, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Bonds.

LEGAL MATTERS

In connection with the issuance and sale of the Series 2018 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 2018 Bonds will be passed upon for the Water Authority by its Disclosure Counsel, Modrall, Sperling, Roehl, Harris & Sisk, P.A. Certain legal matters will also be passed upon for the Water Authority by its General Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP.

INDEPENDENT ACCOUNTANTS

REDW LLC audited the financial statements of the Water Authority as of and for the year ended June 30, 2017 and delivered their report to the New Mexico State Auditor and the Water 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, 2017 is a public document and is available from the New Mexico State Auditor and on the Water Authority website at <http://www.abcwua.org>. An excerpt from the 2017 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, 2017, 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 2018 Bonds, the Water 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 2018 Bonds (i) to provide certain annual financial information and operating data relating to the Water Authority by not later than 270 days after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2018, and (ii) to provide timely notice of certain enumerated events.

Except as described below, during the past five years, the Water Authority has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

Pursuant to certain continuing disclosure undertakings related to Water Authority bonds not then outstanding, the Water Authority covenanted to file annual information within 210 days of the close of each fiscal year. In a filing posted to EMMA through the MSRB, dated January 27, 2014, the Water Authority indicated it would file audited financial statements on or before March 31, 2014 for Fiscal Year 2013. However, at the time the Water Authority intended to file annual financial information in March 2014 related to Fiscal Year 2013, the audited financial statement for such fiscal year was not complete due to the Water Authority's interconnection with the City's financial system, which had experienced problems and delays, resulting in only incomplete and unreliable financial information available at the required filing time. To avoid providing investors with unreliable information, the Water Authority filed audited financial statements when verified as accurate to EMMA through the MSRB.

The Water Authority's audited financial statements are no longer contingent on, or interconnected with, the completion of the City's audited financial statements, and the Water Authority does not anticipate any issues with the timely filing of accurate documentation related to its continuing disclosure obligations prospectively.

LITIGATION

At the time of the initial delivery of the Bonds, the Water 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 Water 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

The Bonds have been rated “AAA” from S&P Global Ratings and “Aa2” from Moody’s Investors Service, Inc. (collectively, the “Rating Agencies”). The ratings reflect only the respective views of the Rating Agencies, and the Water 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 Water Authority has furnished to each Rating Agency certain information and materials relating to the Series 2018 Bonds, the Water 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 2018 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 2018 Bonds. The Water 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 2018 Bonds from the Water Authority pursuant to a Bond Purchase Agreement (the “Bond Purchase Agreement”) at a price of \$84,421,439.34 (being the par amount of the Series 2018 Bonds, plus a reoffering premium of \$9,556,201.75 and less an Underwriters’ discount of \$219,762.41). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2018 Bonds if any are purchased. The prices at which the Series 2018 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the System for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Water Authority.

J.P. Morgan Securities LLC (“JPMS”), one of the Underwriters of the Series 2018 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 2018 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2018 Bonds that such firm sells.

ADDITIONAL INFORMATION

The financial data and other information contained herein have been obtained from the Water Authority’s records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents, and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

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 Water Authority and the purchasers or holders of any of the Series 2018 Bonds.

APPROVAL BY THE WATER AUTHORITY

The Official Statement has been approved as to form and content and the use thereof in the offering of the Bonds has been authorized and Underwriters will be furnished, upon request, at the time of payment for and the delivery of the Bonds, a certified copy of such approval, duly executed by the proper officials of the Water Authority.

This Official Statement has been duly authorized and approved by the Board of the Water Authority for distribution in accordance with the provisions of the Rule.

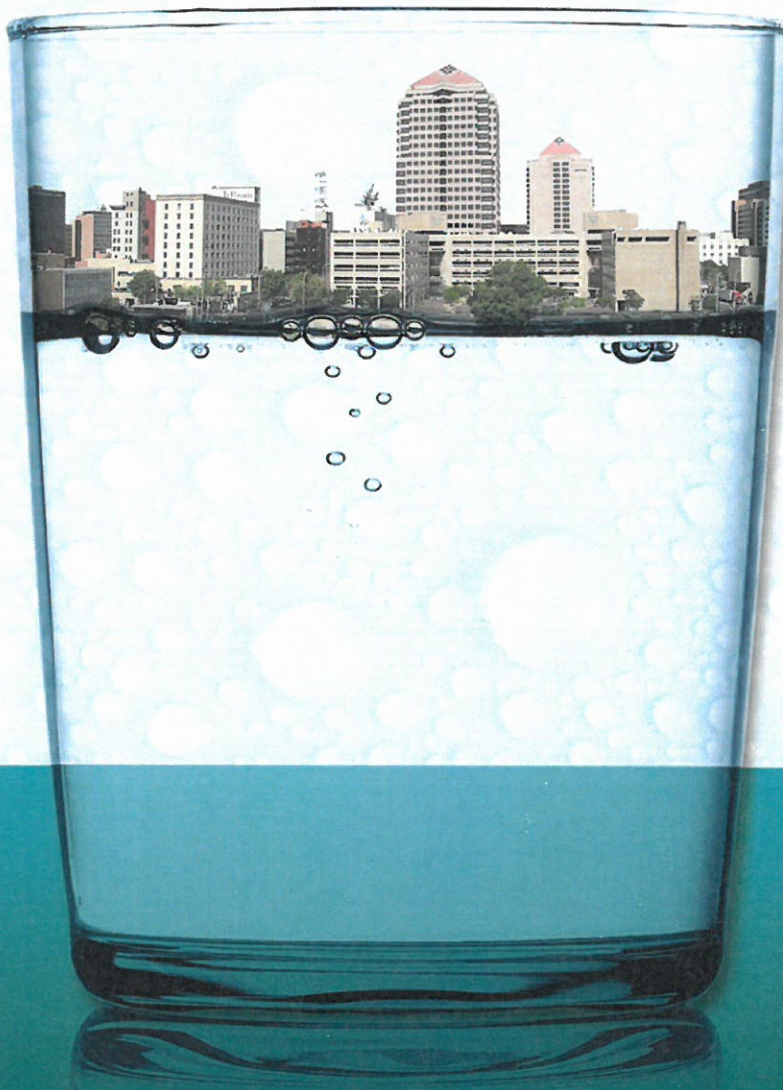
**ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY**

By: /s/ Trudy E. Jones

Chair

APPENDIX A

**EXCERPT FROM THE AUDITED FINANCIAL REPORT OF THE
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2017**



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Years Ended June 30, 2017 & 2016



Albuquerque Bernalillo County
Water Utility Authority

COMPREHENSIVE ANNUAL FINANCIAL REPORT



6/30/2017

Albuquerque Bernalillo County Water Utility Authority

For the Fiscal Years Ended June 30, 2017 and 2016

Albuquerque, New Mexico

PREPARED BY FINANCIAL/BUSINESS SERVICES DIVISION



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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

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INTRODUCTORY SECTION



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LETTER OF TRANSMITTAL

November 29, 2017

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, 2017 and 2016. The Water Authority's financial statements were prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), as promulgated by the Governmental Accounting Standards Board ("GASB") and audited by a firm of independent certified public accountants retained by the Water Authority. Pursuant to NMSA 1978, § 12-6-3, the Water Authority is required to have its financial affairs examined and audited each year and approved by the New Mexico State Auditor's office.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Water Authority management. To the best of our knowledge and belief, the information contained in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Water Authority. All disclosures necessary for the reader to gain an understanding of the Water Authority's financial activity have been included.

The Water Authority's management is responsible for establishing and maintaining an internal control structure designed to ensure that its assets are adequately safeguarded against loss, theft, or misuse and to maintain accurate and reliable financial records for the preparation of financial statements and the representations made by management. The internal control structure is designed to give reasonable assurance that 1) the cost of internal controls should not exceed the benefits derived from the controls; and 2) the evaluation of costs and benefits requires management's exercise of judgment. To the best of our knowledge and belief, the Water Authority's internal accounting controls adequately safeguard its assets and provide reasonable assurance of the proper recording of financial transactions in accordance with GAAP.

REDW LLC, Certified Public Accountants, has been retained by the Water Authority to serve as its independent auditors and has issued an unmodified ("clean") opinion on the Water Authority's financial statements for the years ended June 30, 2017 and 2016. The independent auditor's report is located at the front of the Financial Section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to supplement the MD&A and should be read in conjunction with it. The MD&A is located immediately following the independent auditor's report.

Profile of the Water Authority

In January 2003, the New Mexico Legislature approved Senate Bill 887 which transferred the municipal Water and Wastewater Utility to the Albuquerque Bernalillo County Water Utility Authority (Water Authority). Senate Bill 887 became law in June 2003 (NMSA 1978 § 72-1-10). In December 2003, the Water Authority, the City of Albuquerque (City) and Bernalillo County (County) entered into an operations and maintenance agreement to continue the day-to-day management of the Water Utility under the City. The Water Authority completed full transition of administering the water and wastewater utility in July 2007. 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, as such, is recognized as a political subdivision.

The Water Authority provides retail drinking water distribution and wastewater conveyance and treatment services to approximately 658,238 residential, commercial, industrial and governmental customers comprising approximately 95% of the residents of the County. About one-third of unincorporated County residents are customers of the water system.

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 Board is required to adopt an initial budget for the fiscal year no later than May 31 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the Water Authority's financial planning and control. The budget is appropriated by fund.

The Board is also required to adopt one-year objectives related to the five-year goals which are based on the American Water Works Association's QualServe business model. The Water Authority budget for operations and capital implementation is driven by the five-year goals and one-year objectives.

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

Summary of Local Economy

Albuquerque is the largest city in New Mexico; is also its economic center; it accounts for nearly half of the state's economic activity. Part of its success can be attributed to a diverse base consisting of government, services, trade, agriculture, tourism, manufacturing, and research and development. Albuquerque is one of the most livable cities in the U.S., averaging more than 310 days of sunshine a year. The city rests at the foot of the Sandia Mountains, which peaks at 10,678 feet. The Rio Grande

River runs north to south, dividing the city in to four major quadrants; northeast, northwest, southeast, and southwest.

Two interstate highways cross Albuquerque: I-40, one of the nation's major east-west arterials, and I-25, a north-south route from Canada to Mexico. The Burlington Northern Santa Fe Railroad, with north-south and east-west lines, hauls 90 percent of freight originating in the state and 80 percent of cargo terminating here. Albuquerque is a stop on Amtrak's Chicago-to-Los Angeles route.

The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance and Valencia Counties. The MSA has an estimated population of 908,252 residents. Historically, the area has grown at a steady pace of 1-2 percent per year. Despite the growth of the Albuquerque area, commute times are very reasonable, thus enhancing the work/life balance valued by many.

Some of top industries in Albuquerque are aerospace and defense, energy technology including solar energy, and semiconductor and computer chip manufacturing. Major employers in the Albuquerque area include Kirtland Air Force Base, Sandia National Laboratory, Fidelity Investments, Sennheiser, Raytheon, General Mills, and Intel Corp. The flagship campus of the 25,000-student University of New Mexico is in Albuquerque, as is Central New Mexico Community College, providing hundreds of jobs to educators.

In February 2017, the state led the nation in highest unemployment rate at 6.8% compared to 4.7% for the United States. The Albuquerque area unemployment rate is 6.0%. In the five-year forecast, through 2022, the Albuquerque area economy is forecasted to add 25,392 jobs at an average annual growth (AAG) rate of 1.4%. Most growth over the period will be concentrated in the private sector (1.6%); the government sector will also add jobs (0.3%).

Personal income growth in the Albuquerque area is forecasted to be consistent throughout much of the forecast period and relatively stronger than in the rest of the state. In 2017 and 2018, growth is forecasted to average 4.6% in both years before a moderate increase to 4.9% in 2019.

The total housing permits in the City of Albuquerque are expected to slowly increase, with the largest gains between 2018 and 2021. Total housing permits for the rest of 2017 are forecasted to grow by 126 (14.2%) over a year earlier to 1,015 permits. Multi-family permits should make up around 300 per year, with the balance being made up by single-family. Although permits are expected to reach their highest level since before the recession in 2022 at 1,975, this level will only equate to about 40% of the previous peak reached in 2003 (5,716 total permits that year).

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 factors in 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 ensure that inter and intra class equity is maintained.

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.

Major Initiatives

The operational cornerstone of Water 2120 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 nine 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. 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 FY18. 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. Field operations have developed and submitted a five year "strategic plan" to guide its operational goals and objectives.

Wastewater Collections continues to implement the Capacity Management Operations and Maintenance (CMOM) program. The expanded closed-circuit television (CCTV) inspection of 5% of the small diameter system each year 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 fleet of combination cleaning units is being renewed and provided with updated nozzles.

Water Distribution Field will begin implementation of the Maximo version upgrade and integration, training, and sustained use of hand-held electronic data recording devices. In FY18, the division will evaluate maintenance reduction potential by eliminating select redundant/inoperable pressure reducing valves monitored with AMR technology.

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. A committee to update the Wastewater Worker training program will be convened to review and recommend updates to this program in FY18. 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). A new Training Specialist position will be dedicated solely to training the operators at the SWRP. This new position will focus on delivering classroom and on-the-job training from the newly developed Utility Tech Surface Water Plant training program.

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.

The Water Authority has maintained a conservative approach to financial targets, 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.

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, 2016. This was the third year since 2008 that the Water Authority received this prestigious award. To be awarded a Certificate of Achievement, a government agency must publish an easily readable and efficiently organized Comprehensive Annual Financial Report that satisfies 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.

The Water Authority received the GFOA's Distinguished Budget Presentation Award for its annual budget document for Fiscal Year 2017. This is the highest form of recognition in governmental budgeting. To qualify for the Distinguished Budget Presentation Award, the Water Authority's budget document was judged to be proficient in several categories, including presentation as a policy document, financial plan, operations guide and communication device. The Water Authority has been the recipient of this prestigious award since 2005.

Additionally, the Water Authority received the Popular Annual Financial Reporting Award. This award program extracts information from the Comprehensive Annual Financial Report to produce high quality popular annual financial reports specifically designed to be readily accessible and easily understandable to the public and other interested parties without a background in public finance and to recognize individual governments that are successful in achieving that goal. The Water Authority has been the recipient of this award for the past two years.

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 R. Allred
Chief Financial Officer

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

CERTIFICATE OF ACHIEVEMENT AWARD



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Albuquerque Bernalillo County
Water Utility Authority, New Mexico

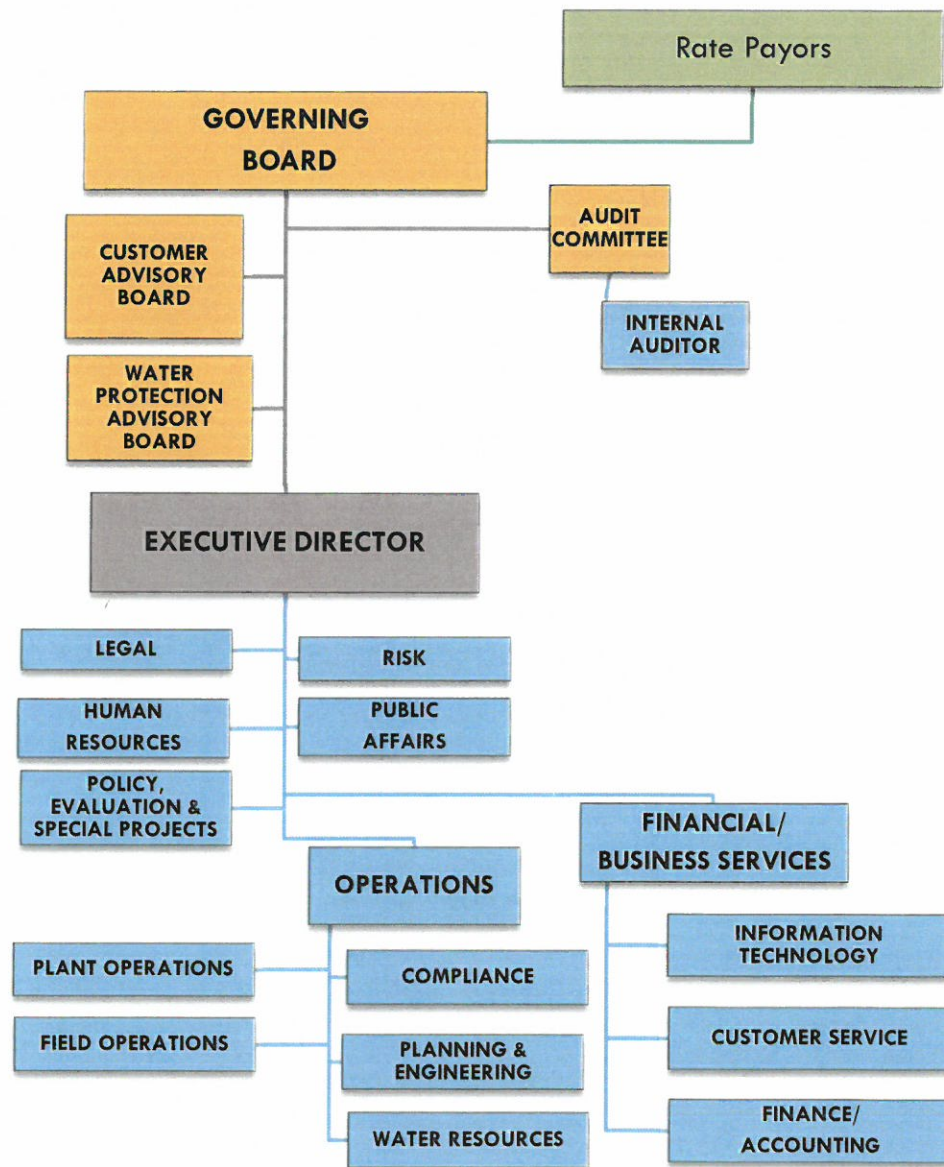
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Executive Director/CEO

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

ORGANIZATIONAL CHART



ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

SYSTEM OFFICIALS

GOVERNING BOARD MEMBERS

<i>KLARISA J. PENA</i>	<i>CITY OF ALBUQUERQUE COUNCILOR, DISTRICT 5</i>	<i>CHAIR</i>
<i>DEBBIE O'MALLEY</i>	<i>BERNALILLO COUNTY COMMISSIONER, DISTRICT 1</i>	<i>VICE CHAIR</i>
<i>RICHARD R BERRY</i>	<i>CITY OF ALBUQUERQUE, MAYOR</i>	<i>MEMBER</i>
<i>PAT DAVIS</i>	<i>CITY OF ALBUQUERQUE COUNCILOR, DISTRICT 6</i>	<i>MEMBER</i>
<i>MAGGIE HART STEBBINS</i>	<i>BERNALILLO COUNTY COMMISSIONER, DISTRICT 3</i>	<i>MEMBER</i>
<i>WAYNE JOHNSON</i>	<i>BERNALILLO COUNTY COMMISSIONER, DISTRICT 5</i>	<i>MEMBER</i>
<i>TRUDY E. JONES</i>	<i>CITY OF ALBUQUERQUE COUNCILOR, DISTRICT 8</i>	<i>MEMBER</i>
<i>PABLO R RAEI</i>	<i>VILLAGE OF LOS RANCHOS BOARD TRUSTEE</i>	<i>EX-OFFICIO</i>

ADMINISTRATIVE MANAGEMENT MEMBERS

<i>MARK S SANCHEZ</i>	<i>EXECUTIVE DIRECTOR</i>
<i>JOHN M STOMP III, P.E.</i>	<i>CHIEF OPERATING OFFICER</i>
<i>STANLEY R ALLRED</i>	<i>CHIEF FINANCIAL OFFICER</i>
<i>PETER AUH</i>	<i>GENERAL COUNSEL</i>
<i>JUDY M BENTLEY</i>	<i>HUMAN RESOURCES MANAGER</i>
<i>FRANK J ROTH</i>	<i>SENIOR POLICY MANAGER</i>
<i>DAVID R MORRIS</i>	<i>PUBLIC AFFAIRS MANAGER</i>

ONE CIVIC PLAZA STE 5012 / PO BOX 568
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ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

SERVICE AREA MAP



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 Albuquerque Bernalillo County Water Utility Authority (the "Water Authority"), as of and for the years ended June 30, 2017 and 2016, 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, 2017, 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 opinions 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.

Opinions

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, 2017 and 2016, and the changes in financial position and cash flows thereof for the years 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, presents fairly, in all material respects, the budgetary comparison of the Water Authority for the year ended June 30, 2017, 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 Schedules 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, as listed in the table of contents, 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 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 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections 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 29, 2017, 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.

REDW LLC

Albuquerque, New Mexico
November 29, 2017

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017. 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 6-11 of this report.

FINANCIAL HIGHLIGHTS

The Water Authority's financial position, measured by the change in net position, increased 1.98 percent during fiscal year 2017, compared to 3.54 percent during fiscal year 2016.

- The assets and deferred outflows of resources of the Water Authority exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$634.0 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 \$73.2 million.
- Operating revenues increased from \$210.0 million in 2016 to \$215.2 million in 2017, largely attributed to an increase in consumption levels.
- Capital contributions were \$3.5 million in 2017 compared to \$5.5 million in 2016, a decrease of \$2.0 million.
- Taking advantage of the historically low interest rate environment and the Water Authority's strong credit ratings, the Water Authority issued \$87.9 million in revenue bonds on March 1, 2017.
- The Water Authority redeemed in full, with cash on hand, all current outstanding Super Subordinate Lien long-term liabilities with the New Mexico Finance Authority totaling \$1.2 million.
- Debt service coverage for senior liens increased from 222% to 236% for fiscal year 2017; which continues to remain above the 133% requirement established by the governing board and bond covenants.

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 report also includes supplementary information intended to furnish additional detail to support 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 regarding the Water Authority's principal ongoing operations which are the provision of water and wastewater services

to customers within the designated 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.

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 except for 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 comparable 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 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 necessary to acquire a full understanding of the data provided in the financial statements, which can be found on pages 36-60 of this report.

Other Information:

In addition to the basic financial statements and accompanying notes, this report also presents *Required Supplementary Information* (RSI) demonstrating the Water Authority's progress in funding its obligation to provide pension and OPEB benefits to its employees. Additional information can be found in the notes to the financial statements in Note III.G. starting on page 54.

FINANCIAL ANALYSIS

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

Table 1
Water Authority's Condensed Net Position
(In thousands of dollars)

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

As would be expected for a utility, the largest portion of the Water Authority's net position is the net investment in capital assets (88.4 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 FY2017 increased \$30.8 million from FY2016, up \$2.6 million from FY2015. The increase was primarily due to an increase in cash and restricted cash from an unpredicted increase in consumption levels and the receipt of bond proceeds and new capital acquisitions offset by retirements and current year depreciation of \$81.6 million.
- Other current liabilities in FY2017 decreased \$3.4 million from FY2016, increased \$3.9 million from FY2015. The decrease in FY2017 was primarily related to the payoff of super subordinate debt obligations.
- Long-term liabilities in FY2017 increased \$39.2 million from FY2016 and a decrease \$13.2 million from FY2015. The increase in FY2017 was primarily due to the issuance of new long-term debt obligations and the net change in net pension liability.



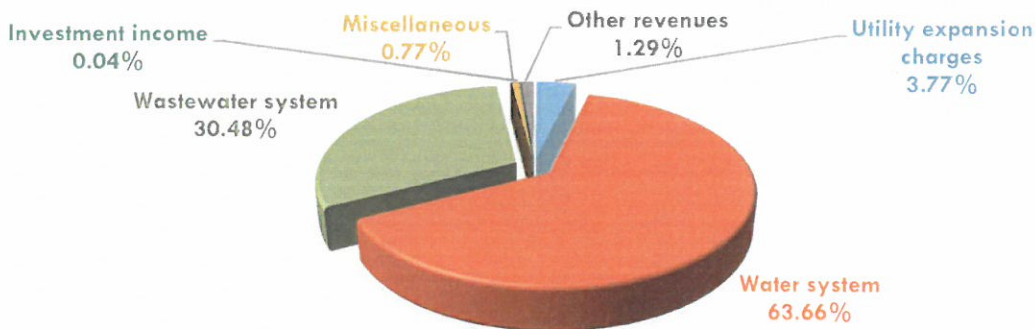
Table 2 presents a summarized comparative statement of revenues, expenses, and changes in net position for the last three fiscal years. Certain fiscal year 2016 and 2015 amounts have been reclassified to conform to the fiscal year 2017 presentation.

Table 2
Water Authority's Condensed Changes in Net Position
(In thousands of dollars)

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

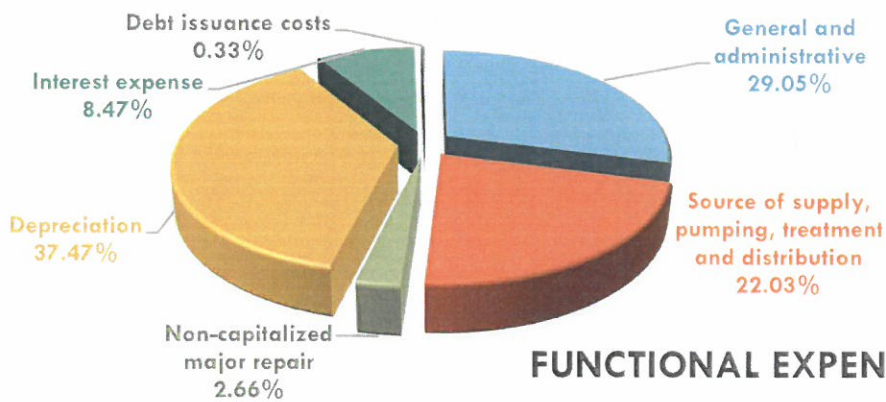
While the statement of net position displays the Water Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at year-end, the statement of revenues, expenses, and changes in net position provide information on the sources of the change in net position during the year. As shown in Table 2, Income before Capital Contributions was \$8.8 million, a decrease of \$6.9 million from FY2016 and an increase of \$26.0 million from FY2015.

Table 2 shows operating revenues increased \$1.4 million from FY2016 and \$30.0 million from FY2015 primarily related to the implementation of a 5.0 % rate revenue increase on July 1, 2016. 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

FY2017 operating expenses (exclusive of depreciation) increased by \$5.9 million from FY2016 and increased \$10.1 million from FY2015. The primary factors are related to an annual 2.0% cost of living adjustment for employees, adjustments to pension expense, and savings in utility expense from a reduced capacity in surface water plant operations. Non-capitalized major repairs increased primarily due to an increase in meters and information technology professional services valued under the capitalization threshold.



FUNCTIONAL EXPENSES

CAPITAL ASSETS AND LONG-TERM DEBT

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. 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. 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. This ensures there is always an approved two-year planning element in place for every approved annual Basic Program budget. Fiscal Year 2017 is the second year of the two-year planning element included in the 2016-2026 Decade Plan approved by the Board in April 2015.

Table 3 presents the Water Authority's capital assets at June 30, 2017 and 2016.

Table 3
Condensed Capital Assets
(In thousands of dollars)

	FY2017	FY2016	FY2015	FY2017 vs FY2016	FY2016 vs FY2015
Capital assets					
Not being depreciated:					
Land	\$25,170	\$25,170	\$25,724	-	(\$554)
Construction work in progress	22,765	3,792	42,579	18,973	(38,787)
Purchased water rights	49,251	48,863	48,240	388	623
Total capital assets					
Not being depreciated	97,186	77,825	116,543	19,361	(38,718)
Capital assets					
Being depreciated (net):					
Buildings and other improvements	1,075,562	1,099,795	1,094,798	(24,233)	4,997
Machinery and equipment	9,685	9,681	9,051	4	630
Total capital assets					
Being depreciated (net)	1,085,247	1,109,476	1,103,849	(24,229)	5,627
Total capital assets	\$1,182,433	\$1,187,301	\$1,220,392	(\$4,868)	(\$33,091)

Major capital asset additions for the current fiscal year included:

- \$33.3 million – Southside Water Reclamation Plant and collection system improvements
- \$10.7 million – Sanitary wastewater pipeline renewal
- \$9.9 million – Drinking water pipeline renewal
- \$4.8 million – Drinking water plant treatment systems renewal
- \$3.2 million – Private developer and grant funded infrastructure improvements

The Water Authority's capital assets as of June 30, 2017 total \$1.182 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 capital asset detailed information can be found in Note III.C. on page 43.

LONG-TERM DEBT

At June 30, 2017, the Water Authority had \$767.8 million in long-term debt liabilities outstanding, a net increase of \$34.7 million, or 4.7 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 \$47.6 million.

Table 4 presents a summary of the Water Authority's outstanding long-term liabilities at June 30, 2017, 2016, and 2015.

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

	FY2017	FY2016	FY2015	FY2017 vs FY2016	FY2016 vs FY2015
Claims payable	\$2,952	\$2,423	\$1,752	\$529	\$671
Compensated absences	3,746	3,387	3,553	359	(166)
Loan agreements	46,221	57,789	67,213	(11,568)	(9,424)
Net pension liability	59,008	38,165	29,352	20,843	8,813
Post-employments life insurance	386	390	416	(4)	(26)
Revenue bonds	647,913	622,197	669,677	25,716	(47,480)
Water rights contract	7,579	8,715	9,817	(1,136)	(1,102)
Total long-term liabilities	\$767,805	\$733,066	\$781,780	\$34,739	(\$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 44.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The economic outlook for both the City of Albuquerque and Bernalillo County continues to show positive trends in several areas. As evidenced by the increase in revenue received by the Water Authority from the prior year, both are showing increased developer activity, which coincides with economic growth. However, employment growth is projected to increase moderately at 1.8% for the remainder of the year.

These positive economic indicators promote the financial health and sustainability of the Water Authority. The Water Authority is committed to fiscal responsibility, which is our assurance we will judiciously spend, earn and generate funds without placing undue hardship on our ratepayers. The adopted fiscal year 2018 budget identifies resources to provide quality water in sufficient quantity, to collect and treat wastewater to acceptable standards, to provide professional utility engineering services, and to 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.

Most recently, the Water Authority's governing board approved the latest in a series of planned rate increases aimed at increasing the Water Authority's investment in infrastructure renewal. The net effect of this increase, for most Water Authority customers, is \$3 dollars per month (defined as 8 units per month residential water usage). All calculations are dependent upon a customer's service size and consumption.

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 Implementation 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. Infrastructure renewal backlog is being addressed over the coming years in order to maintain service levels and protect the health, safety, and economic viability of our community.

Helping to guide the Water Authority's efforts is *Water 2120*, the Water Authority's 100-year water resources management strategy, which went into effect during fiscal year 2017. *Water 2120* incorporates 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 takes climate variability into account and for the first time looks at a 100-year time horizon for the greater Albuquerque area. Three different demand scenarios along with three supply alternatives are used to examine the need for new supplies while maintaining a ground water resource for future generations. A portfolio of supply options is used to fill the gaps to meet future demand over the next 100 years.

A copy of the Water 2120 approved document can be obtained at the following website:
<http://www.abcwua.org/uploads/files/Water%202120%20Approved%20Policy%20Document.pdf>.

REQUESTS FOR INFORMATION

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

STATEMENTS OF NET POSITION

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS:		
Cash	\$125,990,458	\$101,195,934
Accounts receivable, net of allowance for uncollectible accounts	19,607,343	18,981,742
Notes receivable, current portion	715,219	740,459
Due from other governments	1,295	447,969
Prepaid items	57,380	-
Total current assets	146,371,695	\$121,366,104
NONCURRENT ASSETS:		
Long-term notes receivable	4,174,174	3,958,777
Restricted assets:		
Cash	56,956,621	46,529,971
Total other noncurrent assets	61,130,795	50,488,748
Capital assets, net of accumulated depreciation:		
Buildings and other improvements	1,075,561,839	1,099,794,736
Machinery and equipment	9,684,964	9,680,793
Net depreciable capital assets	1,085,246,803	1,109,475,529
Capital assets, not being depreciated:		
Land	25,170,378	25,170,378
Purchased water rights	49,251,368	48,862,906
Construction work in progress	22,764,278	3,791,893
Total capital assets	1,182,432,827	1,187,300,706
Total noncurrent assets	1,243,563,622	1,237,789,454
TOTAL ASSETS	1,389,935,317	1,359,155,558
DEFERRED OUTFLOWS OF RESOURCES		
Deferred amounts related to pensions	20,395,732	3,020,719
Deferred amounts on refunding	23,089,446	23,114,769
Total deferred outflows of resources	43,485,178	26,135,488

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

STATEMENTS OF NET POSITION CONTINUED

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

LIABILITIES

CURRENT LIABILITIES:

	2017	2016
Accounts payable	\$15,530,540	\$12,910,228
Accrued payroll	1,495,559	2,582,062
Claims payable, current portion	671,543	993,586
Accrued compensated absences, current portion	3,569,503	3,019,584
Deposits	766,608	687,857
Debt obligations, current portion:		
Revenue bonds	37,930,000	37,265,000
Loan agreements	4,285,917	9,710,054
Water rights contract	1,170,372	1,135,776
Accrued interest for debt obligations	12,726,908	13,278,888
Total current liabilities	<u>78,146,950</u>	<u>81,583,035</u>

NONCURRENT LIABILITIES:

Debt obligations, net of current portion:		
Revenue bonds	609,982,924	584,931,928
Loan agreements	41,934,953	48,078,533
Water rights contract	6,408,817	7,579,189
Total long-term debt obligations	<u>658,326,694</u>	<u>640,589,650</u>
Other non-current liabilities:		
Claims payable, net of current portion	2,280,290	1,429,794
Net pension liability	59,008,103	38,165,167
Post-employment life insurance benefit obligation	385,874	389,848
Accrued compensated absences, net of current portion	176,298	367,674
Total other noncurrent liabilities	<u>61,850,565</u>	<u>40,352,483</u>
Total noncurrent liabilities	<u>720,177,259</u>	<u>680,942,133</u>

TOTAL LIABILITIES

798,324,209	762,525,168
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DEFERRED INFLOWS OF RESOURCES

Deferred amounts related to pensions	1,089,646	1,095,992
Total deferred inflows of resources	<u>1,089,646</u>	<u>1,095,992</u>

NET POSITION

Net investment in capital assets	560,765,911	568,244,966
Unrestricted	73,240,729	53,424,920
TOTAL NET POSITION	<u>\$634,006,640</u>	<u>\$621,669,886</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

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Charges for services:		
Water system	\$144,342,932	\$140,551,140
Wastewater system	69,101,050	68,166,636
Miscellaneous	1,750,000	1,339,000
Total operating revenues	<u>215,193,982</u>	<u>210,056,776</u>
OPERATING EXPENSES:		
General and administrative	63,307,749	59,910,588
Source of supply, pumping, treatment and distribution	48,017,762	46,986,703
Non-capitalized major repair	5,795,924	4,285,103
Depreciation	81,648,334	80,357,265
Total operating expenses	<u>198,769,769</u>	<u>191,539,659</u>
OPERATING INCOME	<u>16,424,213</u>	<u>18,517,117</u>
NON-OPERATING REVENUES (EXPENSES):		
Investment income	86,073	155,431
Interest expense	(18,448,939)	(18,034,371)
Utility expansion charges	8,545,978	9,256,938
Debt issuances costs	(710,270)	-
Lease of stored water income	1,181,658	1,615,215
Other revenues	1,735,797	4,212,925
Total non-operating revenues (expenses), net	<u>(7,609,703)</u>	<u>(2,793,862)</u>
INCOME BEFORE CAPITAL CONTRIBUTIONS	<u>8,814,510</u>	<u>15,723,255</u>
Developer contributions	3,242,286	4,593,806
Other contributions	279,958	910,524
Total capital contributions	<u>3,522,244</u>	<u>5,504,330</u>
CHANGE IN NET POSITION	<u>12,336,754</u>	<u>21,227,585</u>
NET POSITION:		
Net position, beginning of year	<u>621,669,886</u>	<u>600,442,301</u>
Net position, end of year	<u>\$634,006,640</u>	<u>\$621,669,886</u>

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

STATEMENTS OF CASH FLOWS

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from customers	\$214,568,381	\$205,753,264
Cash payments to employees for services	(54,560,327)	(49,750,641)
Cash payments to suppliers for goods and services	(56,661,329)	(55,518,906)
Other operating income	2,937,949	3,906,144
NET CASH PROVIDED BY OPERATING ACTIVITIES	106,284,674	104,389,861
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of capital assets, net	(73,558,663)	(43,238,648)
Principal payments of long-term debt obligations	(49,206,767)	(45,140,732)
Proceeds from refunding revenue bonds	101,711,170	-
Defeasance of revenue bonds	(30,006,552)	-
Interest paid on debt obligations	(28,460,944)	(27,426,701)
Payment of debt issuance costs	(710,270)	-
Proceeds from sale of assets	-	2,488,129
Capital grants, net	726,632	1,394,782
Utility expansion charges	8,355,821	9,102,578
NET CASH USED FOR CAPITAL AND RELATED FINANCING ACTIVITIES	(71,149,573)	(102,820,592)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income	86,073	155,431
NET CASH PROVIDED BY INVESTING ACTIVITIES	86,073	155,431
NET INCREASE IN CASH	35,221,174	1,724,700
CASH, BEGINNING OF YEAR	147,725,905	146,001,205
CASH, END OF YEAR	\$182,947,079	\$147,725,905
FINANCIAL STATEMENT PRESENTATION:		
Cash	\$125,990,458	\$101,195,934
Restricted cash	56,956,621	46,529,971
	\$182,947,079	\$147,725,905

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

STATEMENTS OF CASH FLOWS CONTINUED

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$16,424,213	\$18,517,117
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	81,648,334	80,357,265
Other non-operating income (expenses), net	2,937,949	3,906,144
Changes in assets and liabilities:		
Increase (decrease) in accounts receivable	(625,601)	(4,303,512)
Increase (decrease) in deposits	78,751	(39,819)
Increase (decrease) in accounts payable	2,620,312	2,409,779
Increase (decrease) in accrued payroll, employee benefits, and deferred amounts related to pensions	2,842,173	3,708,979
Increase (decrease) in compensated absences payable	358,543	(166,092)
TOTAL ADJUSTMENTS	<u>89,860,461</u>	<u>85,872,744</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$106,284,674</u>	<u>\$104,389,861</u>
DISCLOSURE ON NON-CASH TRANSACTIONS:		
Amortization of deferred amounts on refunding	(\$2,946,496)	(\$2,763,922)
Amortization of premium on revenue bonds	12,406,521	12,866,290
Capital contributions received from private developers	3,242,286	4,593,806

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

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017 and 2016, and the results of its operations for the years ended June 30, 2017 and 2016 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, 2017, 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.

The Water Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services regarding 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 two years. Such assets are recorded at historical cost or estimated historical cost if historical cost information is not available. Donated capital assets and donated works of art and similar items are recorded at estimated fair market value at the date of donation. Capital assets received in a service concession arrangement are recorded at the acquisition value.

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:

Buildings and other improvements	25 – 50 years
Machinery and equipment	5 – 12.5 years

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.

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 2017 and 2016 was \$12,406,521 and \$12,866,290, 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. E. 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 amount is included in the calculation of net investment in capital assets.

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, which may have a future impact on the Water Authority, have been issued, but are not yet effective, at June 30, 2017.

- GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions
- GASB Statement No. 81 – Irrevocable Split-Interest Agreements
- GASB Statement No. 83 – Certain Asset Retirement Obligations
- GASB Statement No. 84 – Fiduciary Activities
- GASB Statement No. 85 – Omnibus 2017
- GASB Statement No. 86 – Certain Debt Extinguishments Issues
- GASB Statement No. 87 – Leases

The Water Authority will implement the new GASB pronouncements in the fiscal year no later than the required effective date. 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 2017, 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 like 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, 2017, the carrying amount of the Water Authority's deposits was \$182,942,629 and the bank balance was \$184,255,256. 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, 2017 and 2016:

Cash:	June 30, 2017	June 30, 2016
Restricted	\$56,956,621	\$46,529,971
Unrestricted	125,990,458	101,195,934
Total cash reported in statements of net position	\$182,947,079	\$147,725,905

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 50% 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, 2017, there were no bank balances exposed to custodial credit risk.

Pledged collateral by bank. Securities eligible as collateral are those defined under State Law (6-10-16 NMSA 1978). Collateral shall be held in a custodial bank per 6-10-21, NMSA 1978 and shall be assigned to the Water Authority per 6-10-18, NMSA 1978. Securities accepted as

collateral may be subject to additional restrictions as specified by the Water Authority's Investment Committee.

The pledged collateral by bank at June 30, 2017 is as follows:

	Rio Grande Credit Union	Sunflower Bank	Wells Fargo Bank	Bank of Albuquerque
Total amount on deposit	\$249,092	\$25,040,680	\$140,482,852	\$18,482,632
Less FDIC coverage	(250,000)	(250,000)	(250,000)	(250,000)
Total uninsured public funds	-	24,790,680	140,232,852	18,232,632
50% collateral requirement	-	12,395,340	70,116,426	9,116,316
Pledged securities, fair value	-	25,500,000	153,049,448	22,869,657
Pledged in excess of requirement	-	\$13,104,660	\$82,933,022	\$13,753,341

The Water Authority's Investment Policy further requires that deposits be collateralized at 102%, which results in the amount pledged in excess of the requirement. Such collateral shall be held by an independent third party financial institution acceptable to the Water Authority.

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, 2017, and 2016 were \$19,607,343 and \$18,981,742, respectively, net of an allowance for uncollectible accounts of \$680,552 and \$628,092.

Notes receivable are for utility expansion charges. The borrower can 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, 2017, and 2016 were \$4,889,393 and \$4,699,236, 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, 2017, and 2016 were \$1,295 and \$447,969, respectively.

C. Capital assets

Capital asset activity of the Water Authority for the years ended June 30, 2017 and 2016, are as follows:

	Balances at June 30, 2016	Additions	Transfers/ Deletions	Balances at June 30, 2017
Capital assets not being depreciated:				
Land	\$25,170,378	-	-	\$25,170,378
Construction work in progress	3,791,893	19,656,503	(684,118)	22,764,278
Purchased water rights	48,862,906	388,462	-	49,251,368
Total capital assets not being depreciated	77,825,177	20,044,965	(684,118)	97,186,024
Capital assets being depreciated:				
Buildings and other improvements	2,226,929,800	54,486,359	7,841,291	2,289,257,450
Machinery and equipment	48,415,367	2,269,625	(10,222,481)	40,462,511
Total capital assets being depreciated	2,275,345,167	56,755,984	(2,381,190)	2,329,719,961
Less accumulated depreciation:				
Buildings and other improvements	(1,127,135,064)	(79,403,374)	(7,157,173)	(1,213,695,611)
Machinery and equipment	(38,734,574)	(2,244,960)	10,201,987	(30,777,547)
Total accumulated depreciation	(1,165,869,638)	(81,648,334)	3,044,814	(1,244,473,158)
Total capital assets being depreciated, net	1,109,475,529	(24,892,350)	663,624	1,085,246,803
Total capital assets, net	\$1,187,300,706	\$(4,847,385)	\$(20,494)	\$1,182,432,827

	Balances at June 30, 2015	Additions	Transfers/ Deletions	Balances at June 30, 2016
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	116,543,475	4,040,800	(42,759,098)	77,825,177
Capital assets being depreciated:				
Buildings and other improvements	2,140,964,306	40,133,489	45,832,005	2,226,929,800
Machinery and equipment	48,779,592	3,658,165	(4,022,390)	48,415,367
Total capital assets being depreciated	2,189,743,898	43,791,654	41,809,615	2,275,345,167
Less accumulated depreciation:				
Buildings and other improvements	(1,046,166,891)	(77,340,934)	(3,627,239)	(1,127,135,064)
Machinery and equipment	(39,728,832)	(3,016,331)	4,010,589	(38,734,574)
Total accumulated depreciation	(1,085,895,723)	(80,357,265)	383,350	(1,165,869,638)
Total capital assets being depreciated, net	1,103,848,175	(36,565,611)	42,192,965	1,109,475,529
Total capital assets, net	\$1,220,391,650	\$(32,524,811)	\$(566,133)	\$1,187,300,706

D. Long-term liabilities

A summary of long-term liabilities of the Water Authority for the years ended June 30, 2017 and 2016, are as follows:

	Balances at June 30, 2016	Additions	Deletions	Balances at June 30, 2017	Amounts Due In One Year
Revenue bonds	\$566,455,000	\$87,970,000	(\$64,545,000)	\$589,880,000	\$37,930,000
Loan agreements	54,818,531	-	(10,805,991)	44,012,540	\$4,285,917
Water rights contract	8,714,965	-	(1,135,776)	7,579,189	1,170,372
Unamortized premiums	58,711,984	13,741,170	(12,211,900)	60,241,254	-
Accrued compensated absences	3,387,258	3,588,010	(3,229,467)	3,745,801	3,569,503
Total long-term liabilities	\$692,087,738	\$105,299,180	(\$91,928,134)	\$705,458,784	\$46,955,792

	Balances at June 30, 2015	Additions	Deletions	Balances 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
Unamortized premiums	71,578,274	-	(12,866,290)	58,711,984	-
Accrued compensated absences	3,553,350	2,760,525	(2,926,617)	3,387,258	3,019,584
Total long-term liabilities	\$750,260,852	\$2,760,525	(\$60,933,639)	\$692,087,738	\$51,130,414

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 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 to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2017, the net revenues were 236% of the annual debt service on all outstanding senior lien obligations.

The Series 2017 bonds sold at a purchase price equal to \$101,711,170 (representing the \$87,970,000 par amount plus a net original issue premium of \$13,741,170). Deposit proceeds of the Series 2017 Bonds were placed in an escrow fund, resulting in

the defeasance of the Series 2009A-1 Bonds. The net present value (NPV) savings equals \$3,122,416 or 11.45 percent. The average interest rate is 4.60 percent with an average life of 15.43 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 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 to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2017, the net revenues were 186% 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 (NMFA)/Water Trust Board (WTB). 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 project, pays the vendors, and submits invoices to the NMFA/WTB 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.

On February 3, 2017, the Water Authority entered into a reimbursable loan/grant agreement in the amount of \$1,673,874 with the NMFA/WTB which consists of an available loan amount of \$669,550 and grant funds totaling \$1,004,324. As of June 30, 2017, the Water Authority had not received any loan proceeds related to this agreement. Payments due for the loan portion start twenty-four (24) months after the closing date of the project beginning June 1, 2019. This loan/grant will be used to fund the Water Storage, Conveyance and Delivery Project.

Additionally, the Water Authority redeemed in full, with cash on hand, all current outstanding Super Subordinate Loan long-term liabilities with the NMFA, totaling \$1,170,438.

4. Revenue bonds and loan agreements outstanding

Revenue Bonds:	June 30, 2017	June 30, 2016
\$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
\$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	24,070,000	58,655,000
\$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	53,870,000	57,465,000
\$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	38,205,000	47,660,000
\$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	96,180,000	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	77,645,000	86,555,000
\$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
\$87,970,000 Senior Lien Joint Utility Revenue Bonds/Refunding and Improvement Revenue Bonds, Series 2017, due in annual installments of \$3,880,000 to \$5,865,000 through 7/1/2034; interest at 3.38% to 5.00%; call provision of 100% beginning 7/1/2027	87,970,000	-
Total revenue bonds outstanding	589,880,000	566,455,000
Plus: Unamortized premium	58,032,924	55,741,928
Net revenue bonds outstanding	\$647,912,924	\$622,196,928

Loan Agreements:	June 30, 2017	June 30, 2016
\$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
\$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	7,389,202	7,882,496
\$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	768,338	815,597
\$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
\$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
\$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
\$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	35,855,000	39,410,000
\$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
\$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
\$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
Total loan agreements outstanding	44,012,540	54,818,531
Plus: Unamortized premium	2,208,330	2,970,056
Net loan agreements outstanding	\$46,220,870	\$57,788,587

Future maturities of revenue bonds and loan agreements as of June 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$42,215,917	\$28,103,231	\$70,319,148
2019	53,691,483	26,524,420	80,215,903
2020	56,027,256	23,904,345	79,931,601
2021	52,633,241	21,310,635	73,943,876
2022	55,139,441	18,697,109	73,836,550
2023-2027	235,278,041	55,788,035	291,066,076
2028-2032	94,757,161	18,807,497	113,564,658
2033-2037	41,640,000	3,467,385	45,107,385
2038-2039	2,510,000	127,000	2,637,000
Total	\$633,892,540	\$196,729,657	\$830,622,197

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, 2017 and 2016, is \$7,579,189 and \$8,714,965, respectively.

Future water rights contract maturities as of June 30, 2017, are as follows:

Fiscal Year	Principal	Interest	Total
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	1,319,619	81,615	1,401,234
2023	1,359,809	41,420	1,401,229
Total	\$7,579,189	\$828,210	\$8,407,399

6. Refunded bonds

The Water Authority has refunded various bond issues by issuing refunding bonds, the proceeds of which have been placed in escrow and used to purchase securities of the United States Government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are

administered by trustees and are restricted to use for retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements as the Water Authority satisfied its obligation for payment of the refunded debt upon completion of the refunding transactions. Refunded debt outstanding at June 30, 2017, is as follows:

Series 2008A Bonds	\$55,630,000
Series 2009A-1 Bonds	76,475,000

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.

General Information about the Pension Plan

1. **Plan description.** The Public Employees Retirement Fund (PERA Fund) is a cost-sharing, multiple employer defined benefit pension plan. The 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 plans. 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.

The Water Authority participates in one PERA plan; the Municipal General Plan 3.

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- 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 audited comprehensive annual financial report that can be obtained at the following web address: <http://www.nmpera.org/financial-overview>.

2. *Benefits provided.* For a complete description of the benefits provided to eligible retirees, see Note 1 in the PERA audited financial statements available at the above website. Following is a general summary of eligibility criteria, benefits, and contribution rates as of July 1, 2014:

Municipal General Plan 3		
	Tier 1	Tier 2
Highest Average Salary	3-Years	5-Years
Years of Service and Age of Eligibility	25-years any age 20-years age 60 Various ages 61-64 5-years age 65	Rule of 85 8-years age 65
Vesting Period	5-years	8-years
Benefit Percent per Year of Service	3.0%	2.5%
Maximum Benefit as Percent of Final Average Salary	90%	90%
Annual Cost of Living Adjustment	2.0% with graduated eligibility period	2.0% with 7-year eligibility period
Required Contribution Rates for:		
Employer	9.55%	9.55%
Employee < \$20,000	13.15%	13.15%
Employee > \$20,000	14.65%	14.65%

3. *Contributions.* The contribution requirements of PERA Fund members are established in state statute under Chapter 10, Article 11, NMSA 1978. The contribution requirements may be amended by acts of the legislature.

The combined active member and employer contribution rates are expected to finance the costs of benefits employees earn during the year, with an additional amount to finance any unfunded accrued liability.

Statutorily required contributions to the pension plan from the Water Authority were \$3,129,931 and employer paid member benefits that were "picked up" by the employer were \$3,477,339 for the year ended June 30, 2017.

4. *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, 2015. The PERA pension liability amounts for each division were rolled forward from the valuation date to the Plan year ended June 30, 2016, using generally accepted actuarial principles. Therefore, the employer's portion was established as of the measurement date June 30, 2016.

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.

The Water Authority's proportion share of the net pension liability for the membership group that the employer 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, 2016. Only employer contributions for the pay period end dates that fell within the period of July 1, 2015 to June 30, 2016 were included in the total contributions for a specific employer. Employer contributions on behalf of the employee were excluded from the calculation. 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. 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 year ended June 30, 2017, the Water Authority reported a liability of \$59,008,103 for its proportionate share of the net pension liability. At June 30, 2016 and 2015, the Water Authority's proportion was 3.6934 percent and 3.7432 percent, respectively.

For the year ended June 30, 2017, the Water Authority recognized pension expense of \$6,591,508. At June 30, 2017, the Water Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$2,948,289	\$575,885
Changes of assumptions	3,460,133	9,812
Net difference between projected and actual earnings on pension plan investments	10,857,379	-
Changes in proportion and differences between Water Authority contributions and proportionate share of contributions	-	503,949
Water Authority contributions subsequent to the measurement date	3,129,931	-
Total	<u>\$20,395,732</u>	<u>\$1,089,646</u>

\$3,129,931 reported as deferred outflows of resources related to pensions resulting from Water Authority contributions subsequent to the measurement date June 30, 2016 will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. 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:

2018	\$3,460,201
2019	3,460,201
2020	6,520,009
2021	2,735,744
2022	-

5. *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, 2015, for each of the membership groups. The total pension liability, net pension liability, and certain sensitivity information are based on an actuarial valuation performed as of June 30, 2015. The total pension liability was rolled-forward from the valuation date to the plan year ended June 30, 2016. These assumptions were adopted by the Board for use in the June 30, 2015 actuarial valuation.

Below is the summary of actuarial methods and assumptions:

Actuarial valuation date:	June 30, 2015
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	- 7.48% annual rate, net of investment expense
Projected benefit payment	- 100 years
Payroll growth	- 2.75% for first 10-years, then 3.25% annual rate
Projected salary increases	- 2.75% to 14.00% annual rate
Includes inflation at	- 2.25% annual rate first 10-years, 2.75% all other years
Mortality Assumption	- RP-2000 Mortality Tables (Combined table for healthy post-retirement, 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 (demographic) and July 1, 2010 through June 20, 2015 (economic)

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 weighing 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43.5%	7.39%
Risk Reduction & Mitigation	21.5%	1.79%
Credit Oriented Fixed Income	15.0%	5.77%
Real Assets	20.0%	7.35%
Total	100%	

6. *Discount rate:* The rate is 7.25% for the first 10-years (select period) and 7.75% for all other years (ultimate). The equivalent blended rate is 7.48 % and will be used as the discount rate used to measure the total pension liability. 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 GASB Statement No. 67. Therefore, the 7.48% 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.
7. *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 the 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 (6.48%) or one percentage point higher (8.48%) than the single discount rate.

PERA	1% Decrease (6.48%)	Current Discount Rate (7.48%)	1% Increase (8.48%)
Water Authority's proportionate share of the net pension liability	\$87,975,835	\$59,008,103	\$34,980,811

8. *Pension plan fiduciary net position.* Detailed information about the pension plan's fiduciary net position is available in PERA's audited comprehensive annual financial report and can be obtained at the following web address: <http://www.pera.org/financial-overview>.
 9. *Payables to the pension plan.* As of June 30, 2017, there was \$305,755 PERA employee/employer contributions payable of which \$120,659 of employer-only contributions was for pay period ended June 23, 2017 and \$133,061 was for the accrual through June 30, 2017.
- F. Defined contribution retirement plan
1. *Plan description.* The Water Authority provides a 401(a)-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.

New eligible employees are provided a 30-day election period from the date of initial eligibility to elect to participate in the plan.

An employee's election is irrevocable and shall remain in force until the employee terminates employment or ceases to be eligible to participate in the plan. In the event of re-employment to an eligible position, the employee's original election will resume. In no event does the employee have the option of receiving the pick-up contribution amount directly. Participation is not mandatory. Temporary, seasonal and student employees are not eligible for this benefit.

2. *Benefits provided.* The 401(a) plan is a retirement savings plan that allows you to set aside money for retirement. The benefits provided enables employees to reduce current income taxes while boost retirement investments. Employees also have the ability to rollover savings to another public-sector employer's 401(a) plan, a tax-sheltered 403(b) annuity plan, a 457 plan or an IRA if an employee changes employers. Pre-tax contributions are not subject to federal and (in most cases) state income taxes until withdrawn. Earnings accumulate tax-deferred. An employee is vested at 100% when enrolled. In-service distributions are permitted under the plan after the participate attains normal retirement age.
3. *Contributions.* The contribution requirements for defined contribution plan members and the Water Authority are established within the signed agreement with ICMA Retirement Corporation dated February 25, 2004 and as amended October 21, 2015. The contribution requirements may be amended by acts of both parties. 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.

Total contributions and total payroll to the plan for 2017 and the three preceding years were as follows:

ICMA 401(a)	Employer Contributions	Total Payroll
Fiscal Year ended:		
6/30/2014	\$115,961	\$609,998
6/30/2015	152,683	803,174
6/30/2016	212,224	1,116,379
6/30/2017	271,617	1,428,810

G. Post-employment benefits

In addition to providing pension benefits described in Notes E and F, the Water Authority provides certain life insurance and health care benefits for retired employees.

1. Post-employment Life Insurance Benefit Plan

Plan Description

- a. *Plan administration.* The City of Albuquerque (City) administers the Albuquerque Pooled Other Post-Employment Benefit (OPEB) Trust Fund – a cost sharing multiple-employer OPEB plan the provides life insurance benefits for employees of the City and Water Authority. The

OPEB Trust Fund was established, by Resolution, as an irrevocable trust and operates pursuant to the OPEB agreement with the City and the Water Authority to defray future expenses related to post-employment benefits other than pensions.

The Board of Trustees consists of five members. Two members are appointed based on positions with the City and the remaining members are appointed by the City Chief Administrative Officer. The OPEB Trust Fund is reported as a fiduciary fund in the City's CAFR and can be obtained at the following web address: <http://www.cabq.gov/dfa/treasury/investor-information/comprehensive-annual-financial-reports/comprehensive-annual-financial-reports/>.

- b. *Plan membership.* The benefit rules for Water Authority active 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 Water Authority employees hired after July 1, 2013 are not offered employer paid life insurance in any amount. At June 30, 2017, the OPEB membership for the Water Authority consisted of the following:

Inactive plan members (retirees)	177
Active plan members	<u>498</u>
	<u>675</u>

- c. *Funding Policy.* The City and the Water Authority have 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.

Monthly invoices for retiree life insurance premiums are paid out of the trust. When expected benefit claims exceed retiree premiums, the City and the Water Authority can treat the implicit subsidy as a contribution towards the OPEB liability.

Total contributions for the fiscal year ended June 30, 2017 exceeded the annual required contribution and include amounts for actual employer contributions as well as the implicit subsidy.

- d. *Annual OPEB cost and net OPEB obligation.* The OPEB Trust Fund annual OPEB cost is calculated based on the ARC of the participating employer's an amount actuarially determined in accordance with 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 over a period not to exceed thirty years. The following table shows only the components of the Water Authority's annual OPEB cost as of June 30, 2017 and 2016, the amount contributed to the Plan, and the changes in the Water Authority's net OPEB obligation to the Plan.

	2017	2016
Net OPEB obligation at beginning of year	\$389,848	\$415,763
Plus: Projected annual OPEB costs:		
Interest on net OPEB obligation at beginning of year	19,492	19,649
Annual required contribution (ARC) for current fiscal year	43,046	41,530
ARC adjustment for current fiscal year	(23,466)	(22,783)
Less: Net Employer contribution	(43,046)	(64,311)
Expected net OPEB obligation at end of year	\$385,874	\$389,848

The Water Authority's annual OPEB cost, the employer OPEB contributions, and the percentage of annual OPEB cost contributed to the Plan for 2017 were as follows:

Fiscal Year-ended	Annual Cost	Employer Contributions	Percentage Contributed
6/30/2015	\$38,446	\$36,175	94.1%
6/30/2016	38,396	41,530	108.2%
6/30/2017	39,072	43,046	110.2%

- e. *Funding Status and Funding Progress.* As of July 1, 2015, the most recent actuarial valuation date, the OPEB was 62.3% funded using the criteria established by GASB 45. The Water Authority actuarial accrued liability for benefits was \$1,319,185 (\$112,500 for active employees and \$1,206,685 for retired employees). The Water Authority plan assets as of June 30, 2017, totaled \$839,532. The covered payroll (annual payroll of active employees covered by the Plan) was \$28,461,386 and the ratio of the Unfunded Actuarial Accrued Liability (UAAL) to the covered payroll was 1.7%. 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 \$86. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events 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 City and 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 required supplementary information following the notes to the financial statements.
- f. *Actuarial Methods and Assumptions.* Projections of benefits for financial reporting purposes are based on the OPEB Trust Fund as understood by the City, the Water Authority, and its members and include the types of benefits provided at the time of each valuation and the historical pattern of paying for the OPEB Trust Fund. 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.

The actuarial valuation indicates 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 GASB Statement No. 45 is to match recognition of retiree life expense with the

periods during which the benefit is earned and the 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 OPEB Trust Fund 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 GASB Statement No. 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 OPEB Trust Fund investments calculated on the funded level of the OPEB at the valuation date.

2. State Retiree Health Care Plan

- a. *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 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.

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 Authority members who served at least four years.

The RHCA issues a publicly available financial report that includes financial statements and required supplementary information for the postemployment healthcare plan. That report and further information can be obtained at the following website:
www.nmrhca.state.nm.us/Pages/audit-reports.aspx

- b. *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 Authority member. Former legislators and governing 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/Pages/Home.aspx.

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 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, 2017, 2016, and 2015, were \$983,240, \$948,912 and \$931,393, respectively, which equal the required contributions for each year.

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 2017, 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, 2017, and 2016.

The amounts and change in claims liability in fiscal years 2017 and 2016 were:

	2017	2016
Claims liability at July 1	\$2,423,380	\$1,752,030
Current year claims/adjustments	1,874,440	2,015,626
Claims liquidated	(1,345,987)	(1,344,276)
Claims liability at June 30	\$2,951,833	\$2,423,380

The components of the claims liability at June 30 are:

	2017	2016
Current portion	\$671,543	\$993,586
Noncurrent portion	2,280,290	1,429,794
Total claims liability	\$2,951,833	\$2,423,380

I. Commitments and contingencies

Construction Commitments. At June 30, 2017, the uncompleted construction and other commitments for construction improvements and replacements was \$64,427,003. 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.

J. Reclassification of prior year presentation

Certain fiscal year 2016 amounts have been reclassified to conform to the fiscal year 2017 presentation. These reclassifications had no effect on the reported results of operations. An adjustment has been made to revenues and expenses for the reporting of franchise fees. These fees are not a revenue source for the Water Authority, rather a pass-through source to the designated entity. An adjustment was also made to deferred outflows of resources and deferred inflows of resources to consistently account for the net difference between projected and actual earnings on pension plan investments.

K. Subsequent events

In preparing these financial statements, the Water Authority has evaluated events and transactions for potential recognition or disclosure through November 29, 2017, the date the financial statements were finalized. There are no material events to be reported.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

SCHEDULE OF FUNDING PROGRESS – LIFE INSURANCE BENEFIT PLAN

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
06/30/2013	-	\$5,100,685	\$5,100,685	0.00%	\$25,842,595	19.74%
06/30/2014	818,273	1,212,912	394,639	67.5%	28,661,693	1.4%
07/01/2015	798,900	1,282,408	483,508	62.3%	27,106,082	1.8%

Note: This schedule represents the funding progress for only the Water Authority portion of the OPEB Trust Fund total unfunded actuarial accrued liability.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION CONTINUED

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

SCHEDULE OF THE WATER AUTHORITY'S PROPORTIONATE SHARE OF PERA'S NET PENSION LIABILITY

MUNICIPAL GENERAL PLAN 3

LAST 10 FISCAL YEARS (*)

	2017	2016	2015
Water Authority's proportion of the net pension liability (asset)	0.9580%	0.8958%	0.8842%
Water Authority's proportionate share of the net pension liability	59,008,103	38,165,167	29,351,538
Water Authority's covered payroll	31,630,023	30,541,919	31,037,398
Water Authority's proportionate share of the net pension liability (asset) as percentage of its covered payroll	186.56%	124.96%	94.57%
Plan fiduciary net position as a percentage of the total pension liability	69.18%	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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION CONTINUED

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

SCHEDULE OF THE WATER AUTHORITY'S PENSION CONTRIBUTIONS

MUNICIPAL GENERAL PLAN 3

LAST 10 FISCAL YEARS (*)

	2017	2016	2015
Contractually required contribution	\$3,129,931	\$3,020,676	\$2,959,288
Contributions in relation to the contractually required contribution	(3,129,931)	(3,020,676)	(2,959,288)
Contribution deficiency (excess)	-	-	-
Water Authority's covered payroll	\$32,774,164	\$31,630,023	\$30,541,919
Contributions as a percentage of covered payroll	9.55%	9.55%	9.55%

(*) 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.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION CONTINUED

FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

PENSION PLAN

Change in Accounting Principle. For the year ended June 30, 2017, the Water Authority implemented the provisions of GASB Statement No. 82, *Pension Issues*. The statement changed the measure of payroll that is required to be presented in required supplementary information from covered-employee payroll to covered payroll. Accordingly, payroll amounts presented in the pension plan schedules and related ratios for prior periods have been restated.

Actuarial Assumptions for Valuations Performed. The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated, which is the most recent actuarial valuation. The actuarial assumptions used are disclosed in the notes to the financial statements.

Changes of Benefit Terms. The PERA Fund cost-of-living (COLA) and retirement eligibility benefit changes in recent years are described in Note 1 of the PERA audited comprehensive annual financial report available at the following web address: <http://www.nmpera.org/financial-overview>.

Changes of Assumptions. The PERA Annual Actuarial Valuation as of June 30, 2016, is available at the web address listed above. The summary of Key Findings for the PERA Fund (on page 2 of the report) states "New economic assumptions were adopted for the June 30, 2016 valuations." The impact of this change result in a decrease in the accrued liability of PERA and a decrease in the expected dollar amount of future contributions. For details about changes in the actuarial assumptions, see Appendix B on page 54 of the PERA Annual Actuarial Valuation referenced above.

APPENDIX B

BERNALILLO COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION

General

The economic and population hub of New Mexico (the “State”), Bernalillo County (the “County”) is located in the north central region of the State at the crossroads of Interstate Highways 25 and 40. Its boundaries encompass the entire City of Albuquerque, New Mexico (the “City”) which comprises 83% of the County’s population. With 678,968 residents (2017 estimated), the County ranks 92th in population of the nation’s 3,143 counties. The County comprises nearly 32% of the State’s population total and 75% of the four county Albuquerque Metropolitan Statistical Area, and is home to the University of New Mexico, Kirtland Air Force Base and Sandia National Laboratories. The County accounts for nearly half of all economic activity in the State. Its success can be attributed to a diverse economic base consisting of government, services, trade, agriculture, tourism, manufacturing, and research and development.

Because of its accessibility and tourist facilities, the County and the surrounding area is the gateway for tourism in the State as well as an attraction in its own right. The County and the City features the historic “Old Town”, the Sandia Peak Tramway and ski area, a number of nationally recognized museums and the Cibola National Forest. Other attractions include the Albuquerque International Balloon Fiesta, the National Hispanic Cultural Center, the Gathering of Nations Native American event, and the New Mexico State Fair. There are several Indian pueblos within easy driving distance that draw many tourists because of their historical and cultural significance and arts.

Population

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

POPULATION

Year	Bernalillo County	Albuquerque MSA	State
1960	262,199	292,500 ⁽¹⁾	951,023
1970	315,774	373,812 ⁽¹⁾	1,017,055
1980	419,700	515,776 ⁽¹⁾	1,303,303
1990	480,577	589,131	1,515,069
2000 ⁽²⁾	555,949	729,648	1,819,046
2010 ⁽³⁾	662,564	887,077	2,059,179
2018 ⁽⁴⁾	682,330	914,476	2,081,363
2023 ⁽⁴⁾	691,883	928,921	2,101,278

⁽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⁾ 2000 decennial census U.S. Dept. of Commerce, Bureau of the Census. The Census in 2000 expanded the Albuquerque MSA to include Torrance County, population of 16,911.

⁽³⁾ 2010 decennial census U.S. Dept. of Commerce, Bureau of the Census.

⁽⁴⁾ Estimates, Source: Spotlight, 2018

Source: 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

Age	Albuquerque MSA	State	United States
0-17	22.70%	23.90%	22.80%
18-24	9.06%	9.80%	9.80%
25-34	13.93%	13.30%	13.40%
35-44	12.75%	11.87%	12.60%
45-54	12.30%	11.90%	13.10%
55 and Older	29.26%	29.23%	28.30%

Source: Spotlight 2018

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

Calendar Year	Albuquerque MSA	New Mexico	United States
2007	\$33,717	\$31,703	\$39,821
2008	35,195	33,447	41,082
2009	34,218	32,523	39,376
2010	34,097	33,109	40,277
2011	35,547	34,729	42,453
2012	35,678	35,410	44,267
2013	35,006	34,724	44,462
2014	36,944	36,656	46,414
2015	38,563	37,938	48,112
2016	n/a	38,796	49,681

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

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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	United States
Under \$25,000	24.89%	27.27%	20.37%
\$25,000 - \$34,999	10.07%	10.65%	9.21%
\$35,000 - \$49,999	13.28%	13.71%	12.87%
\$50,000 - \$74,999	17.71%	16.84%	17.09%
Over \$75,000	34.05%	31.51%	40.46%
2014 Est. Median Household Income	\$44,391	\$44,292	\$51,579
2015 Est. Median Household Income	\$48,234	\$45,633	\$53,706
2016 Est. Median Household Income	\$48,792	\$45,455	\$55,551
2017 Est. Median Household Income	\$50,160	\$47,043	\$57,462
2018 Est. Median Household Income	\$52,172	\$48,044	\$60,133

Source: Spotlight 2018.

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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
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
2017	971	183,587,235	984	60,907,961	132	242,802,744	9	25,894,927	298,194,709	811,387,576
Growth 2016 to 2017	6.1%	-0.6%	73.5%	39.5%	50.0%	102.5%	-30.8%	-7.1%	29.3%	33.7%

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)	9,592	5,121	4,471	N/A
Estimated Units as of July 2016	248,758	167,622	71,310	9,826

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

Employment

Employment in the Albuquerque MSA in the period from Fiscal Year 2008 to Fiscal Year 2017 declined at an average of 0.2% a year. From Fiscal Year 2008 to Fiscal Year 2012 approximately 27,700 jobs were lost. In the following five fiscal years (2013 through 2017) the economy added just over 19,000 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 the City is still about 8,500 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.

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>
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
2017	389.5	1.7	834.1	0.8	145,433	1.6

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.

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CIVILIAN EMPLOYMENT/UNEMPLOYMENT RATES

Fiscal Year	Civilian Labor Force	Number Employed	Unemployment Rates		
			Albuquerque MSA	New Mexico	United States
2008	405,568	389,723	3.9%	3.9%	5.0%
2009	407,287	381,530	6.3	6.2	7.6
2010	413,684	380,616	8.0	8.1	9.8
2011	423,100	390,421	7.7	7.7	9.3
2012	419,028	387,812	7.4	7.4	8.5
2013	417,158	388,285	6.9	6.9	7.8
2014	414,365	386,289	6.8	6.9	6.8
2015	415,144	388,916	6.3	6.5	5.7
2016	418,630	393,173	6.1	6.6	5.0
2017	425,362	399,443	6.1	6.7	4.7

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 2017.

MAJOR EMPLOYERS IN THE ALBUQUERQUE AREA By Number of Employees – 2017

Organization	Employees	Description
Albuquerque Public Schools	14,810	Educational
Kirtland Air Force Base (Civilian)	10,125	Air Force Material Command
Sandia National Labs	9,852	Research Development
Presbyterian	7,310	Healthcare
UNM Hospital	6,021	Healthcare
City of Albuquerque	5,500	Government
State of New Mexico	4,950	Government
University of New Mexico	4,210	Education
Lovelace Health Systems	4,000	Healthcare
Bernalillo County	2,648	Government
Rio Rancho Public Schools	2,000	Education
Sandia Resort and Casino	2,000	Resort and Casino
Central NM Community College	1,840	Education
T-Mobile	1,750	Telecommunications

Source: Albuquerque Economic Development, Data as of January 1, 2018

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 2018 Bonds. These summaries and excerpts do not purport to be complete and reference is made to the Bond 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 fund previously established by the Water Authority and continued in the Bond Ordinance.

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, 6-14-8 through 6-14-11 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 2018 BONDS. The Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer System Improvement Revenue Bonds, Series 2018 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, the Confirming Resolution and the Sale Certificate.

BOND ORDINANCE. The 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.

DRINKING WATER STATE REVOLVING FUND LOAN AGREEMENT #4200 (2018). The loan agreement between the NMFA and the Water Authority in the original principal amount of \$505,000 authorized and approved by Water Authority Ordinance No. O-18-2 and Resolution No. R-18-7 constituting a senior lien on the Net Revenues.

DRINKING WATER STATE REVOLVING FUND LOAN AGREEMENT #4202 (2018). The loan agreement between the NMFA and the Water Authority in the original principal amount of \$250,000 authorized and approved by Water Authority Ordinance No. O-18-5 and Resolution No. R-18-11 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.

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, legal fees and expenses, 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).

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 January 1, 2019.

JOINT WATER AND SEWER FUND. The “City of Albuquerque, New Mexico, Joint Water and Sewer Fund” originally established in Section 16 of City 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 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 "local government investment pool" 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. Acquiring additional System assets, extending, repairing, replacing and improving the Water Authority's System 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 (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.

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 of 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, 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.

SALE CERTIFICATE. One or more certificates executed by the Chief Financial Officer or other Authorized Officer dated on or before the date of delivery of the Bonds, setting forth the following final terms of the Bonds: (i) the interest and principal payment dates; (ii) the principal amounts, denominations and maturity amortization; (iii) the sale prices; (iv) the interest rate or rates; (v) the interest payment periods; (vi) the redemption and tender provisions; (vii) the creation of any capitalized interest fund, including the size and funding of such fund(s); (viii) the amount of underwriting discount, if any; and (ix) the final terms of agreements, if any, with agents or service providers required for the purchase, sale, issuance and delivery of the Bonds, all subject to the parameters and conditions contained in the Bond Ordinance.

SENIOR OBLIGATIONS. 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, the Drinking Water State Revolving Fund Loan Agreement #DW-4200 (2018), the Drinking Water State Revolving Fund Loan Agreement #DW-4202 (2018), the

Series 2018 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. 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 2017” in the original principal amount of \$87,970,000, authorized and issued pursuant to Ordinance No. O-16-2 and Resolution F/S R-16-13 constituting a senior lien on the Net Revenues.

SERIES 2018 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 2018 Bonds.

SERIES 2018 BONDS ACQUISITION ACCOUNT. An account of the Acquisition Fund established for the deposit of the portion of the proceeds of the Series 2018 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. All other bonds and other obligations of the Water Authority 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 and Robert W. Baird & Co. Incorporated, 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 NMSA 1978 Section 72-1-10 operating under the name Albuquerque Bernalillo County Water Utility Authority.

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 2018 BONDS – Issuance of Additional System Obligations.”

Payment of Series 2018 Bonds

The principal of and premium, if any, on the Series 2018 Bonds are payable upon presentation and surrender of the Series 2018 Bonds at the principal office of the Paying Agent at or after their maturity or prior redemption dates. Interest on Series 2018 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 2018 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 2018 Bonds (or of one or more predecessor Series 2018 Bonds) as of the Record Date, but will be payable to the Owners of those Series 2018 Bonds (or of one or more predecessor Series 2018 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 2018 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 2018 Bond presented for payment remains unpaid at maturity, the unpaid principal will bear interest at the rate designated in that Series 2018 Bond. Payments of Series 2018 Bonds will be made without deduction for exchange or collection charges.

The Water 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 2018 Bonds, when due, to the Owners and comply with the requirements of any Credit Source. The Water Authority shall notify the Paying Agent if there is or will be an insufficient amount of money of the Water Authority legally available to pay principal and interest on the Series 2018 Bonds when due.

Registration, Transfer, Exchange and Ownership of Series 2018 Bonds

The Water Authority shall cause books for registration, transfer and exchange of the Bonds to be kept at the principal office of the Registrar. Upon surrender for transfer or exchange of any Bonds 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 Water Authority shall execute and the Registrar shall authenticate and deliver in the name of the transferee or Owner replacement Bonds of the same maturity, interest rate and aggregate principal amount in Authorized Denominations.

The person in whose name any Series 2018 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 2018 Bonds in Section 7(D) of the Ordinance. Payment of either the principal of or interest on any Series 2018 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 2018 Bonds to the extent of the amount paid.

If any Series 2018 Bond is lost, stolen, destroyed or mutilated, the Registrar, upon receipt of that Series 2018 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 2018 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 2018 Bond has matured or been called for redemption, the Registrar may direct the Paying Agent to pay that Series 2018 Bond in lieu of replacement.

Exchanges and transfers of Series 2018 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 2018 Bonds which may be and is tendered for purchase, the Registrar will not be required to transfer or exchange (i) any Series 2018 Bond during the five-day period preceding the mailing of notice calling Series 2018 Bonds, as applicable, for redemption and (ii) any Series 2018 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 2018 Bonds for completion of the 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 2018 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.

Use of Gross Revenues

As long as any Series 2018 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 Water 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 Water 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 2018 Bonds Debt Service Account

Net Revenues are required to be transferred to the Series 2018 Bonds Debt Service Account sufficient to pay when due Debt Service Requirements of the Series 2018 Bonds.

Except as stated in the Bond Legislation, substantially equal monthly deposits of Net Revenues shall be made to the Series 2018 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 2018 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 2018 Bonds, the Water Authority determines that there are not sufficient funds accumulated in the Series 2018 Bonds Debt Service Account to pay the amount becoming due on that payment date, the Water Authority is required to promptly deposit any available Net Revenues in the Series 2018 Bonds Debt Service Account in an amount equal to the deficiency. If, prior to any payment date for the Series 2018 Bonds, there has accumulated in the Series 2018 Bonds Debt Service Account the entire amount necessary to pay the amount becoming due on the Series 2018 Bonds payable from such account on that payment date, no additional Net Revenues need be deposited in the Series 2018 Bonds Debt Service Account prior to that payment date. In making the determinations permitted by this paragraph, the Water Authority may take into account the amount on deposit in any other fund or account or escrow relating to the Series 2018 Bonds irrevocably set aside for the next payment of the Series 2018 Bonds.

Amounts on deposit in the Series 2018 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 2018 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 2018 Bonds Termination upon Deposits to Maturity

No payments need be made into the Series 2018 Bonds Debt Service Account if the amount in the Series 2018 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 2018 Bonds, both accrued and not accrued, and all proceeds paid under any Credit Facility for the Series 2018 Bonds have been reimbursed. The money retained in that account shall be used only to

pay the Debt Service Requirements on the Series 2018 Bonds when due except that any money on deposit in the Series 2018 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. 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 Water Authority or by an agent or custodian of or for the Water Authority for the benefit of the Water Authority as permitted by State law. 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 Water 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 Water 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 Water Authority has covenanted and agreed with the Owners in the Ordinance as follows:

Use of Bond Proceeds

The Water 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 2018 Bonds

The Water Authority will promptly pay the Debt Service Requirements on Series 2018 Bonds at the place, on the dates and in the manner specified in the Bond Legislation and the Series 2018 Bonds.

Rate Covenants

(1) Senior Lien Obligations

The Water Authority will charge all purchasers of services of the System, including the Water 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 Water Authority will charge all purchasers of services of the System, including the Water 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 Water 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 Water 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 Water Authority. The Water Authority will request that consultant or manager to make its recommendations, if any, as to revisions of the Water 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 Water Authority substantially complies with the recommendations of the consultant or manager on a timely basis, the Water 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 Water 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 Water 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 Water 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 Water 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 Water Authority.

Levy of Charges

The Water 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 Water 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 Water 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 Water Authority.

Records; Right to Inspect

So long as Series 2018 Bonds remain Outstanding, the Water 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 2018 Bonds are not subject to inspection or copying.

Audits

So long as the Series 2018 Bonds are Outstanding, within 270 days following the close of each Fiscal Year, the Water 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 Water Authority ordinance. If permitted by law, if a bill is not paid within the period of time required by Water Authority ordinance, water and sanitary sewer services are to be discontinued as required by Water 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 Water 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 Water 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 Water 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 Water Authority will carry fire and extended coverage insurance. As required by law, the Water 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 2018 Bonds are Outstanding, the Water 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 Water 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 Water 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 2018 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 2018 Bonds then Outstanding.

Competent Management; Performing Duties

The Water 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.

Water Authority's Existence

The Water Authority will maintain its corporate identity, existence, and Board governance structure and determination of Board members as long as Series 2018 Bonds remain outstanding.

Tax Compliance

The Water Authority covenants that it will use and will restrict the use and investment of the proceeds of the Series 2018 Bonds in such manner and to such extent as may be necessary so that the Series 2018 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 Water 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 2018 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 2018 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 Water Authority as the Water 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 2018 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 Water Authority, as may be appropriate to assure the exclusion of interest from gross income and the intended tax status of the Series 2018 Bonds, and (iii) to give one or more appropriate certificates of the Authority, for inclusion in the transcripts of the proceedings for the Series 2018 Bonds, setting forth the reasonable expectations of the Water Authority regarding the amount and use of all the proceeds of the Series 2018 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 2018 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 2018 Bonds when due and payable, either at maturity or otherwise.
- (2) Failure to pay any installment of interest on the Series 2018 Bonds when due and payable.
- (3) For any reason, the Water Authority becomes incapable of fulfilling its obligations under the Bond Legislation.

(4) Default by the Water Authority in the due and punctual performance of its covenants, conditions, agreements and provisions contained in System Obligations or in any Water 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 Water 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 Water 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 Water 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 2018 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 Water 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 2018 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 Water 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 Water 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 2018 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 2018 Bonds and any Bond Insurance Policy will be discharged and those Series 2018 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 2018 Bonds to be defeased as the same become due to the final maturities or upon designated prior redemption dates, and (ii) any Series 2018 Bonds to be redeemed prior to maturity shall have been duly called for redemption or irrevocable instructions to call such Series 2018 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 2018 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 2018 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 Water 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 Water 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 Water 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 2018 Bonds at maturity or on a prior redemption date, interest payments and dates thereof, exchange, registration of transfer and registration of Series 2018 Bonds, replacement of mutilated, destroyed, lost or stolen Series 2018 Bonds, the safekeeping and cancellation of Series 2018 Bonds, non-presentment of Series 2018 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 2018 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 2018 Bonds is on deposit with the Paying Agent, and, in the case of Series 2018 Bonds to be redeemed, if notice of redemption has been given as provided in the Bond Ordinance, all liability of the Water Authority to the Owners of those Series 2018 Bonds will be discharged, those

Series 2018 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 2018 Bonds.

Delegated Powers

The officers of the Water Authority are authorized and directed to take all action from time to time which is necessary or appropriate to effectuate the provisions of the Bond Legislation and the Bonds, including, without limitation, the execution of any credit facility, any liquidity agreement, any remarketing agreement, any qualified exchange agreement, the delivery of a “deemed final” certificate relating to the disclosure document for the Bonds, the publication of a summary of this Bond Ordinance substantially in the form set out in Section 44, the distribution of material related to the Bonds, the printing of the Bonds and the execution of related documents and certificates pertaining to the System, the Bonds, and the delivery of and security for the Bonds, as may be reasonably required by the Underwriters. The officers of the Water Authority are authorized and directed to take all action from time to time which is desirable or necessary for the Water Authority with respect to arbitrage rebate requirements under Section 148(f) of the Code. Pursuant to Section 6-14-10.2 NMSA 1978 and the provisions of this Bond Ordinance, the Delegate is delegated the authority to approve the final terms of the Bonds and to execute the Sale Certificate and Bond Purchase Agreement all within the parameters set forth in this Bond Ordinance. The Delegate executed the Bond Purchase Agreement and the Sale Certificate finalizing the sale of the Bonds on October 16, 2018.

The Executive Director of the Water Authority, or successor in interest, is hereby authorized and directed to make such changes or corrections to the procedures established in the Bond Legislation relating to the times of day or the days on which actions are required to be taken, or the persons responsible for particular actions, the form of notice of the occurrence of events, the types and forms of actions required and other similar administrative matters which, in the judgment of the Executive Director, are necessary and appropriate to accomplish the purposes of the Bond Legislation and to provide for the efficient administration of the System and the Bonds. Notice of any such changes or corrections shall be given to all persons affected thereby.

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 2018 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 2018 Bonds from any rating agency if the amendment, in the judgment of Bond Counsel, does not materially adversely affect the Owners of the Series 2018 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 Water Authority of any additional consideration, but with the written consent of the Owners of a majority of the principal amount of the Series 2018 Bonds then outstanding which are affected by the amendment or supplement (not including any Series

2018 Bonds which are then owned by or for the account of the Water 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 2018 Bond; or
- (2) A reduction in the principal amount of, premium, if any, or interest rate on any Series 2018 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 2018 Bonds required for consent to such amendment or supplement.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

October 31, 2018

Albuquerque Bernalillo County Water Utility Authority
Albuquerque, New Mexico

\$75,085,000
Albuquerque Bernalillo County Water Utility Authority
Senior Lien Joint Water and Sewer System Improvement Revenue Bonds,
Series 2018

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 \$75,085,000 Senior Lien Joint Water and Sewer System Improvement Revenue Bonds, Series 2018 (the “Bonds”). The Bonds are issued pursuant to the Constitution and laws of the State of New Mexico (the “State”) and Water Authority Ordinance WUA O-18-7 and Water Authority Resolution No. WUA R-18-20 adopted by the Water Authority on September 19, 2018 (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 excludable from 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 calculating the alternative minimum tax imposed on individuals under provisions contained in the Internal Revenue Code of 1986, as amended. Although we are of the 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. 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

\$75,085,000

**ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SENIOR LIEN JOINT WATER AND SEWER SYSTEM IMPROVEMENT REVENUE BONDS,
SERIES 2018**

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 Issuer Ordinance WUA O-18-7 adopted by the Issuer on September 19, 2018 (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 2019, 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.

(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: OCTOBER 31, 2018

**ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY**

Chair