NOTICE

$97,165,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding Revenue Bonds
Series 2014A

$87,990,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds
Series 2014B

Preliminary Official Statement, subject to completion,
dated August 8, 2014

The Preliminary Official Statement, dated August 8, 2014 (the "Preliminary Official Statement"), relating to the above-described bonds (the "Bonds") of the Albuquerque Bernalillo County Water Utility Authority (the "Authority" or "ABCWUA"), has been posted as a matter of convenience. The posted version of the Preliminary Official Statement has been formatted in Adobe Portable Document Format. Although this format should replicate the Preliminary Official Statement available from the Authority, appearance may vary for a number of reasons, including electronic communication difficulties or particular user software or hardware. Using software other than Adobe Acrobat may cause the Preliminary Official Statement that you view or print to differ in appearance from the Preliminary Official Statement.

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

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

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

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

Preliminary Official Statement dated August 8, 2014

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 8, 2014

New Issue – Book-Entry Only

Standard Poor's: Senior Lien –AA+
Subordinate Lien –AA
Moody's: Senior Lien –Aa2
Subordinate Lien –Aa3
Fitch: Senior Lien – AA
Subordinate Lien -- AA

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants described in "TAX MATTERS" herein, interest on the Series 2014 Bonds (including original issue discount treated as interest) (a) is excludable from the gross income of the recipients thereof, for federal income tax purposes, (b) is not a specific preference item for purposes of the federal alternative minimum tax for individuals and corporations, but such interest on the Series 2014 Bonds will be included in the adjusted current earnings of certain corporations, and (c) is excludable from net income for purposes of certain New Mexico taxes imposed on individuals, estates, trusts and corporations. For a more complete description of such opinion of Bond Counsel and a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the federal tax treatment of interest on the Series 2014 Bonds for certain owners of such bonds, see "TAX MATTERS" herein.

$97,165,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014A

$87,990,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014B

Dated: Date of Delivery **Due:** July 1, as shown herein

The Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014A (the "Series 2014A Bonds") and the Albuquerque Bernalillo County Water Utility Authority Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014B (the "Series 2014B Bonds" and, collectively, with the Series 2014A Bonds, the "Series 2014 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 will act as securities depository for the Series 2014 Bonds through its nominee, Cede & Co. One fully registered bond equal to the principal amount of each maturity of the Series 2014 Bonds will be registered in the name of Cede & Co. Individual purchases of Series 2014 Bonds will be made in book-entry form only, and beneficial owners of the Series 2014 Bonds will not receive physical delivery of bond certificates representing their ownership of the Series 2014 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 2014 Bonds, as more fully described herein.

The Series 2014A Bonds are being issued to provide funds for: (i) the advance refunding of the New Mexico Finance Authority Public Project Revolving Fund Loan Agreement (2005) maturing on and after May 1, 2016 and (ii) the advance refunding of the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2006A maturing on and after July 1, 2017. The Series 2014B Bonds are being issued to provide funds for: (i) the advance refunding of the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2005 maturing on and after July 1, 2016 and (ii) the current refunding of all of the outstanding New Mexico Environment Department Loan Agreement dated June 18, 2002.

Interest on the Series 2014 Bonds will be payable semiannually on each January 1 and July 1, commencing January 1, 2015. Payments of principal of and interest on the Series 2014 Bonds will be made directly to DTC or its nominee, Cede & Co., by the Chief Financial Officer of the Authority, as Paying Agent, so long as DTC or Cede & Co. is the sole registered owner. Principal of the Series 2014 Bonds is payable on the dates and interest is payable at the rates shown on the Maturity Schedules set forth on the inside cover.

SEE MATURITY SCHEDULES ON INSIDE COVER OF THIS OFFICIAL STATEMENT

The Series 2014 Bonds may be subject to optional and mandatory sinking fund redemption as described herein.

The Series 2014 Bonds are special, limited obligations of the Authority, payable solely from and secured by the Net Revenues of the Authority's Joint Water and Sewer System. The lien of the Series 2014A Bonds on the Net Revenues is on parity with the Senior Obligations of the Authority (currently outstanding in the aggregate principal amount of $606,751,214, and post-refunding in the amount of $508,411,214*) and the lien of the Series 2014B Bonds on the Net Revenues is on parity with the Subordinate Obligations of the Authority (currently outstanding in the aggregate principal amount of $14,827,972, and post-refunding in the amount of $96,830,187*). The issuance of the Series 2014 Bonds shall not, directly, indirectly or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The Authority does not have taxing power.

In connection with the issuance of the Series 2014 Bonds, the Authority will commit to provide certain annual information and notice of certain material events as described herein under the caption "CONTINUING DISCLOSURE UNDERTAKING." The Series 2014 Bonds are offered when, as, and if issued by the Authority and purchased by the Underwriters and subject to the delivery of approving opinions by Modrall, Sperling, Roehl, Harris & Sisk, P.A, and certain other conditions. Certain legal matters will be passed on for the Authority by its General Counsel, Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., and by Modrall, Sperling, Roehl, Harris & Sisk, P.A., Disclosure Counsel. RBC Capital Markets, LLC serves as Financial Advisor to the Authority. Certain legal matters will be passed on for the Underwriters by Hogan Lovells US LLP. Delivery of the Series 2014 Bonds is expected on or about September 24, 2014 through the facilities of The Depository Trust Company, New York, New York, against payment therefor.

J.P. MORGAN

BAIRD **STIFEL** **PIPER JAFFRAY & CO.**

Official Statement dated August __, 2014

*Preliminary, subject to change.

MATURITY SCHEDULES

$97,165,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Senior Lien Joint Water and Sewer System Refunding Revenue Bonds
Series 2014A

Maturity Date (July 1)	Principal Amount*	Interest Rate	Yield	Cusip No.†
2015	--			
2016	$1,140,000			
2017	8,130,000			
2018	8,335,000			
2019	8,610,000			
2020	8,905,000			
2021	9,335,000			
2022	9,885,000			
2023	10,365,000			
2024	10,885,000			
2025	11,360,000			
2026	10,215,000			

$87,990,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds
Series 2014B

Maturity Date (July 1)	Principal Amount*	Interest Rate	Yield	Cusip No.†
2015	$455,000			
2016	9,170,000			
2017	10,955,000			
2018	8,125,000			
2019	8,220,000			
2020	8,285,000			
2021	8,310,000			
2022	8,510,000			
2023	8,585,000			
2024	8,650,000			
2025	8,725,000			

†The above referenced CUSIP numbers have been assigned by an independent company not affiliated with the parties to this bond transaction and are included solely for the convenience of the holders of the Series 2014 Bonds. Neither the Authority nor the Underwriters is responsible for the selection or uses of such CUSIP numbers, and no representation is made as to their correctness on the Series 2014 Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Series 2014 Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities.

*Preliminary, subject to change.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY

REGISTRAR AND PAYING AGENT
Chief Financial Officer
Albuquerque Bernalillo County Water Utility Authority

BOND AND DISCLOSURE COUNSEL
Modrall, Sperling, Roehl, Harris & Sisk, P.A.
Albuquerque, New Mexico

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

FINANCIAL ADVISOR
RBC Capital Markets, LLC
Albuquerque, New Mexico

No dealer, salesperson or other person has been authorized by the Authority or the Underwriters to give any information or to make any statements or representations, other than those contained in this Official Statement, and, if given or made, such other information, statements or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of the Series 2014 Bonds in any jurisdiction in which such offer or solicitation is not authorized, or in which any person making such offer or solicitation is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information set forth or included in this Official Statement has been provided by the Authority and from other sources believed by the Authority to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the Authority described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized.

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

The Series 2014 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 2014 Bonds in accordance with applicable provisions of the securities law of the states in which the Series 2014 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither the Securities and Exchange Commission nor any other federal, state, municipal or other governmental entity, nor any agency or department thereof, has passed upon the merits of the Series 2014 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

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

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

THE PRICES AT WHICH THE SERIES 2014 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 2014 BONDS, THE UNDERWRITERS MAY EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2014 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

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Series 2014A

$87,990,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds
Series 2014B

INTRODUCTION

This Official Statement, which includes the cover page and appendices hereto, provides certain information in connection with the offer and sale of the Senior Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014A (the "Series 2014A Bonds") and the Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014B (the "Series 2014B Bonds" and collectively, with the Series 2014A Bonds, the "Series 2014 Bonds" or the "Bonds") by the Albuquerque Bernalillo County Water Utility Authority (the "Authority"). Capitalized terms used herein and not defined have the meanings specified in Authority Ordinance WUA O-14-2 and Authority Resolution No. WUA R-14-10 to be adopted by the Authority on August 20, 2014 (collectively, the "Bond Ordinance"). See "DESCRIPTION OF BOND ORDINANCE - Definitions" in Appendix C hereto.

This introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of Series 2014 Bonds to potential investors is made only by means of the entire Official Statement.

Albuquerque Bernalillo County Water Utility Authority

The joint water and sanitary sewer system (the "System") was owned by the City of Albuquerque, New Mexico (the "City") and operated by its Public Works Department prior to creation of the Authority. In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and resulted in the City transferring to the Authority all functions, appropriations, money, records, equipment and other real and personal property pertaining to the System. The legislation also provides that the obligations of the City payable from net revenues of the System are obligations of the Authority and that the Authority shall not impair the rights of holders of outstanding obligations of the System. The policy-making functions for the System were also transferred to the Authority. Revenue bond obligations relating to the System issued by the City prior to the transfer of the System to the Authority are now the obligations of the Authority. The Authority has a minimal relationship with the City under the current Memorandum of Understanding, dated July 1, 2013,

*Preliminary, subject to change.

by and between the Authority and the City which expires in 2018. These ties include the Authority's rental of space and computer equipment from the City and Authority employees may participate in certain City employment benefits such as medical, dental, vision and life insurance. Other than these limited connections, the Authority operates independently of the City and Bernalillo County, New Mexico (the "County").

The Authority's Board (the "Board") governs the water and sewer utility for all of the City and County. The Authority's membership includes three Bernalillo County Commissioners, three Albuquerque City Councilors, the Mayor of Albuquerque and a Village of Los Ranchos de Albuquerque Trustee (as an Ex Officio member). The current members of the governing board are as follows: Councilor Klarissa J. Peña, Chair; Commissioner Maggie Hart Stebbins, Vice-Chair; Mayor Richard J. Berry; Commissioner Art De La Cruz; Councilor Rey Garduño; Councilor Trudy E. Jones; Commissioner Debbie O'Malley; and Trustee Pablo R. Rael, Ex-Officio (non-voting). The Executive Director of the Authority is Mark Sanchez.

The Authority focuses on drinking water delivery and wastewater treatment services in its service area and has approximately 630 employees. Attached as Appendix B hereto is Bernalillo County Economic and Demographic Information.

Purpose of the Bonds

The Authority has structured its debt obligations with a lien on Net Revenues into three separate lien levels, Senior Obligations, Subordinate Obligations and Super Subordinate Obligations. The Authority is undertaking the Refunding Project to realize interest costs savings while also restructuring its Senior Lien and Subordinate Lien debt to better align with its policy goals and objectives. Currently, the Authority has the following outstanding obligations:

Senior Obligations

Obligation	Principal Amount of Original Issue	Outstanding Principal Amount
NMFA Drinking Water State Revolving Fund Loan (2003)	$3,600,000	$333,826
NMFA – Public Project Revolving Fund Loan (2005)(1)	20,000,000	16,395,000
Revenue Bonds, Series 2005(2)	132,985,000	100,355,000
Revenue Bonds, Series 2006A(3)	133,390,000	103,445,000
NMFA – Public Project Revolving Fund Loan (2007)	77,005,000	51,820,000
Revenue Bonds, Series 2008A	55,630,000	55,630,000
Revenue Bonds, Series 2009A-1	135,990,000	114,890,000
NMFA – Drinking Water Revolving Fund Loan (2009)	1,010,000	862,388
NMFA – Public Project Revolving Fund Loan (2011)	53,400,000	46,025,000
Revenue Bonds, Series 2013A-B	118,215,000	116,215,000
Total Senior Obligations		$606,751,214

(1) To be partially refunded with proceeds from the Series 2014A Bonds as Senior Obligations.
(2) To be partially refunded with proceeds from the Series 2014B Bonds as Subordinate Obligations.
(3) To be partially refunded with proceeds from the Series 2014A Bonds as Senior Obligations.

Subordinate Obligations

Obligation[(1)]	**Principal Amount of Original Issue**	**Outstanding Principal Amount**
Wastewater Loans from the State Environment Department:		
June 2002 Loan[(2)]	$10,426,232	$5,987,789
New Mexico Finance Authority Drinking Water Loan (2008)	9,627,877	8,840,187
Total Subordinate Obligations		$14,827,976

(1) On July 21, 2014, the Authority used legally available funds to retire three drinking water loan transactions with the New Mexico Finance Authority entered into in 2010 which were Subordinate Obligations.
(2) To be refunded with proceeds from the Series 2014B Bonds as Subordinate Obligations.

Super Subordinate Obligations

Obligation	**Principal Amount Of Original Issue**	**Outstanding Principal Amount**
Water Trust Board Loan (2009)	$50,000	$38,524
Water Trust Board Loan (2009)	100,000	77,163
Water Trust Board Loan (2010)	200,000	160,795
Water Trust Board Loan (2011)	452,000	385,632
Water Trust Board Loan (2011)	640,000	546,028
Water Trust Board Loan (2011)	63,354	54,051
Total Super Subordinate Obligations		$1,262,193

Proceeds from the sale of the Series 2014A Bonds will be used to provide funds for: (i) the advance refunding of the New Mexico Finance Authority Public Project Revolving Fund Loan Agreement (2005) maturing on and after May 1, 2016 in the aggregate principal amount of $15,385,000 (the "2005 NMFA Loan") and (ii) the advance refunding of the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2006A maturing on and after July 1, 2017 in the aggregate principal amount of $89,940,000 (the "Series 2006A Bonds"). The partial refunding of the 2005 NMFA Loan and the Series 2006A Bonds will result in debt service savings for the Authority.

Proceeds from the sale of the Series 2014B Bonds will be used to provide funds for: (i) the advance refunding of the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2005 maturing on and after July 1, 2016 in the aggregate principal amount of $90,180,000 (the "Series 2005 Bonds") and (ii) the current refunding of all of the outstanding New Mexico Environment Department Loan Agreement dated

June 18, 2002 in the aggregate principal amount of $5,987,789 (the "EID Loan"). The partial refunding of the Series 2005 Bonds and the refunding of the EID Loan will result in debt service savings for the Authority.

At the time of issuance of the Series 2014 Bonds, the Authority will deposit proceeds of the Series 2014 Bonds to an escrow fund held with BOKF, NA dba Bank of Albuquerque, pursuant to an Escrow Agreement by and between the Authority and Bank of Albuquerque, resulting in the defeasance of the callable portions of the 2005 NMFA Loan, Series 2005 Bonds and Series 2006A Bonds. The EID Loan will be paid and redeemed at the time of issuance of the Series 2014B Bonds. See "PLAN OF FINANCING – Sources and Uses of Bond Proceeds."

Authority for Issuance

The Series 2014 Bonds are issued under the authority of and pursuant to the Constitution and laws of the State of New Mexico, and all enactments of the Board relating to the issuance of the Series 2014 Bonds.

Sources of Payment for the Bonds

Special Limited Obligations

The Series 2014 Bonds are special, limited obligations of the Authority, payable solely from Net Revenues, money on deposit in certain of the funds and accounts held under the Bond Ordinance, and the earnings thereon. As long as the Series 2014 Bonds are outstanding, the Bond Ordinance prohibits the Authority from issuing additional System Obligations (as defined below) with a lien on Net Revenues prior and superior to the lien of the Series 2014A Bonds. System Obligations with a lien on Net Revenues on parity with the Series 2014A Bonds or on parity with the Series 2014B Bonds may be issued under certain circumstances as set forth in the Bond Ordinance. See "DESCRIPTION OF THE SERIES 2014 BONDS – Issuance of Additional System Obligations."

Net Revenues

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

Attached as Appendix A hereto is an excerpt from the Authority's audited financial statements for the Fiscal Year ended June 30, 2013.

Outstanding Senior and Subordinate Obligations

Upon issuance, the Series 2014A Bonds will have a lien on Net Revenues that is on parity with the lien of the following Outstanding Senior Obligations:

New Mexico Finance Authority Drinking Water Loan (2003);
New Mexico Finance Authority Public Project Revolving Fund Loan (2005);
Joint Water and Sewer System Improvement Revenue Bonds, Series 2005;
Joint Water and Sewer System Improvement Revenue Bonds, Series 2006A;
New Mexico Finance Authority Public Project Revolving Fund Loan (2007);
Joint Water and Sewer System Improvement Revenue Bonds, Series 2008A;
Joint Water and Sewer System Improvement Revenue Bonds, Series 2009A-1;
New Mexico Finance Authority Drinking Water Revolving Fund Loan (2009);
New Mexico Finance Authority Public Project Revolving Fund Loan (2011); and
Joint Water and Sewer System Improvement and Refunding Revenue Bonds (2013A-B).

All the Outstanding Senior Obligations were issued pursuant to ordinances and resolutions adopted by the City or, after January 2004, by the Authority, and are more fully described in "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations - Outstanding Senior Obligations." The total principal amount of the Outstanding Senior Obligations after delivery of the Series 2014A Bonds is expected to be approximately $508,411,214*. The Authority currently plans to issue additional Senior Obligations in Calendar Year 2015 in the anticipated aggregate principal amount of $71,000,000* for its basic capital program.

Upon issuance, the Series 2014B Bonds will have a lien on Net Revenues that is on parity with the lien of the New Mexico Finance Authority Drinking Water Loan (2008).

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 - Outstanding Subordinate Obligations." The total principal amount of the Outstanding Subordinate Obligations after delivery of the Series 2014B Bonds is expected to be approximately $96,830,187.*

The Authority has incurred additional obligations with a super subordinate lien on the Net Revenues of the System. The Super Subordinate Obligations are six outstanding loans with the New Mexico Water Trust Board which are outstanding in the aggregate principal amount of $1,262,193. None of the Super Subordinate Obligations will be redeemed with proceeds from the Series 2014 Bonds.

*Preliminary, Subject to Change

Protective Covenants

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

The Joint Water and Sanitary Sewer System

The Water System provides water services to approximately 643,881 residents comprising approximately 95% of the residents of the County. About one-third of unincorporated County residents are customers of the Water System. As of January 1, 2014, service is provided to approximately 194,360 customers, including 174,193 residential and 20,167 multi-family, commercial, institutional and industrial accounts. Approximately 60% 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 2013, the Authority's water resources use consisted of 56% from groundwater and 44% from San Juan-Chama surface water. The groundwater supply is produced from 101 wells grouped in 25 well fields located throughout the metropolitan area and the surface water is diverted from the Rio Grande. Total well production capacity is approximately 294 million gallons per day ("MGD"). Maximum historical peak day demand is 214 MGD. A chlorination station associated with each well field satisfies the total required water treatment needs for the water produced in each well field. See "JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY."

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

Terms of the Bonds

Payments

The Series 2014 Bonds will be dated the date of delivery. Interest on the Series 2014 Bonds is payable on January 1 and July 1 of each year, commencing January 1, 2015. The Series 2014 Bonds will mature on July 1 of the years and in the amounts and will bear the interest rates shown on the inside front cover.

Record Date

The record date for the Series 2014 Bonds is the fifteenth day of the calendar month preceding each January 1 and July 1.

Denominations

The Series 2014 Bonds will be issued in denominations of $5,000, or integral multiples thereof.

Book-Entry System

Individual purchases will be made in book-entry form only and purchasers of the Series 2014 Bonds will not receive physical delivery of bond certificates. Payments of principal of and interest on the Series 2014 Bonds will be made directly to The Depository Trust Company ("DTC") or its nominee, Cede & Co., by the Authority's Chief Financial Officer, or its successor, as Paying Agent (the "Paying Agent"), so long as DTC or Cede & Co. is the sole registered owner. DTC will remit such payments to the DTC participants for subsequent disbursement to the beneficial owners of the Bonds, all as more fully described in "DESCRIPTION OF THE SERIES 2014 BONDS - Book-Entry Only System." *While the Series 2014 Bonds are in book-entry only form, references in this Official Statement to Owners should be read to include the person for whom the DTC Participant acquires an ownership interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry only system, and (ii) notices that are to be given to Owners by the Authority or the Paying Agent will be given only to DTC.*

Redemption of the Series 2014 Bonds

The Series 2014 Bonds may be subject to optional and mandatory sinking fund redemption prior to maturity at the redemption prices and during the periods described under "DESCRIPTION OF THE SERIES 2014 BONDS – Redemption Prior to Maturity."

Issuance of Additional System Obligations

The Authority must meet certain tests prior to the issuance of additional Senior Obligations and Subordinate Obligations. For a description of these tests and consents, see "DESCRIPTION OF THE SERIES 2014 BONDS - Issuance of Additional System Obligations." The Authority may incur or issue Super Subordinate Obligations payable from Net Revenues without restriction.

Tax Considerations

In the opinion of Modrall, Sperling, Roehl, Harris & Sisk, P.A., Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming compliance with certain covenants in the documents relating to the Series 2014 Bonds and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), interest on the Series 2014 Bonds is excludable from the gross income of the recipients thereof for federal income tax purposes and is not a specific preference item for purposes of the alternative minimum tax for individuals, estates, trusts and corporations, but such interest on the Series 2014 Bonds will be included in the adjusted current earnings of certain corporations, and is excludable from net income for purposes of certain New Mexico taxes imposed on individuals, estates, trusts and corporations. For a more complete description of such opinion of Bond Counsel and a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the federal tax treatment of interest on the Series 2014 Bonds for certain owners of such bonds, see "TAX MATTERS."

Continuing Disclosure Undertaking

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

Historically, the Authority has timely filed its annual financial information and audited financial statements consistent with the terms of its outstanding Continuing Disclosure Undertakings and is in material compliance with these Undertakings. However, at the time the Authority filed annual financial information in January 2010, January 2011 and March 2014, related to Fiscal Years 2009, 2010 and 2013 respectively, audited financial statements were not complete for these fiscal years and the Authority chose not to provide unaudited financial information. As discussed elsewhere herein, the Authority's financial statements have been tied to the City of Albuquerque's financial system which has experienced problems and resultant delays over the past several years. These delays resulted in the Authority having incomplete and unreliable financial information at the time it filed its annual financial information. To avoid providing investors with unreliable information, the Authority waited until the respective audited financial statements were available and timely filed them with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System. Starting with Fiscal Year 2014, the Authority's audit will no longer be contingent on completion of the City's audit and the Authority does not anticipate any problems with the timely completion of its audited financial statements or providing reliable unaudited financial information as necessary. See "RISK FACTORS -- New Enterprise Resource Planning System/Decrease in Debt Service Coverage" herein.

Professionals Involved in the Offering

At the time of the issuance and sale of the Series 2014 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 2014 Bonds will be passed on for the Authority by Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., General Counsel, and by Modrall, Sperling, Roehl, Harris & Sisk, P.A., as Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by Hogan Lovells US LLP. See "LEGAL MATTERS."

RBC Capital Markets, LLC ("RBC") is employed as Financial Advisor to the Authority in connection with the issuance of the Series 2014 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2014 Bonds is contingent upon the issuance and delivery of the Series 2014 Bonds. RBC, in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification of, or assume responsibility for, the accuracy, completeness, or fairness of the information in this Official Statement.

Offering and Delivery of the Bonds

The Series 2014 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 in New York, New York on or about September 24, 2014.

Other Information

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

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

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the Owners of any of the Series 2014 Bonds.

RISK FACTORS

The ability of the Authority to pay principal of and interest on the Series 2014 Bonds depends primarily upon the receipt by the Authority of sufficient Net Revenues. Some of the events which could prevent the Authority from receiving a sufficient amount of Net Revenues to enable it to pay the principal of and interest on the Series 2014 Bonds are summarized below. The following description of risks is not intended to be an exhaustive list of the risks associated with the purchase of the Series 2014 Bonds and the order of the risks set forth below does not necessarily reflect the relative importance of the various risks.

Limited Obligations

The obligation of the Authority to pay debt service on the Series 2014 Bonds is a limited obligation of the Authority and is not secured by a legal or equitable pledge or charge or lien upon any property of the Authority or any of its income or receipts, except the Net Revenues. The obligation of the Authority to pay debt service on the Series 2014 Bonds does not constitute an obligation of the Authority to levy or pledge any form of taxation or for which the Authority has levied or pledged any form of taxation. The Authority is obligated under the Bond Ordinance to pay debt service on the Series 2014 Bonds solely from Net Revenues.

Factors that can adversely affect the availability of Net Revenues include, among other matters, weather conditions (drought or excessive rainfall that may affect water sales), general and local economic conditions, and changes in law and government regulations (including initiatives and moratoriums on growth). The realization of future Net Revenues is also subject to, among other things, the capabilities of management of the Authority, the ability of the Authority to provide water and wastewater service to its customers, the ability of the Authority to establish, maintain and collect charges for the water and wastewater service to its customers and the ability of the Authority to establish, maintain and collect rates and charges sufficient to pay debt service on the Series 2014 Bonds.

System Net Revenues and Expenditures

The operation and maintenance expenses of the System may increase in the coming years. Actual operation and maintenance expenses may be greater or less than projected. Factors such as changes in technology, regulatory standards, increased costs of material, energy, labor and administration can substantially affect System expenses. Although the Authority has covenanted to prescribe, revise and collect rates and charges in amounts sufficient to pay debt service on the Series 2014 Bonds, there can be no assurance that such amounts will be collected. Increases in System rates could result in a decrease in demand for System usage. The Authority actively and successfully pursues conservation efforts that limit the use of water and have a corresponding negative effect on System revenues. See "JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY – Water System – *Water Conservation Program.*" Over the past ten years, conservation efforts have resulted in an average water use decline of 29%.

Statutory and Regulatory Compliance

Changes in the scope and standards for public agency water and wastewater systems, such as the System, may lead to increasingly stringent operating requirements and the imposition of administrative orders issued by Federal or State regulators. Future compliance with such requirements and orders can impose substantial additional costs on the Authority. In addition, claims against the System for failure to comply with applicable laws and regulations could be significant. Such claims are payable from assets of the System or from other legally available sources. No assurance can be given that the cost of compliance with such existing or future laws, regulations and orders would not adversely affect the ability of the System to generate Net Revenues sufficient to pay debt service on the Series 2014 Bonds.

Risks Relating to the Water Supply

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

Security of the System

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

Utility Costs

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

Impact of Current Economic Conditions on System Net Revenues

The major economic disruptions and recession of the past several years have adversely affected the economic activity of the region in general, in particular resulting in decreased economic activity, increased unemployment and a reduction in residential and commercial construction. The Authority cannot predict the extent of the fiscal problems that will be encountered in this or 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 2014 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 2014 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.

New Enterprise Resource Planning System/Decrease in Debt Service Coverage

As a component unit of the City, the Authority experienced a delay in obtaining timely and reliable financial performance information from the City's financial reporting system in

Fiscal Years 2009 and 2010. The lack of timely and reliable information led to the deterioration of the Authority's financial position which resulted in debt service coverage falling below 133% of the annual Debt Service Requirements (the amount necessary to satisfy the rate covenant) on Senior Obligations and delayed audited financial information. The Authority subsequently employed a rate consultant to assess and make recommended revisions to the Authority's rate structure and other charges for use of the System to comply with the rate covenant as soon as practicable. The Authority has since implemented 5% rate increases in Fiscal Years 2012 and 2014, and 2015 and has approved 5% rate increases for Fiscal Years 2016 and 2018. The Authority implemented a new Enterprise Resource Planning System to better assess its financial performance and provide audited financial information in a timely manner. The Authority successfully utilizes the Enterprise Resource Planning System to more actively monitor its financial performance and provide timely audited financial information.

Subordinate Obligations

The lien on the Net Revenues securing the Series 2014B Bonds will be subordinate to the lien on the Net Revenues securing the Senior Obligations, and the payment of the Series 2014B Bonds will be subject to the prior payment of any Senior Obligations. The payment of the Series 2014B Bonds from Net Revenues will be on parity with payment of the Subordinate Obligations. See "SECURITY AND SOURCES OF PAYMENT" herein.

DESCRIPTION OF THE SERIES 2014 BONDS

Generally

Set forth below is a summary of certain provisions of the Series 2014 Bonds. This summary is qualified in its entirety by reference to the Bond Ordinance and the Series 2014 Bonds. See "DESCRIPTION OF BOND ORDINANCE" in Appendix C. Copies of the approved form of the Bond Ordinance are available from the Authority.

The Series 2014 Bonds will be dated the date of delivery. Interest on the Series 2014 Bonds will be payable on January 1 and July 1 of each year, commencing January 1, 2015, with a record date of the fifteenth day of the calendar month preceding each January 1 and July 1. The Series 2014 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 2014 Bonds will be issued in denominations of $5,000 or integral multiples thereof.

Book-Entry Only System

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but neither the Authority, Financial Advisor, Bond Counsel nor the Underwriters or their counsel take responsibility for the accuracy thereof.

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

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

Purchases of the Series 2014 Bonds under the DTC system must be made by or through Direct or Indirect Participants, which will receive a credit for the Series 2014 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2014 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 2014 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 2014 Bonds, except in the event that use of the book-entry system for the Series 2014 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2014 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 2014

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 2014 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2014 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 2014 Bonds are in the book-entry only system, redemption notices will be sent to DTC. If less than all of the Series 2014 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 2014 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 2014 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 2014 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, agent, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2014 Bonds at any time by giving reasonable notice to the Authority. Under such circumstances, in the event that a successor depository is not obtained, certificates representing the Series 2014 Bonds are required to be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates representing the Series 2014 Bonds will be printed and delivered to DTC.

Redemption Prior to Maturity

Optional Redemption

The Series 2014A Bonds maturing on and after July 1, _______ may be optionally redeemed, in whole or in part, at any time, on or after July 1, ________, upon the payment of the principal amount of the Series 2014A Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption. Interest on any Series 2014A Bonds called for redemption shall cease to accrue on the redemption date designated in the notice.

The Series 2014B Bonds maturing on and after July 1, _____ may be optionally redeemed, in whole or in part, at any time, on or after July 1, ________, upon the payment of the principal amount of the Series 2014B Bonds to be redeemed, plus accrued interest thereon to the date fixed for redemption. Interest on any Series 2014B Bonds called for redemption shall cease to accrue on the redemption date designated in the notice.

Unless money sufficient to pay the principal of and interest on the Series 2014 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 2014 Bonds called for redemption is not received by that time, (i) the Paying Agent will redeem only those Series 2014 Bonds for which the redemption price was received and the Series 2014 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 2014 Bonds for which the redemption price was not received and those Series 2014 Bonds will not be redeemed. The Registrar will give notice to the owners of the Series 2014 Bonds not redeemed in the manner in which the notice of redemption was given, identifying the Series 2014 Bonds previously called for redemption which were not redeemed and stating that the redemption did not take place with respect to those Series 2014 Bonds, and the Registrar will promptly return any Series 2014 Bonds not redeemed to the owners thereof.

Mandatory Sinking Fund Redemption

The Series 2014A Bonds maturing on July 1, __________ are subject to mandatory sinking fund redemption, by lot, and shall be redeemed on July 1 in the years set forth below in the amount of the corresponding sinking fund requirement for such Series 2014A Bonds at a redemption price of the principal amount of such Series 2014A Bonds called for redemption plus interest accrued to the date fixed for redemption, without premium, as follows:

$_____________ Series 2014A Bonds due July 1, _____

Year	Sinking Fund Requirement
	$
*	

*Maturity

The Series 2014B Bonds maturing on July 1, __________ are subject to mandatory sinking fund redemption, by lot, and shall be redeemed on July 1 in the years set forth below in the amount of the corresponding sinking fund requirement for such Series 2014B Bonds at a redemption price of the principal amount of such Series 2014B Bonds called for redemption plus interest accrued to the date fixed for redemption, without premium, as follows:

$_____________ Series 2014B Bonds due July 1, _____

Year	Sinking Fund Requirement
	$
*	

*Maturity

Notice of Redemption

Notice of redemption shall be given by the Registrar by sending notice thereof to the registered Owner of each Series 2014 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 2014 Bonds of a series subject to redemption will be redeemed at any one time, the Series 2014 Bonds to be redeemed will be selected by the Registrar in the manner and from the series and maturities designated by the Authority. If less than all of the Series 2014 Bonds within a maturity will be redeemed, the Series 2014 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 2014 Bond of such series to be redeemed and the portion of that Series 2014 Bond not to be redeemed are both to be in Authorized Denominations.

Issuance of Additional System Obligations

Senior Obligations

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

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

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

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

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

The required tests described above shall be performed without adjustment for payments to or withdrawals from the Rate Stabilization Fund (also referred to herein as the "Rate Reserve 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.

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

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

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

Subordinate Obligations

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

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

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

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

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

[1] This requirement is applicable only for so long as the 2005 Bonds, 2006A Bonds, 2008A Bonds, 2009 Bonds, 2013A&B Bonds, Drinking Water State Revolving Fund Loan (2003), Public Project Revolving Fund Loan Agreement (2005), Public Project Revolving Fund Loan Agreement (2007), Drinking Water State Revolving Loan Fund (2009), and Public Project Revolving Fund Loan Agreement (2011) are Outstanding. After these currently Outstanding Senior Obligations are no longer Outstanding, the Authority shall be required to only meet the tests set forth in (i) and (iii) under paragraph (1).

(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 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.

Super Subordinate Obligations

The 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. See "SECURITY AND SOURCES OF PAYMENT - Outstanding System Obligations – Subordinate and Super Subordinate Obligations."

Superior System Obligations Prohibited

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

PLAN OF FINANCING

Sources and Uses of Bond Proceeds

The estimated sources and uses of funds to be received in connection with the sale of the Series 2014 Bonds are set forth in the following table.

PRINCIPAL AMOUNT OF SERIES 2014A BONDS	$
Reoffering Premium	
PRINCIPAL AMOUNT OF SERIES 2014B BONDS	
Reoffering Premium	
TOTAL SOURCES OF BOND PROCEEDS	$
USES OF BOND PROCEEDS:	
Refunding(1)	
Underwriters' Discount	
Costs of Issuance(2)	
TOTAL USES OF BOND PROCEEDS	$

(1) See "The Project" under this caption.
(2) This amount includes legal and accounting fees, escrow fees, printing, posting, rating fees, and other miscellaneous costs.

The Project

Proceeds from the sale of the Series 2014A Bonds will be used to provide funds for: (i) the advance refunding of the New Mexico Finance Authority Public Project Revolving Fund Loan Agreement (2005) maturing on and after May 1, 2016 in the aggregate principal amount of $15,385,000 and (ii) the advance refunding, in part, of the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2006A maturing on and after July 1, 2017 in the aggregate principal amount of $89,940,000. The partial refundings of the 2005 NMFA Loan and the Series 2006A Bonds will result in debt service savings for the Authority.

Proceeds from the sale of the Series 2014B Bonds will be used to provide funds for: (i) the advance refunding, in part, of the Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2005 maturing on and after July 1, 2016 in the aggregate principal amount of $90,180,000, and (ii) the current refunding of all of the outstanding EID Loan dated June 18, 2002 in the aggregate principal amount of $5,987,789. The partial refunding of the Series 2005 Bonds will result in debt service savings for the Authority.

At the time of issuance of the Series 2014 Bonds, the Authority will deposit proceeds of the Series 2014 Bonds to an escrow fund held with BOKF, NA dba Bank of Albuquerque, pursuant to an Escrow Agreement by and between the Authority and Bank of Albuquerque, resulting in the defeasance of the 2005 NMFA Loan, Series 2005 Bonds and Series 2006A Bonds, as described above (collectively, the "Advance Refunded Obligations"). The EID Loan will be paid and redeemed at the time of issuance of the Series 2014B Bonds.

The principal and interest due on the Advance Refunded Obligations are to be paid on the scheduled interest payment dates up to the prepayment dates of May 1, 2015 (for the 2005 NMFA Loan), July 1, 2015 (for the Series 2005 Bonds), and July 1, 2016 (for the Series 2006A Bonds) from amounts to be deposited on the closing date to an escrow fund pursuant to a certain Escrow Agreement (the "Escrow Agreement") between the Authority and BOKF, NA dba Bank of Albuquerque (the "Escrow Agent"). The Bond Ordinance provides that from the proceeds of the sale of the Series 2014 Bonds received from the Underwriters, the Authority will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Advance Refunded Obligations on the prepayment date. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and used to purchase direct obligations of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the Advance Refunded Obligations.

Causey, Demgen & Moore P.C., Certified Public Accountants, Denver, Colorado, will verify at the time of delivery of the Series 2014 Bonds, the mathematical accuracy of the schedules and demonstrate that the Federal Securities will mature and bear interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay the principal of and interest on the Advance Refunded Obligations on the redemption dates of May 1, 2015 (for the 2005 NMFA Loan), July 1, 2015 (for the Series 2005 Bonds), and July 1, 2016 (for the Series 2006A Bonds). Such maturing principal of and interest on the Federal Securities will not be available to pay the Series 2014 Bonds. See "VERIFICATION OF

CERTAIN MATHEMATICAL COMPUTATIONS."

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

SECURITY AND SOURCES OF PAYMENT

Special, Limited Obligations

The Series 2014 Bonds are special, limited obligations of the Authority, payable solely from the Net Revenues, money on deposit in certain of the funds and accounts held under the Bond Ordinance, and the earnings thereon. All Series 2014 Bonds are equally and ratably secured by Net Revenues. The Series 2014A Bonds are being issued with a senior lien on Net Revenues on parity with the lien of the other Outstanding Senior Obligations. The Authority has the right, subject to specified conditions, to issue additional Senior Obligations. The Series 2014B Bonds are being issued with a subordinate lien on Net Revenues on parity with the lien of other Outstanding Subordinate Obligations. The Authority has the right, subject to specified conditions, to issue additional Subordinate Obligations. The Bond Ordinance permits the Authority to issue bonds or other obligations with a lien on Net Revenues super subordinate to the lien of the Senior Obligations and Subordinate Obligations. **As long as Senior Obligations are outstanding, the Authority is prohibited from issuing additional System Obligations with a lien on Net Revenues prior and superior to the lien of such Outstanding Senior Obligations.** The issuance of the Series 2014 Bonds shall not, directly, indirectly or contingently, obligate the State or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. The Authority does not have any taxing power.

Reserve Fund

No debt service reserve fund will be funded for the Series 2014 Bonds.

Covenant as to Lien for Delinquent Charges

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

Rate Covenant

The Authority covenants in the Bond Ordinance to charge all purchasers of services of the System, including the Authority, the City and the County, reasonable and just rates sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the Series 2014A Bonds and all other Outstanding Senior Obligations and to pay 120% of the annual Debt Service Requirements on the Series 2014B Bonds, all Outstanding Senior Obligations and all other Outstanding Subordinate Obligations (excluding accumulation of any reserves therefor). The Authority is required to determine quarterly that the Net Revenues are sufficient to satisfy the rate covenant. If the Net Revenues are not sufficient to satisfy such covenant upon the approval of the annual audit for a Fiscal Year, the Authority is required either: (i) to promptly increase the rates for use of the services of the System in order to generate sufficient Net Revenues to satisfy such covenant or (ii) to employ a consultant or manager for the System who has a favorable national reputation for skill and experience in the management, operation and financial affairs of water and sewer systems and who is not an employee or officer of the Authority. The Authority will request that the consultant or manager make recommendations, if any, as to revisions of the Authority's rate structure and other charges for use of the System, its Operation and Maintenance Expenses and the method of operation of the System in order to satisfy the rate covenant as soon as practicable. Copies of any such requests and recommendations of the consultant or manager shall be filed with the Authority. So long as the Authority substantially complies with the recommendations of the consultant or manager on a timely basis, the Authority will not be deemed to have defaulted in satisfying the rate covenant even if the resulting Net Revenues are not sufficient to be in compliance with the covenant, if there is no other default under the Bond Ordinance. For a discussion of coverage ratios relating to the System, see "Estimated Total Combined Debt Service and Coverage Ratios" under this caption.

In November 2010, the Authority received the Fiscal Year 2009 Audit and determined that it was not in compliance with the rate covenant for System Obligations. See "SECURITY AND SOURCES OF PAYMENT – Historic Coverage Ratios" and "RISK FACTORS – New Enterprise Resource Planning System/Decrease in Debt Service Coverage." In response, the Authority promptly hired a rate consultant to evaluate the current rates for the System and related operations and expenses for the System. The Authority Board took prompt action to approve a 5% rate increase effective July 1, 2011 to address the shortfall in debt service coverage. Subsequently, the Board approved 5% System rate increases for Fiscal Years 2014, 2015, 2016 and 2018. The 5% System rate increase for Fiscal Year 2015 went into effect on July 1, 2014. See "FINANCIAL INFORMATION – Rates and Charges of the System."

Outstanding System Obligations

Senior Obligations

Obligations with a senior lien on Net Revenues as of August 1, 2014 are shown below:

Outstanding Senior Obligations
as of August 1, 2014

System Issue	Principal Amount of Original Issue	Outstanding Principal Amount	Post-Refunding Principal Amount
NMFA Drinking Water State Revolving Fund Loan (2003)	$3,600,000	$333,826	$333,826
NMFA – Public Project Revolving Fund Loan (2005)	20,000,000	16,395,000	1,010,000
Revenue Bonds, Series 2005	132,985,000	100,535,000	10,355,000
Revenue Bonds, Series 2006	133,390,000	103,445,000	13,505,000
NMFA – Public Project Revolving Fund Loan (2007)	77,005,000	51,820,000	51,820,000
Revenue Bonds, Series 2008A	55,630,000	55,630,000	55,630,000
Revenue Bonds, Series 2009A-1	135,990,000	114,890,000	114,890,000
NMFA – Drinking Water Revolving Fund Loan (2009)	1,010,000	862,388	862,388
NMFA – Public Project Revolving Fund Loan (2011)	53,400,000	46,625,000	46,625,000
Revenue Bonds, Series 2013A-B	118,215,000	116,215,000	116,215,000
Total Senior Obligations		$606,751,214	$411,246,214

Subordinate and Super Subordinate Obligations

Other obligations payable on a subordinate basis from Net Revenues, as of August 1, 2014, are shown below:

Outstanding Subordinate Obligations
as of August 1, 2014

Obligation[1]	Principal Amount of Original Issue	Outstanding Principal Amount	Post-Refunding Principal Amount
Wastewater Loans from the State Environment Department:			
June 2001 Loan	$10,426,232	$5,987,789	-0-
New Mexico Finance Authority Drinking Water Loan (2008)	9,627,877	8,840,187	$8,840,187
Total Subordinate Obligations		$14,827,976	$8,840,187

(1) On July 21, 2014, the Authority used legally available funds to retire three drinking water loan transactions with the New Mexico Finance Authority entered into in 2010 which were Subordinate Obligations.

Other obligations payable on a super subordinate basis from Net Revenues, as of August 1, 2014, of the System are shown below:

Outstanding Super Subordinate Obligations
as of August 1, 2014

Obligation[1]	Principal Amount of Original Issue	Outstanding Principal Amount
Water Trust Board Loan (2009)	$50,000	$38,524
Water Trust Board Loan (2009)	100,000	77,163
Water Trust Board Loan (2010)	200,000	160,795
Water Trust Board Loan (2011)	452,000	385,632
Water Trust Board Loan (2011)	640,000	546,028
Water Trust Board Loan (2011)	63,354	54,051
Total Super Subordinate Debt		$1,262,193

(1) None of the Super Subordinate Obligations are part of the Refunding Project.

Debt Service Requirements for the Series 2014 Bonds*

The following tables show the estimated annual debt service payable on the Series 2014 Bonds.

$97,165,000*
Series 2014A Bonds

Maturity Date (July 1)	Principal Amount*	Interest(1) *	Total Debt Service*
2015	-0-	$3,465,116	$3,465,116
2016	$1,140,000	4,503,400	5,643,400
2017	8,130,000	4,469,200	12,599,200
2018	8,335,000	4,225,300	12,560,300
2019	8,610,000	3,891,900	12,501,900
2020	8,905,000	3,547,500	12,452,500
2021	9,335,000	3,102,250	12,437,250
2022	9,885,000	2,635,500	12,520,500
2023	10,365,000	2,141,250	12,506,250
2024	10,885,000	1,623,000	12,508,000
2025	11,360,000	1,078,750	12,438,750
2026	10,215,000	510,750	10,725,750

$87,990,000*
Series 2014B Bonds

Maturity Date (July 1)	Principal Amount*	Interest(1) *	Total Debt Service*
2015	$455,000	$2,939,201	$3,394,201
2016	9,170,000	3,810,800	12,980,800
2017	10,955,000	3,535,700	14,490,700
2018	8,125,000	3,207,050	11,332,050
2019	8,220,000	2,882,050	11,102,050
2020	8,285,000	2,553,250	10,838,250
2021	8,310,000	2,139,000	10,449,000
2022	8,510,000	1,723,500	10,233,500
2023	8,585,000	1,298,000	9,883,000
2024	8,650,000	868,750	9,518,750
2025	8,725,000	436,250	9,161,250

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

*Preliminary, subject to change.

Estimated Total Combined Debt Service and Coverage Ratios*

The following table shows the total combined debt service and estimated coverage ratio for each Fiscal Year for the Series 2014 Bonds and all other Outstanding Obligations through their final maturity dates (taking into account the Refunding Project).

Year End (July 1)	Outstanding Senior Lien Debt Service*	Senior Lien 2014A Debt Service*	Combined Senior Lien Debt Service*	Outstanding Subordinate Debt Service*	Subordinate Lien 2014B Debt Service*	Combined Subordinate Debt Service*	Combined Total Debt Service*	Net Revenues	Senior Coverage*	Senior and Subordinate Coverage*
2015	$60,689,165	$3,465,116	$64,154,281	$634,350	$3,394,201	$4,028,551	$68,182,832	$87,726,812	1.37x	1.29x
2016	49,384,446	5,643,400	55,027,846	635,950	12,980,800	13,616,750	68,644,596	87,726,812	1.59x	1.28x
2017	38,046,884	12,599,200	50,646,084	637,375	14,490,700	15,128,075	65,774,159	87,726,812	1.73x	1.33x
2018	39,227,411	12,560,300	51,787,711	638,625	11,332,050	11,970,675	63,758,386	87,726,812	1.69x	1.38x
2019	39,324,737	12,501,900	51,826,637	634,700	11,102,050	11,736,750	63,563,387	87,726,812	1.69x	1.38x
2020	37,190,638	12,452,500	49,643,138	635,688	10,838,250	11,473,938	61,117,076	87,726,812	1.77x	1.44x
2021	37,600,989	12,437,250	50,038,239	636,500	10,449,000	11,085,500	61,123,739	87,726,812	1.75x	1.44x
2022	31,185,278	12,520,500	43,705,778	637,138	10,233,500	10,870,638	54,576,416	87,726,812	2.01x	1.61x
2023	31,548,341	12,506,250	44,054,591	637,600	9,883,000	10,520,600	54,575,191	87,726,812	1.99x	1.61x
2024	26,492,955	12,508,000	39,000,955	637,888	9,518,750	10,156,638	49,157,593	87,726,812	2.25x	1.78x
2025	21,317,907	12,438,750	33,756,657	638,000	9,161,250	9,799,250	43,555,907	87,726,812	2.60x	2.01x
2026	17,432,370	10,725,750	28,158,120	637,938	0	637,938	28,796,058	87,726,812	3.12x	3.05x
2027	17,428,847	0	17,428,847	637,700	0	637,700	18,066,547	87,726,812	5.03x	4.86x
2028	17,425,948	0	17,425,948	637,288	0	637,288	18,063,236	87,726,812	5.03x	4.86x
2029	17,435,712	0	17,435,712	636,700	0	636,700	18,072,412	87,726,812	5.03x	4.85x
2030	17,433,188	0	17,433,188	656,125	0	656,125	18,089,313	87,726,812	5.03x	4.85x
2031	17,429,498	0	17,429,498	0	0	0	17,429,498	87,726,812	5.03x	5.03x
2032	17,379,881	0	17,379,881	0	0	0	17,379,881	87,726,812	5.05x	5.05x
2033	17,377,531	0	17,377,531	0	0	0	17,377,531	87,726,812	5.05x	5.05x
2034	8,763,031	0	8,763,031	0	0	0	8,763,031	87,726,812	10.01x	10.01x
2035	2,427,625	0	2,427,625	0	0	0	2,427,625	87,726,812	36.14x	36.14x
2036	2,423,813	0	2,423,813	0	0	0	2,423,813	87,726,812	36.19x	36.19x
2037	1,350,500	0	1,350,500	0	0	0	1,350,500	87,726,812	64.96x	64.96x
2038	1,349,250	0	1,349,250	0	0	0	1,349,250	87,726,812	65.02x	65.02x
TOTAL	**$567,665,945**	**$132,358,916**	**$700,024,861**	**$10,209,565**	**$113,383,551**	**$123,593,116**	**$823,617,977**			

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

*Preliminary, subject to change.

Water/Sewer System
Debt Service Coverage Calculation
Fiscal Years 2009-2013

	2013	2012	2011	2010	2009
Total operating revenues	$173,048,307	$170,541,065	$158,514,065	$148,746,484	$143,675,000
Non-operating revenues (expenses):					
Interest	211,411	148,000	208,699	1,706,705	4,079,000
Expansion charges	8,197,016	8,035,123	6,240,073	6,834,161	6,278,000
Other Expenses	(1,150,019)	-	-	-	-
Other Revenues	4,031,540	1,547,000	1,688,693	1,240,513	6,768,000
Total adjusted revenues	$184,338,255	$180,271,188	$166,651,530	$158,527,863	$160,800,000
Total operating expenses	$195,436,545	$185,893,000	$185,482,555	$174,749,235	$161,141,000
Less:					
Franchise fees	(6,629,318)	(6,524,000)	(5,843,692)	(5,141,465)	(4,912,000)
OPEB Life Insurance Benefits	(1,108,722)	-	-	-	-
Depreciation	(86,644,314)	(84,850,000)	(83,447,066)	(81,443,032)	(72,265,000)
Amortization	(442,748)	(434,000)	(401,370)	(396,555)	(757,000)
Total adjusted operating expenses	$100,611,443	$94,085,000	$95,790,427	$87,768,183	$83,207,000
Release from Rate Reserve Fund	$4,000,000	-	$7,000,000	-	-
Net revenues available for debt service	$87,726,812	$86,186,188	$77,861,103	$70,759,680	$77,593,000
Total senior debt service	$63,504,816	$61,574,823	$66,395,314	$66,695,922	$61,308,418
Senior debt service coverage	1.38x	1.40x	1.17x[(1)]	1.06x[(1)]	1.27x[(1)]
Subordinate debt service[(2)]	$1,957,641	$3,403,355	$3,052,316	$3,047,571	$2,914,698
Combined total debt service	$65,462,457	$64,978,178	$69,447,630	$69,743,493	$64,223,116
All in debt service coverage	1.34x	1.33x	1.12x[(1)]	1.01x[(1)]	1.21x[(1)]

(1) In Fiscal Years 2009-2011, the Authority failed to meet the debt service coverage requirement of 1.33x for Senior Obligations. See "SECURITY AND SOURCES OF PAYMENT – Rate Covenant" and "RISK FACTORS – New Enterprise Resource Planning System."

(2) This total does not include Outstanding Super Subordinate Obligations.

Source: Albuquerque Bernalillo County Water Utility Authority.

JOINT WATER AND SANITARY SEWER SYSTEM OF THE AUTHORITY

Water System

The Water System provides water services to approximately 643,881 residents comprising approximately 95% of the residents of the County. About one-third of unincorporated County residents are customers of the Water System. As of January 1, 2014, service is provided to approximately 194,360 customers, including 174,193 residential and 20,167 multi-family, commercial, institutional and industrial accounts. Approximately 60% of the water sales are for residential uses.

Groundwater from the middle Rio Grande basin aquifer and surface water from the San Juan-Chama Drinking Water Project are the primary sources of supply used for the Water System. In Calendar Year 2013, the Authority's water resources use consisted of 56% from groundwater and 44% from San Juan-Chama surface water. The groundwater supply is produced from 101 wells grouped in 25 well fields located throughout the metropolitan area and the surface water is diverted from the Rio Grande. Total well production capacity is approximately 294 million gallons per day ("MGD"). Maximum historical peak day demand is 214 MGD. A chlorination station associated with each well field satisfies the total required water treatment needs for the water produced in each well field.

Groundwater 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. Forty-five reservoirs are located throughout the service area, with a total reservoir storage capacity of 211 million gallons. If demand requires, reservoir water can also be transferred 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 110 boosters, with a total capacity of 680 MGD, available for water transfers between reservoirs. These reservoirs are interconnected by 3,130 miles of pipelines and are situated at various locations east and west of the service area to provide multiple sources of supply to customers and for operating economies. The Water System takes advantage of the unique topography of the Authority's service area which allows ground level storage while simultaneously providing system pressure by gravity. Control of the Water System is provided by remote telemetry units distributed throughout the Water System for control from a central control facility.

Existing Water Resources

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

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

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

The Authority also holds groundwater diversion permit RG-4462 with 14 groundwater wells permitted in the Corrales trunk. The permit and wells were acquired when the Authority acquired New Mexico Utilities, Inc. in 2009.

The average annual withdrawal for the five years ending in Calendar Year 2013 was 102,980 acre-feet with a maximum occurring in Calendar Year 2010. Additionally, the Authority has the right to use consumptively 74,473 acre-feet of surface water per year. This figure consists of imported Colorado River water pursuant to a contract with the Secretary of the Interior for 48,200 acre-feet per year from the San Juan-Chama Drinking Water Project, vested water rights of 17,875 acre-feet from the New Mexico State Engineer's Rio Grande Basin declaration in 1956, and other water rights totaling 8,398 acre-feet. By means of its program of water rights acquisition, the Authority attempts to increase its holdings each year. In addition to the annual delivery contract for 48,200 acre-feet of San Juan-Chama water, the Authority also has approximately 209,000 acre-feet of San Juan-Chama water from prior year deliveries stored in reservoirs located in northern/central New Mexico (Abiquiu and Heron Reservoirs). In addition to Abiquiu and Heron Reservoirs in northern New Mexico, the Authority also has approximately 47,000 acre-feet of San Juan-Chama water stored in Elephant Butte Reservoir which is located downstream of the City. In July 2003, the Authority began diversions of San Juan-Chama water under the Non-Potable Surface Water Reuse Project. The total surface water diversions for Calendar Year 2013 were 42,543 acre-feet with an average of 40,350 acre-feet over the last five years.

The Authority believes that water received pursuant to the contract for San Juan-Chama water and the rights to Rio Grande Basin water will be sufficient to support, in perpetuity, a customer population of more than 1,000,000 using 150 gallons per capita per day with 44% consumptive use and 56% 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 638,887, and the current usage is approximately 136 gallons per capita per day (Fiscal Year 2013), down from an average of 250 gallons per capita per day between 1987 through 1993. The Authority believes this decrease can be attributed to the Authority's "Water Conservation Program" and the "Water Quality Protection Plan."

San Juan-Chama Drinking Water Project

Imported Colorado River water from the San Juan-Chama project was purchased in 1963 and began flowing into the Rio Grande in the early 1970's. This water was intended to provide legally required offsets for the effects of pumping the aquifer on the Rio Grande. Studies in the 1990's showed that the Rio Grande is not directly connected to the aquifer and that continued sole reliance on groundwater would lead to water quality impacts and land surface subsidence. The policy to transition to direct diversion and full use of the imported Colorado River water (San Juan-Chama water) was adopted in 1997 along with seven dedicated rate increases to pay for the construction and operation. The Authority Board has approved 5% rate increases effective July 1, 2014, July 1, 2015 and July 1, 2017.

Construction of the San Juan-Chama Drinking Water Project began in August 2004 following the completion of the diversion and environmental permitting. The San Juan-Chama Drinking Water Project came on-line on December 5, 2008 and the surface water treatment plant was completed in January 2009. The San Juan-Chama Drinking Water Project consists of a diversion dam on the Rio Grande, eighteen pipeline segments, approximately 44 miles of pipeline, a raw water pump station, a raw water intake and fish passage structure designed to protect habitat on the Rio Grande and the endangered silvery minnow, and a surface water treatment plant. Construction costs for the project were approximately $385 million with an additional $70 million for design, construction inspection and land purchases.

The San Juan-Chama Drinking Water Project diverts San Juan-Chama water in combination with native water from the Rio Grande for purification to replace the current dependence on an increasingly depleted deep aquifer. Under a permit with the New Mexico Office of the State Engineer, the native water is diverted from the Rio Grande to the surface water treatment plant where the water is purified through a state-of-the-art multi-barrier treatment system designed to remove particulate matter, sediment and bacterial and microbial contaminants. The treatment plant is capable of processing 90 million gallons of water each day. The purified drinking water is then blended with groundwater at the existing reservoirs to supplement drinking water supplies. The San Juan-Chama Drinking Water Project can currently provide about 90% of annual demand when excess San Juan-Chama water can be stored in the aquifer during the winter months and recovered for use in the summer months. The San Juan-Chama Drinking Water Project is expected to be able to provide up to 70% of the projected annual demand in 2050. The San Juan-Chama Drinking Water Project provides Authority customers with a significant additional source of drinking water, which design and construction has been recognized nationally.

Water Supply Plan

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

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

In 2007, the Authority adopted a new WRMS as its water supply plan. The new WRMS is a combination of existing policies from the original 1997 WRMS with several new policies that were developed in cooperation with federal, state, and local agencies and significant public involvement and education. The WRMS outlines thirteen policies including continued support for the San Juan-Chama Drinking Water Project and the remaining reuse and reclamation projects. The future annual operating and maintenance costs for the WRMS program are estimated at $14.8 million.

The four specific projects identified in the 1997 WRMS have been implemented. The Authority received a permit from the Office of the State Engineer for diverting and consuming San Juan-Chama water in the amount of 96,200 acre-feet per year on July 8, 2004. A group of environmentalists and farmers filed an appeal of the surface diversion permit in State District Court. The State District Court ruled in favor of the Authority on all counts. A Notice of Appeal to the New Mexico Court of Appeals was filed and a final decision in favor of the Authority was issued in late Calendar Year 2013. The State Supreme Court declined to hear the matter on appeal. Therefore, all of the outstanding legal issues related to the San Juan-Chama permit have been resolved pending a minor revision from the State Engineer which is anticipated during the summer of 2014. The Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004 and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Drinking Water Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat.

With respect to the three water reclamation and reuse projects identified in the WRMS, the Industrial Recycling Project has been completed and operational since approximately August 2000 and has provided water to the Albuquerque International Balloon Fiesta Park and recreational complex. The North I-25 Non-Potable Surface Water Reuse Project began full operations in January 2004. The Authority has diverted San Juan-Chama water for industrial and irrigation use in the Northeast Heights of the City. The Southside Municipal Effluent Polishing and Reuse Project utilizes treated wastewater effluent for irrigation and industrial use in the Southeast Heights and South Valley of Albuquerque. The completion and operation of the Southside Reuse Project completes the four projects as called for in the original 1997 and updated 2007 WRMS to provide a safe and sustainable water supply to 2060 (which is as far as the WRMS projected).

Aquifer Storage and Recovery

Aquifer storage and recovery ("ASR") is a means of storing excess water in the aquifer to reduce evaporation and provide a groundwater drought reserve when surface water supplies are not available. Aquifer storage and recovery is another water resources management tool that the Authority is implementing to ensure a safe and sustainable water supply. The Authority initiated the first land application project, called the Bear Canyon ASR Project, in 2009 and has since stored approximately 1,000 acre-feet of water in the aquifer. The Authority is now pursuing a full-scale permit for the Bear Canyon ASR project. The Authority is moving towards the permitting and design of a large scale ASR project capable of injecting 10,000 to 30,000 acre-feet a year into the aquifer. The large scale ASR project will start construction in 2014 with operations to begin in 2015. A smaller version of ASR is being piloted to determine whether existing groundwater wells can be used for reinjection to evaluate the potential for additional storage.

South Valley Expansion Projects

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

New Arsenic Standard Applicable to Water Supply

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

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

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

Water Conservation Program

In an effort to extend the lifetime of the Authority's water resources, the City initiated a water conservation program in 1995. The City adopted a goal of 30% reduction from baseline period water use to be attained by 2005. The City utilized Calendar Years 1987 through 1993 as the baseline period, with gross community per capita water use at an average of 250 gallons per day. Gross community water use needed to be reduced to 175 gallons per capita per day to achieve the 30% conservation savings goal. At the end of 2005, Authority customers had reduced their per capita use 33% compared with use during the established baseline period. When weather is taken into account, through regression model analysis, comparative water usage was down by 36%.

In 2004, the Authority adopted a new water conservation goal of 10% reduction in addition to the 30% reduction goal established in 1995 to be implemented in 2005 with reduction rates of 1% per year until 2014 to achieve a usage of 150 gallons per capita per day ("GPCD"). In conjunction with a new citizen Water Resources Advisory Committee, the Authority established a new water conservation plan to meet the new goal. As of the end of 2012, GPCD was 148 and the Authority is on track to keep GPCD at or below 150 through 2014.

In 2013, the Authority adopted an additional reduction goal to reduce per capita usage from 150 GPCD to 135 GPCD over the next ten years. A new program was established to accomplish the goal following significant public input and meetings with the Authority Board. The new elements consist of increased public education, test your toilet month, a donation program for customers to provide some of their rebate funding to other important water resources programs, revisions to the xeriscape program and a new cooling tower rebate.

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

The Water Conservation Program has achieved significant reductions in water use since 1995 and is recognized as one of the more successful water conservation programs in the United States. As discussed, the Authority has imposed 5% rate increases in Fiscal Years 2012, 2014 and 2015 and authorized 5% rate increases in Fiscal Years 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 Bernalillo County, to facilitate clean-up of existing contamination, and to promote the coordinated protection and prudent use of groundwater. The Authority, City and County have jointly established a Water Protection Advisory Board ("WPAB") which replaced the GPPAP to address surface water quality protection in addition to groundwater quality protection. Additionally, the WPAB studies and advises the Authority, City and County on surface and groundwater protection concerns, including policies necessary to enhance protection of surface and groundwater quality including promoting consistency among the governmental entities in pursuing these goals.

The WPAB works with local, state and federal agencies to monitor the progress of mitigation of current contamination sites and is continuing to develop policies to prevent future contamination. The current contamination cleanups are primarily in the South Valley and Northwest Mesa of Bernalillo County. The Authority has plugged or discontinued use of wells that were affected by the various contamination sites. Additionally, the Authority has assisted in a $120 million program to eradicate 8,000 septic tanks in the North and South Valleys, and at the end of Calendar Year 2013 over 6,000 septic tanks have been eliminated.

Kirtland Air Force Base Fuel Spill

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

Drought Relief Measures

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

Water Usage

The Water System serves consumers inside and outside of the City limits. The consumers served outside the City limits constitute approximately 10% of total consumers served. Well pumps are presently producing at 150 to 1,000 feet depths. Their yields range from about 500 gallons per minute to more than 3,700 gallons per minute. During Fiscal Years 2010-2014, the Water System has supplied the following to customers within the service area:

Usage(1)
2010-2014

Fiscal Year	Gallons Pumped (in 000s)	Gallons Billed (in 000s)	Percentage Billed
2010	31,742,000	28,422,497	89.54%
2011	32,104,000	28,621,945	89.15%
2012	32,964,000	29,662,707	89.99%
2013	33,222,000	29,829,025	89.79%
2014	30,211,000	27,788,798	91.98%

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

Source: Albuquerque Bernalillo County Water Utility Authority.

The top ten customers of the Water System are:

Water System Top Ten Customers[1]
Fiscal Year 2014

Customer Name	Consumption Rate (Kgal)	Total FY 2014 Revenue[2]	% of Total FY 2014 Revenue
City of Albuquerque	2,449,823	$6,449,024	5.03%
Albuquerque Public Schools	689,789	2,408,558	1.88%
University of New Mexico	269,600	985,043	0.77%
Bernalillo County	201,189	600,705	0.47%
Kirtland Air Force Base	142,385	518,613	0.40%
Lovelace Health Systems	111,820	269,454	0.21%
Central New Mexico Community College	79,961	265,325	0.21%
Sumitomo	101,277	204,004	0.16%
Albuquerque Academy	95,905	195,433	0.15%
Creamland Dairies	74,439	158,507	0.12%
Total		**$12,054,666**	**9.41%**
Total Revenue for Water System		**$128,138,398**	

[1]Includes non-potable water customers.
[2]Unaudited
Source: Albuquerque Bernalillo County Water Utility Authority.

Sewer System

The Sewer System consists of small diameter collector sewers, sewage lift stations, and large diameter interceptor sewers conveying wastewater flows by gravity to the Southside Water Reclamation Plant. 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 are about 56 MGD. The Authority has an operational industrial pretreatment program approved by the United States Environmental Protection Agency. The EPA recognized that the Authority's pollution prevention efforts have been largely responsible for the Authority maintaining compliance with strict standards contained in National Pollution Discharge Elimination System ("NPDES") permits. The Authority's wastewater effluent discharge consistently meets all NPDES permit requirements. The EPA renewed the Authority's NPDES permit in 2012, effective for five years.

The Authority received an Administrative Order from the EPA for violations of the NPDES permit associated with Sanitary Sewer Overflows, laboratory reporting issues, and plant violations from 2001 to 2010. The Authority responded to the Administrative Order and met with EPA officials in July 2011. The response to EPA included a commitment for rehabilitation and replacement of process and other facilities at the Southside Water Reclamation Plant totaling approximately $250 million over ten years. The Authority has not received a response to the Corrective Action Plan (CAP) submitted in 2011 which was updated in 2012. The Authority received another Administrative Order in June 2013 and responded in July 2013 regarding reporting and corrections that were necessary in the 2012 NPDES permit. The Authority is proceeding with the implementation of the CAP including the recent start of construction of a new $30 million Preliminary Treatment Facility. Many other projects are in the planning or design phase and will be implemented according to the CAP.

The treatment plant has a 6.6 mega-watt cogeneration facility. This facility supplies 100% of the treatment plant's present electrical needs, along with providing heating of various buildings and sludge digesters. The engines are fueled by methane produced in the digesters and by natural gas purchased through a contract carrier. The Southside Water Reclamation Plant currently generates electricity from the bio-gas produced in the digesters. This is no cost gas that qualifies the electricity generated for Renewable Energy Certificates ("REC"). These certificates have a value to other electrical energy producers and the Authority continues to research how to sell its RECs to increase revenue. For example, the Authority issued an RFB for the unused REC's which were purchased by El Paso Electric. In addition to the cogeneration facility, the Authority has a one mega-watt solar energy facility at the Southside Water Reclamation Plant on-line effective the end of Calendar Year 2012.

Total beneficial reuse of sludge is accomplished by three methods: surface disposal (62% of sludge produced); land application on 5,000 acres of public-private range land (0% of sludge produced); and production of compost (38% of sludge produced). The Authority sells the compost, primarily to the State Department of Transportation. A 660-acre dedicated land application site is used when beneficial reuse options are unavailable (for example, when the range land site is snow-covered). The Authority's Compliance Division operates a water quality laboratory, providing analytical support for process control and regulatory compliance for wastewater, drinking water, groundwater, storm water, surface water, the zoological park, residuals management and environmental health programs. The laboratory is internationally accredited under International Standards Organization Standard 17025 for inorganic chemistry and microbiology testing. The Authority reduces expenses by analyzing all of the bacteriological samples at the Authority's internal water quality lab.

The following table sets forth the quantity of water treated and customers served through the Sewer System for Fiscal Years 2010-2014:

Treated Water
2010-2014

Fiscal Year	Gallons Treated (in 000s)	Average # of Customers
2010	19,978,000	190,833
2011	19,937,440	191,506
2012	20,595,000	191,810
2013	20,378,630	192,387
2014	18,214,780	194,360

Source: Albuquerque Bernalillo County Water Utility Authority.

The top ten customers of the Sewer System are:

Sewer System Top Ten Customers
Fiscal Year 2014

Customer Name	Consumption Rate (Kgal)	Total Collected FY 2014 Revenue[1]	% of Total FY 14 Revenue
Kirtland Air Force Base	686,584	$1,058,944	1.56%
University of New Mexico	547,474	830,762	1.22%
Albuquerque Public Schools	167,665	736,671	1.09%
City of Albuquerque	165,869	533,644	0.79%
Creamland Dairies	53,826	430,769	0.63%
Lovelace Health Services	96,842	178,278	0.26%
Bernalillo County	48,509	148,291	0.22%
Central New Mexico Community College	37,687	119,324	0.18%
Sandia Peak Services	82,069	79,703	0.12%
Four Hills MHP	34,196	67,981	0.10%
Total		**$4,184,367**	**6.17%**
Total Revenue for Sewer System		**$67,839,783**	

(1)Unaudited
Source: Albuquerque Bernalillo County Water Utility Authority.

Management of the System

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

Mark Sanchez, Executive Director. Mr. Sanchez has been the Executive Director of the Authority since its inception and was formerly the Director of Council Services for the Albuquerque City Council. Mr. Sanchez holds a Master's Degree in Business Administration from New Mexico Highlands University and a Master's Degree in Public Administration from the University of New Mexico. He is a graduate of the Harvard JFK School of Government

Program for Senior Executives in State and Local Government. Mr. Sanchez has held executive-level positions in government, private sector and the non-profit sector in the areas of business and government policy, housing and community development, health, human and social services, job training and economic development. Mr. Sanchez serves as a Commissioner on the New Mexico Interstate Stream Commission and on the Board of the Multi-State Salinity Coalition and National Association of Clean Water Agencies. He has been very active at the local, state and national levels on intergovernmental issues.

John M. Stomp, P.E., Chief Operating Officer. Mr. Stomp is responsible for the Authority's operations group including the water and wastewater treatment plants, wastewater collection systems and lift/vacuum stations, and water distribution and transmission lines. Mr. Stomp was the Water Resources Manager for over ten years prior to becoming the Chief Operating Officer. Mr. Stomp has been employed by the City, and the Authority as successor, since April 1996. Prior to employment with the Authority, Mr. Stomp was employed as a project manager by local and national water/wastewater consulting firms. Mr. Stomp has been involved with water and wastewater issues in Albuquerque and throughout New Mexico for approximately 26 years. He has a Bachelor's and Master's Degree in Civil Engineering from the University of New Mexico.

Stan Allred, Chief Financial Officer. Mr. Allred held the position of Finance Officer, Water Utility Department from June 2003 until May 2008 when he was promoted to Chief Financial Officer. Mr. Allred is responsible for the Financial/Business Services Group which includes all finance, accounting, information services and Authority warehouse functions. He has approximately 26 years of financial and cost accounting experience. Prior to employment with the Authority, Mr. Allred was employed as a director with a multi-billion dollar national long-term care corporation. Mr. Allred was involved with corporate financial reporting requirements and rate setting for Medicare and 15 different state Medicaid systems. Mr. Allred has a BBA with a concentration in Accounting from the University of New Mexico.

Dr. James H. "Jim" Olsen, Jr., P.E., Director of Field Operations Division. Mr. Olsen has worked for the City, and now the Authority, for over 36 years and has served in his current position since 2008. Past assignments have included: Transmission & Distribution Manager for PNM Water Services (Santa Fe water system), Chief Utility Engineer for ECO Resources (Rio Rancho water & wastewater systems), Project Manager for the Pueblo of Laguna, NM Jackpile Mine Reclamation Project, management and engineering/technical assignments for ARCO-Anaconda, the Standard Oil Company (Ohio), and the City of Albuquerque Water System. He holds a Mining Engineering degree from New Mexico Institute of Mining & Technology (Socorro, NM) and a Masters in Business Administration from the Anderson School of Management, University of New Mexico. He completed his Doctorate in Education at the University of New Mexico in 1996. He has served on the faculty of the University of Phoenix since 1987 and taught graduate and undergraduate courses in management, environmental science, engineering processes, economics, project management, statistics, algebra, geography and business research methods & projects, and motivation theory; served as Lead Faculty and Area Chair for Undergraduate Mathematics and Graduate Research and Quantitative Methods.

Charles S. Leder, P.E., Director of Plant Operations Division. Mr. Leder has held the Division Manager position since July of 2012 after serving as a Principal Engineer for Plant Operations since March 2010. He has approximately 36 years-experience in planning, design, construction, and operations of water and wastewater facilities. Mr. Leder has a BS from the Johns Hopkins University, and an MS in Sanitary Engineering from the Georgia Institute of Technology.

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

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 15 years of Information Technology experience, including work for the New Mexico State Judiciary, and as Deputy Chief Information Officer for Bernalillo County. Mr. Stinson has managed several large implementations, including the Video Arraignment Process for the Bernalillo County Metropolitan Court, and the County's procurement and implementation of SAP, which is an Enterprise Resource Planning Application.

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

Hobert "H" Warren, Manager, Customer Services and Area Operations. Mr. Warren has held the manager position since 2012. He has approximately 18 years-experience in operations, compliance, construction, transition planning, automated meter reading implementation, billing systems, and rate studies. Prior to employment with the Authority, Mr. Warren was the local operations manager for a company that owns and operates more than 130 regulated water and wastewater systems in nine states.

Administrative Services

The City provides certain services to the Authority pursuant to a Memorandum of Understanding ("MOU"), dated July 1, 2013 with a termination date of June 30, 2018. These services include the Authority's rental of space and computer equipment from the City and

Authority employees' participation in certain City employment benefits. Since July 1, 2013, the operations of the Authority are largely autonomous from the City and County.

FINANCIAL INFORMATION

Statement of Net Assets

The following table is the historical statement of net assets for the System for Fiscal Years 2009-2013:

	2013	2012	2011	2010	2009
ASSETS					
Current Assets					
Cash and investments	$4,376,391	$41,250,713	$21,457,906	$2,919,291	$21,395,430
Cash held for debt service	34,205,405	33,547,414	35,929,424	34,368,648	35,362,977
Accounts receivable	15,487,864	15,861,463	11,723,252	11,921,552	13,231,933
Due from other governments	2,194,935	768,235	963,280	3,704,003	463,096
Prepaid assets	15,851	93,054	0	0	65,144
Notes receivable	920,432	989,359	1,915,253	996,841	936,638
Total Current Assets	57,200,878	92,510,238	71,989,115	53,910,335	71,455,218
Noncurrent Assets					
Long-term receivables	5,216,608	5,719,123	4,938,586	5,373,172	5,559,542
Restricted Assets(1)					
Cash and investments	3,057,077	0	0	80,606,014	117,916,818
Other	0	0	0	6,703	154,711
Total Restricted Assets	3,057,077	0	0	80,612,717	118,071,529
Capital Assets					
Net capital assets other than purchased water rights	1,222,710,534	1,257,370,901	1,245,796,694	1,271,495,144	1,278,575,916
Purchased water rights	44,581,533	43,720,597	40,443,654	39,962,117	39,943,365
Construction work in progress	3,892,953	10,384,658	53,427,401	37,482,194	34,077,876
Total Capital Assets	1,271,185,020	1,311,476,156	1,339,667,749	1,348,939,455	1,352,597,157
Capitalized bond issuance costs	0	3,537,317	3,682,601	4,096,379	4,516,670
Total Noncurrent Assets	1,279,458,705	1,320,732,596	1,348,288,936	1,439,021,723	1,480,744,898
TOTAL ASSETS	$1,336,659,583	$1,413,242,834	$1,420,278,051	$1,492,932,058	$1,552,200,116
LIABILITIES					
Current Liabilities					
Accounts payable	2,817,948	3,959,680	4,852,804	3,804,920	3,492,619
Accrued payroll	1,912,951	434,532	1,599,945	1,538,836	1,017,050
Accrued compensated absences	3,071,653	3,264,417	3,307,594	3,086,228	3,233,242
Deposits	702,845	673,903	734,559	710,183	857,209
Deferred revenues	0	0	0	0	554,551
Construction contracts payable	4,274,419	6,283,258	8,127,643	9,049,436	12,511,107
Current portion debt obligations bonds	23,545,000	22,235,000	24,130,000	22,065,000	26,135,000
Loan agreements/lines of credit	18,609,698	18,422,091	14,093,477	12,429,723	11,500,916
Water rights contract	1,038,005	1,007,322	977,546	948,650	920,608
Accrued interest payable	11,829,953	12,426,778	12,880,851	13,457,424	12,968,554
Total Current Liabilities	67,802,472	68,706,981	70,704,419	67,090,400	73,190,856
Noncurrent Liabilities					
Debt obligations					
Bonds net premium/discounts	410,568,603	438,180,426	455,544,109	481,998,268	506,606,665
Loan agreements/line of credit	192,195,579	211,221,688	179,629,299	194,971,769	201,607,490
Water rights contract	10,886,790	11,924,795	12,932,117	13,909,663	14,858,313
Total Debt Obligations	613,650,972	661,326,909	648,105,525	690,879,700	723,072,468
Other Noncurrent Liabilities					
OPEB life insurance obligation	1,108,722	0	0	0	0
Accrued compensated absences	746,797	52,457	108,563	93,260	35,550
Total Other Noncurrent Liabilities	1,855,519	52,457	108,563	93,260	35,550
Total Noncurrent Liabilities	615,506,491	661,379,366	648,214,088	690,972,960	723,108,018
TOTAL LIABILITIES	683,308,963	730,086,347	718,918,507	758,063,360	796,298,874
NET POSITION					
Net investment in capital assets	617,398,422	636,174,669	656,043,802	728,364,793	725,766,544
Restricted for construction	0	0	0	11,071,808	13,671,991
Unrestricted	35,952,198	46,981,818	45,315,742	(4,567,903)	16,462,707
TOTAL NET POSITION	$653,350,620	$683,156,487	$701,359,544	$734,868,698	$755,901,242

(1) The Authority's external auditor re-identified assets previously accounted for in 'restricted assets' to 'current assets' in FY2011.

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

Revenues and Expenditures

The following table shows the historical revenues and expenditures for the System for Fiscal Years 2009-2013:

	Fiscal Years				
	2013	2012	2011	2010	2009
Operating Revenues					
Charges for services	$179,677,625	$177,054,690	$158,514,826	$153,144,852	$147,145,589
Operating Expenses					
Salaries and fringe benefits	48,510,025	46,482,075	43,501,259	40,631,826	37,382,418
Professional services	882,847	297,125	445,835	601,889	859,079
Utilities	12,889,006	13,125,123	12,748,440	11,360,534	12,202,402
Supplies	9,295,557	8,985,061	9,103,638	9,010,015	6,092,171
Travel (1)	-	-	59,449	52,167	27,915
Fuels, repairs and maintenance	13,095,120	9,447,368	11,898,221	11,809,235	10,873,331
Contractual services	9,694,480	9,449,591	9,338,703	8,812,586	8,889,954
Franchise fees (2)	6,629,318	6,524,463	5,843,692	-	-
Tort and other legal fees (2)	2,618,768	2,489,935	3,335,152	-	-
Workman's compensation costs (2)	754,159	831,048	1,579,826	-	-
Administrative fees other governments (2)	1,550,000	1,550,000	1,550,000	-	-
Other operating expenses (2)	1,294,397	1,350,532	1,350,814	12,718,153	13,400,597
Depreciation	86,644,314	84,849,475	83,447,066	81,443,032	72,295,419
Amortization	442,748	434,139	401,370	396,555	396,367
Bad debt expense	27,084	77,124	358,090	-	93,018
Total Expenses	195,436,545	185,893,059	184,961,555	176,835,992	162,512,671
Operating Income/Loss	(15,758,920)	(8,838,369)	(26,446,729)	(23,691,140)	(15,367,082)
Non-operating revenues (expenses)					
Interest on investments	42,009	148,520	208,699	865,763	2,647,735
Interest expense	(24,565,918)	(23,806,064)	(25,324,138)	(24,977,661)	(21,681,874)
Water service expansion charges	8,197,016	8,035,123	6,240,073	6,834,261	6,346,401
Bond issue amortization	-	(348,123)	(413,779)	(516,023)	-
Other	1,685,449	1,546,894	1,688,693	1,535,045	7,509,694
Total non-operating income	(14,641,444)	(14,423,650)	(17,600,452)	(16,258,615)	(5,178,044)
Income (loss) before contributions	(30,400,364)	(23,262,019)	(44,017,181)	(39,949,755)	(20,545,126)
Capital contributions	4,131,814	5,058,962	10,538,027	18,917,211	27,811,538
Change in Net Position	(26,268,550)	(18,203,057)	(33,509,154)	(21,032,544)	7,266,412
Net Position July 1, as restated(3)	679,619,170	701,359,544	734,868,698	755,901,242	748,634,830
Net Position June 30	$653,350,620	$683,156,487	$701,359,544	$734,868,698	$755,901,242

(1) Reclassified to other operating expenses for the 2012 financial statements.
(2) Reclassified from other operating expenses for the 2011 financial statements.
(3) Net positions as of July 1, 2012 was restated to conform to GASB No. 65 which eliminated deferred bond issuance costs as an asset.

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

Operating Revenue

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

Revenue from Water and Sewer Charges and Other Operating Revenue

	Revenue from Water Charges				
Fiscal Year	For General Operations	For WRMS(1)	Revenue From Sewer Charges	Other Operating Revenue(2)	Total Operating Revenue
2010	$74,773,904	$23,483,160	$47,685,066	$7,202,722	$153,144,852
2011	76,072,550	26,219,494	48,504,637	7,718,145	158,514,826
2012	83,145,457	29,096,281	56,982,228	7,830,724	177,054,690
2013	84,994,139	29,558,320	57,072,020	8,053,146	179,677,625
2014(3)	83,598,764	28,989,346	61,126,823	8,505,466	182,220,399

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

(1) These revenues are attributable to rate increases adopted to finance capital costs and operating expenses to implement the Water Resource Management Strategy.

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

(3) Unaudited.

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

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

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

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

Current Utility Expansion Charges

Meter Size	Water Charge	Sewer Charge
¾"	$2,902	$2,177
1"	4,836	3,628
1 ½"	9,673	7,254
2"	15,479	11,607
3"	30,952	23,270
4"	48,365	37,191
6"	96,732	74,387
8" & over	154,771	116,073

During Fiscal Years 2010 through 2014, the following revenue from the collection of UECs was received.

Revenue from Utility Expansion Charges

Fiscal Year	Total UEC Revenues
2010	$6,834,261
2011	6,240,073
2012	8,035,123
2013	8,197,016
2014(1)	7,871,487

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

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

Water Supply Charge

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

The following table sets forth the current water supply charges.

Current Water Supply Charges

Meter Size	Water Supply Charge
¾"	$1,499
1"	2,507
1 ½"	4,994
2"	7,991
3"	15,983
4"	24,971
6"	50,053
8" & over	79,911

Rate Reserve Fund

The Rate Reserve Fund (also referred to as the "Rate Stabilization Fund") reserves water and sewer revenues in a dedicated fund for the purpose of offsetting declines in rate revenue and to mitigate future rate increases. The Rate Reserve Fund is currently funded at $2 million annually. There is no funding cap set for the Rate Reserve Fund and the current balance is approximately $2.0 million for Fiscal Year 2015. Consistent with the Rate Reserve Fund's intended use, the Authority withdrew $4.0 million of available funds in Fiscal Year 2013 and $2.0 million of available funds in Fiscal Year 2014 due to declining revenues. Any expenditure from this Rate Reserve Fund requires an appropriation approved by the Authority Board.

Additional Charges

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

Water Commodity Charge: Water usage metered or estimated is at a rate of $1.653 per unit (1 unit = 100 cubic feet or 748 gallons).

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

Sewer Commodity Charge: All wastewater discharged is charged at a rate of $1.357 per unit for residential, commercial, industrial and institutional customers and $0.709 per unit for wholesale customers based on either 95% of the average metered or estimated volume of water for the previous winter months of December through March, or based on 95% of the actual water used if that amount is less.

Rate Comparisons

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

System Billing and Collections

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

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

The Authority has made efforts to reduce delinquencies through aggressive collection attempts with changes in the method of assigning turn-off crews work assignments and the use of a check collection vendor. The delinquency rate has historically averaged 2.49% and is currently at 2.18%.

Rates and Charges of the System

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

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

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

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

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

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

Current Levels of Base Rates and Charges

Customers pay fixed rates for water and sewer services as well as additional charges which vary depending on the volume of water used or discharged. These fixed rates are designed to cover, at a minimum, customer service costs and all debt service costs. The rate structure is designed to ensure that debt service costs are covered, regardless of changes in conditions such as drought or the continued success of the Authority's water conservation efforts. Residential customers pay fixed water rates (depending on service size) between $14.43 and $2,746.62, while commercial customers pay between $15.11 and $2,848.99. For sewer service, residential customers pay a fixed sewer rate (depending on service size) between $9.12 and $1,016.41, while commercial customers pay between $11.28 and $1,291.19.

Increases to Rates and Charges

The Authority has increased System rates and charges by the following percentage increases during Fiscal Years 2010-2014 as described below and has approved 5% rate increases effective July 1, 2015 and July 1, 2017, respectively, due to a decrease in consumption levels. The Authority has implemented an additional 5% revenue requirement increase for fixed charges effective July 1, 2014.

Implemented and Approved

Increases in Rates and Charges

	% Increase		
Fiscal Year	**General Operations**	**WRMS**	**Franchise Fee**
2010	0	0	0
2011	0	0	0
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 2010 through 2014.

History of Water Users by Meter Sizes

Meter Size	Fiscal Year 2010	2011	2012	2013	2014
¾”	169,406	169,984	171,103	171,874	171,395
1” and 1 ¼”	17,828	17,820	17,717	17,645	17,474
1 ½”	2,195	2,195	2,221	2,249	2,238
2”	2,228	2,228	2,320	2,352	2,303
3”	714	714	634	634	578
4”	268	268	273	286	270
6”	58	58	61	63	60
8” and over	40	40	46	47	42
Total	191,737	193,307	194,375	195,150	194,360

Source: Albuquerque Bernalillo County Water Utility Authority.

History of Water Users by Class

Class	Fiscal Year 2010	2011	2012	2013	2014
Residential	172,787	173,339	174,277	174,909	174,193
Multi-Family	6,349	6,364	6,393	6,430	6,569
Commercial	11,272	11,226	11,287	11,321	11,303
Institutional	2,223	2,279	2,316	2,391	2,196
Industrial	106	99	102	99	99
Total	192,737	193,307	194,375	195,150	194,360

Source: Albuquerque Bernalillo County Water Utility Authority.

According to the Authority’s records for Fiscal Year 2014, the top ten retail customers of the System, in the aggregate, accounted for no more than 11.38% of the total billed consumption for the Water System, 9.41% of the total revenue of the Water System, 9.28% of the total billed consumption for the Sewer System and 6.17% of the total revenue of the Sewer System.

During Fiscal Year 2014, 54.43% of billed water consumption was residential, while 16.05% was classified as commercial. The balance consisted of multi-family users consuming 13.26%, institutional users consuming 5.42%, industrial users at 0.52% and special contracts and hydrants meters at 10.32%.

Selected Water/Sewer System Statistics
(Calendar Year)

	2009	2010	2011	2012	2013
Estimated Population (Service Area)	617,463	623,700	634,284	638,887	643,881
Number of Meters Billed	194,087	200,498	201,884	203,912	204,791
Estimated Persons Per Meter	3.18	3.11	3.14	3.13	3.14
Annual Pumpage (1,000 Gallons)	33,098,373	33,830,964	33,577,000	33,318,000	30,945,000
Annual Water Billed (1,000 Gallons)	28,844,216	29,949,844	28,627,945	30,044,094	28,188,695
Average Daily Pumpage (Gallons)	90,680,474	92,687,573	91,991,781	91,282,192	85,000,000
Peak Day Pumpage (Gallons)	186,819,804	226,902,542	182,000,000	175,000,000	157,000,000
Average Daily Production Per Meter (Gallons)	467	462	456	448	415
Well Pumping Capacity (per 24 Hour Period)	314,250,000	282,000,000	282,000,000	282,000,000	277,000,000
Storage Capacity (Gallons)	228,700,000	249,000,000	249,000,000	249,000,000	249,000,000
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	14,778	14,879	14,996	15,110	15,234
Water Reclamation Treatment Capacity (Gallons)	76,000,000	76,000,000	76,000,000	76,000,000	76,000,000
Number of Miles of Lines (1)					
-Water	2,626	2,636	2,650	3,130	3,092
-Sewer	1,858	1,863	1,866	2,412	2,414
Surface Water	-	37	37	37	37

(1) Estimated

Source: Albuquerque Bernalillo County Water Utility Authority.

Financial Management

Financial Policies

The Authority has implemented various financial policies to facilitate its performance based budgeting process which requires balanced budgets. The Authority expects to spend approximately $48 million in Fiscal Year 2015, and increase $3.0 million annually, for System rehabilitation with basic system capital needs being funded, on average, by at least 50% cash and grants and the remaining 50% to be funded with bond or loan proceeds. The Authority's policy with respect to debt issuance is to seek target coverage of 150% of debt service for current and future years with the debt service coverage being monitored at the end of each quarter. Bonds issued to finance basic capital needs will not exceed a final maturity of 12 years. Pursuant to the Authority's "no net expense" System expansion policy, infrastructure for new development within or outside the System's service area will not be funded from the System's existing customer base. The Authority's budget process and Capital Implementation Program ("CIP") are described in greater detail below.

Budget Process

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

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

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

Capital Implementation Program

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

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

Basic Program capital needs are incorporated into the water/sewer rate structure. The Rate Ordinance requires that Basic Program needs are funded, on average, by 50% from cash, with the balance of capital funding obtained through revenue bond or loan financing. The rate structure is designed to provide sufficient revenue to meet the cash requirement and to meet the debt service obligations incurred to finance the remainder of the Basic 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 Authority capital projects. UEC revenue is considered cash for purposes of meeting the 50% test.

The current decade plan, Fiscal Year 2014 – Fiscal Year 2023, is designed to focus on meeting the basic utility needs for water and wastewater assets, balancing growth and rehabilitation, and meeting federal and state regulatory requirements. The program focuses on maintaining safe drinking water, meeting pollution control standards, providing adequate fire protection and water system reliability, and implementing an asset management approach for rehabilitating deteriorated water and wastewater infrastructure at a targeted $40 million per year level of rehabilitation investment starting in Fiscal Year 2014 and increasing every year thereafter by $3.0 million.

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

The Authority's asset management program is an extensive business model that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset management were developed to address the critical problem of aging public infrastructure and changing utility business environment. In Fiscal Year 2011, the Authority completed a comprehensive Asset Management Plan ("AMP") used to provide a framework for understanding and planning of long-range asset renewal (rehabilitation and replacement) requirements. The AMP consolidates the Authority's asset information into a structured framework and uses it to provide a justifiable basis to support long-term organization, operations, and asset management decisions. In Fiscal Year 2012, the Authority began work on preparing a set of 10-year asset management plans for various asset classes (i.e., small diameter pipes, large diameter pipes, and wastewater treatment plant, and groundwater and collection system facilities). The 10-year plans are generated to provide the Authority with a more accurate understanding of the short and intermediate-term renewal requirements. In Fiscal Year 2014, the Authority completed the planned 10-year asset management plans and will continue to improve on its asset management practices going forward.

The internal assessment of the condition of the Authority's infrastructure and future system needs as well as changes in the external environment in which the Authority operates will necessarily lead to changes in revenue allocation over time. The next decade plan, Fiscal Year 2016 – Fiscal Year 2025, that will be in place before the start of Fiscal Year 2016 can be expected to reflect some change in priorities from the current decade plan.

The Authority anticipates $549 million in capital needs through Fiscal Year 2023.

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	Total	%
Capital Needs	$50,000	$53,000	$56,000	$59,000	$62,000	$65,000	$65,000	$68,000	$71,000	$549,000	100%
Bond Proceeds	$39,000	$31,000	$33,000	$28,000	$28,000	$26,000	$26,000	$26,000	$26,000	$263,000	50%
Difference Funded with Cash	$11,000	$22,000	$23,000	$31,000	$34,000	$39,000	$39,000	$42,000	$45,000	$286,000	50%

These projections are subject to change.
Source: Albuquerque Bernalillo County Water Utility Authority.

The Basic growth program has shifted in focus from placing new pipe in the ground to achieving performance improvement goals and meeting mandated standards. The discretionary spending in the Fiscal Year 2015 growth program budget will continue initiatives in Information Technology support for the operating divisions. The remainder of the growth program is primarily non-discretionary and includes funding for the low income connection program managed by the County and repayment to developers as connections are made to the System.

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

Approved Fiscal Year 2015 Budget

The approved Fiscal Year 2015 budget is the Authority's financial plan for Fiscal Year 2015. The development of this financial plan has been guided by the Authority's Five-year Goals, One-year Objectives, Performance Plan and the Guiding Principles. In the development of this approved budget, the Authority has taken a conservative financial approach to provide effective and efficient water and wastewater services balanced against projected resources. This approved budget is balanced and fiscally conservative.

For Fiscal Year 2015 the approved budget includes a 5% revenue rate adjustment effective July 1, 2014. The Authority believes that the working capital balance will be 1/12th of annual budgeted expenditures by Fiscal Year 2016. Looking forward, the Authority must continue to spend $250 million to upgrade its sewage treatment plant and adding an additional $36 million 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 Authority. The CIP infrastructure renewal budget is planned to increase by $3 million per year starting in Fiscal Year 2015.

In the preparation of this budget, the Authority has developed a maintenance of effort budget within the projected estimated revenues. Staffing levels have an increase of 3.5 net positions in Fiscal Year 2015. There is a 2.5% increase in other employee benefits. General operating expenditures decrease $51,919. The most significant expense of the Authority continues to be debt service payments which will comprise 37% of the total operating expense in Fiscal Year 2015.

In Fiscal Year 2014, the Authority implemented the SunGard Enterprise Resource Planning System. This project implemented a full range of financial and human capital resources modules. In Fiscal Year 2014, Phase 1 was completed and the project went live on July 1, 2013. The Authority's first payroll run was in June of 2013. Phase 1 included all the Financial Modules, Payroll and the HR functions as they relate to Payroll. Phase 2 implements the remaining HR modules to include items such as Employee Self Service. Other SunGard modules will become available during Fiscal Year 2015 and the Authority will develop work plans to implement those modules.

The Authority received a positive ruling from the NM Court of Appeals which was upheld by the NM Supreme Court for permit SP-4830 which is the San Juan-Chama Drinking Water Project permit. The Authority anticipates a minor change in the permit by summer 2014. The project continues to have a major positive impact on the ground water resources in the Middle Rio Grande with continuing increases in aquifer elevations observed throughout the basin.

The San Juan-Chama Drinking Water Project is expected to increase surface water treatment to provide 60% of water supplied to the service area, but this may change as the Authority enters the fifth year of drought in the Middle Rio Grande. With the pending drought, the Authority provided a loan of 20,000 acre-feet to the Middle Rio Grande Conservancy District along with providing supplemental water for the Bureau of Reclamation. The goal is to sustain endangered species and partner with other water entities during this irrigation season. It is anticipated that the Authority will still have more than three years of water available at the end of calendar year 2014.

The Plant Division began a major renovation of the Southside Water Reclamation Plant (SWRP) in FY10 called the Reclamation Rehabilitation and Asset Management Plan (RRAMP). The RRAMP is a multi-year program to renew the treatment processes at the plant. Construction began on the Preliminary Treatment Facility in late Calendar Year 2013 and will continue until summer 2015. Engineering evaluation of alternatives for the Solids Dewatering facility continue including replacing the facility with a new facility or rehabilitation of the existing facility. Construction improvements to the blower complex, aeration basins and systems, digester mixers and electrical systems are underway and will continue in Calendar Year 2014. The funding for the RRAMP improvements will be provided through the Authority's Capital Implementation Program.

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

The Fiscal Year 2015 budget represents a financial plan that will provide the necessary funding to perform all the varied operational and administrative functions, to provide customers with quality water and wastewater service and address the Authority's priorities for Fiscal Year 2015.

INVESTMENT POLICIES AND PROCEDURES

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

The Investment Policy seeks to balance four primary objectives:

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

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

OTHER POST-EMPLOYMENT BENEFITS

Public Employees Retirement Association

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

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

Actuarial information is shown below:

State of New Mexico Public Employees Retirement Fund
Summary Information as of June 30, 2013

Membership[1]	89,613
Actuarial Information	
Actuarial Accrued Liability[2]	$17,057,380,000
Actuarial Value of Assets[3]	$12,438,151,000
Unfunded Actuarial Accrued Liability	$4,619,228,000
Funded Ratio	72.9%

[1] Includes both state and municipal divisions.
[2] Includes accrued liability of both the retired and active members.
[3] The valuation of assets is based on an actuarial value of assets whereby gains and losses relative to a 7.75% annual return are smoothed in over a four-year period.
Source: Public Employees Retirement Association

As of June 30, 2012, PERA has an amortization or funding period of 128 years, based on the employer and member contribution rates in effect as of July 1, 2013. Member and employer rates are established pursuant to Sections 10-11-1 through 10-11-141 NMSA 1978. The funded ratio (ratio of the actuarial value of assets to accrued actuarial liability) was 72.9% as of June 30, 2013 and the unfunded accrued actuarial liability of the PERA Fund has been reduced to be approximately $4.6 billion. As of June 30, 2012, the funded ratio was 65.3% and the unfunded accrued actuarial liability of the PERA Fund was calculated to be approximately $6.2 billion. The primary cause of the increase in the funded ratio and decrease in accrued actuarial liability is the investment gain from the 2013 plan year and passage of Senate Bill 27 during the 2013 New

Mexico legislative session.[1] On a market value basis, PERA's funded ratio is approximately 74.33% as of June 30, 2013. The PERA Board's reform proposal, set forth in Senate Bill 27, had an immediate impact of reducing the $6.2 billion unfunded liability by $1.55 billion, increased the funded ratio by 6.6% and is projected to restore the Fund to approximately 100% funded status by Calendar Year 2042.

Defined Contribution Retirement Plan

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

New Mexico Retiree Health Care Authority

Authority employees also participate in the State-sponsored New Mexico Retiree Health Care Authority (the "NMRHCA"). The NMRHCA administers the New Mexico Retiree Health Care Act, Sections 10-7C-1 through 10-7C-19 NMSA 1978, for the purpose of providing comprehensive group health insurance coverage for persons who have retired from certain public service in the State and eligible dependents. The Retiree Health Care Act provides that the benefits offered to retired public employees may be modified, diminished or extinguished by the Legislature, and that the act does not create any contract, trust or other rights in public employees to health care benefits.

Eligible employers are institutions of higher education, school districts, or other entities participating in the Public School Insurance Authority, state agencies, state courts, magistrate courts, municipalities or counties, which are affiliated under or covered by the Education Retirement Act, Public Employees Retirement Association, Volunteer Firefighters Retirement Act, Judicial Retirement Act or the Magistrate Retirement Act. Eligible retirees are: (1) retirees

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

who make contributions to the fund for at least five years prior to retirement and whose eligible employer during that period of time made contributions as a participant in the Retiree Health Care Act on the person's behalf unless that person retires before the employer's NMRHCA effective date, in which event the time period required for employee and employer contributions shall become the period of time between the employer's effective date and the date of retirement; (2) retirees defined by the Act who retired prior to July 1, 1990; (3) former legislators who served at least two years; and (4) former governing authority members who served at least four years. During the fiscal year ended June 30, 2013, the statute required each participating employer to contribute 2.000% of each employee's annual salary. The Authority remitted $819,943 in Fiscal Year 2012 and $677,304 in Fiscal Year 2011, which equaled the required contributions for each year.

Based on the Governmental Accounting Standards Board ("GASB") Statement 43 valuation for the Fiscal Year ended June 30, 2013, and assuming that the NMRHCA Fund is an equivalent arrangement to an irrevocable trust and, hence using a discount rate of 5.0 percent, the unfunded actuarial accrued liability ("UAAL") has been calculated to be approximately $3.6 billion. The Annual Required Contribution ("ARC") is approximately $353.6 million. Both the UAAL and the ARC are slightly higher than the Fiscal Year 2010 evaluation. An underlying reason for this is that a majority of the Public Employee Retirement Association and Educational Retirement Board active employees have incurred an additional two years of service credit and the baseline of health care costs used to project liabilities forward has increased since Fiscal Year 2010. Also, a significant portion of additional liability is the result of interest accrued on the $3.3 billion unfunded liability from Fiscal Year 2010.

The annual solvency analysis performed by independent actuaries in June 2012 indicates NMRHCA is solvent at least through 2029. Insurance plan design changes, premium subsidy adjustments, the increases in the employer/employee revenue stream and suspense fund contribution, increasing principal amounts of investments, and an 8% market trend annual adjustment are the primary causes of the improved outlook. The NMRHCA continues to look for additional opportunities to strengthen the financial standing of the NMRHCA. The NMRHCA Board of Directors has passed a five-year solvency plan to ensure the long-term financial stability of the program through a series of targeted benefit reductions and increases to contribution levels from participating employees and their employers. In addition to increased retiree cost-sharing through the plan design changes, the solvency plan calls for proportionately higher premiums for retirees who retired younger (decreased premium subsidies to pre-Medicare retirees), didn't work or pay into the system as long (increasing years of service required to receive maximum subsidy) and decreased subsidies for family members. Collectively, the NMRHCA projects these steps will extend the life of the trust fund to 2045.

Life Insurance Benefits

Authority employees are eligible for life insurance benefits that continue after retirement. The amount of the continuing benefit is approximately $5,000 of term life insurance for each retired employee. The benefits are paid through premiums to an insurance company under an indemnity plan. With regard to employees who retired prior to transfer to the Authority from the

City, benefits are expected to be paid by the City. Coverage and benefits for other Authority employees is provided by the Authority and the annual cost is estimated at $100,000.

TAX MATTERS

General

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

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

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

Although Bond Counsel has rendered an opinion that interest on the Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of Social Security or Railroad Retirement benefits, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations are advised to consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

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

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

Internal Revenue Service Audit Program

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

Original Issue Discount

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

Original Issue Premium

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

LEGAL MATTERS

In connection with the issuance and sale of the Series 2014 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 2014 Bonds will be passed upon for the Authority by its Disclosure Counsel, Modrall, Sperling, Roehl, Harris & Sisk, P.A. Certain legal matters will also be passed upon for the Authority by Stelzner, Winter, Warburton, Flores, Sanchez & Dawes, P.A., General Counsel to the Authority. Certain legal matters will be passed upon for the Underwriters by Hogan Lovells US LLP.

INDEPENDENT ACCOUNTANTS

REDW LLC audited the financial statements of the Authority as of and for the year ended June 30, 2013 and delivered their report to the New Mexico State Auditor and the Authority. The complete Comprehensive Annual Financial Report of the Albuquerque Bernalillo County Water Utility Authority – Audited General Purpose Financial Statements – as of and for the Fiscal Year ended June 30, 2013 is a public document and is available from the New Mexico State Auditor and on the Authority website at http://www.abcwua.org. An excerpt from the 2013 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, 2013, 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 its issuance of the Series 2014 Bonds, the Authority will execute a Continuing Disclosure Undertaking, a form of which is attached as Appendix E hereto, wherein it will agree for the benefit of the Owners of the Series 2014 Bonds (i) to provide certain annual financial information and operating data relating to the Authority by not later than 270 days after the end of each Fiscal Year, commencing with the Fiscal Year ended June 30, 2014, and (ii) to provide timely notice of certain enumerated events.

The Authority is currently in material compliance with all continuing disclosure undertakings entered in connection with Outstanding Senior Obligations. However, at the time the Authority filed annual financial information in January 2010, January 2011 and March 2014, related to Fiscal Years 2009, 2010 and 2013 respectively, audited financial statements were not complete for these fiscal years and the Authority chose not to provide unaudited financial information. As discussed elsewhere herein, the Authority's financial statements have been tied to the City of Albuquerque's financial system which has experienced problems and resultant delays over the past several years. These delays resulted in the Authority having incomplete and unreliable financial information at the time it filed its annual financial information. To avoid providing investors with unreliable information, the Authority waited until the respective audited financial statements were available and timely filed them with the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System. Starting with Fiscal Year 2014, the Authority's audit will no longer be contingent on completion of the City's audit and the Authority does not anticipate any problems with the timely completion of its audited financial statements or providing reliable unaudited financial information as necessary. See "RISK FACTORS -- New Enterprise Resource Planning System/Decrease in Debt Service Coverage" herein.

LITIGATION

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

RATINGS

It is expected that, upon issuance of the Series 2014 Bonds, the Series 2014 Bonds will receive a senior lien rating of "Aa2" from Moody's Investors Service, Inc., "AA+" from Standard & Poor's Rating Service and "AA" from Fitch Ratings and a subordinate lien rating of "Aa3" from Moody's Investors Service, Inc., "AA" from Standard & Poor's Rating Service and "AA" from Fitch Ratings. The ratings reflect only the respective views of the Rating Agencies, and the Authority makes no representation as to the appropriateness or meaning of any rating. An explanation of the significance of the ratings may be obtained from the respective Rating Agency. The Authority has furnished to each Rating Agency certain information and materials relating to the Series 2014 Bonds, the Authority and the System, some of which may not have been included in this Official Statement. Generally, Rating Agencies base their ratings on such information and materials and on investigation, studies and assumptions by the Rating Agencies. The respective ratings are not a recommendation to buy, sell or hold the Series 2014 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 2014 Bonds. The Authority has undertaken no responsibility to ensure the maintenance of the ratings or to oppose any revisions or withdrawals.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2014 Bonds from the Authority pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") at a price of $____________________ (being the par amount of the Series 2014 Bonds plus a net premium of $_________________ less an Underwriters' discount of $________________). The Bond Purchase Agreement provides that the Underwriters will purchase all of the Series 2014 Bonds if any are purchased. The prices at which the Series 2014 Bonds are offered to the public (and the yields resulting therefrom) may vary from the initial public offering prices appearing on the inside cover page of this Official Statement. In addition, the Underwriters may allow commissions or discounts from such initial prices to dealers and others.

J.P. Morgan Securities LLC ("JPMS"), one of the Underwriters of the Series 2014 Bonds, has entered into a negotiated dealer agreement (the "Dealer Agreement") with Charles Schwab & Co., Inc. ("CS&Co.") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to the Dealer Agreement (if applicable to this transaction), CS&Co. will purchase Series 2014 Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Series 2014 Bonds that CS&Co. sells.

Piper Jaffray & Co. and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation, entered into an agreement (the "Agreement") which enables Pershing LLC to distribute certain new issue municipal securities underwritten by or allocated to Piper Jaffray & Co., including the Series 2014 Bonds. Under the Agreement, Piper Jaffray & Co. will share with Pershing LLC a portion of the fee or commission paid to Piper Jaffray & Co.

VERIFICATION OF CERTAIN MATHEMATICAL COMPUTATIONS

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

ADDITIONAL INFORMATION

All quotations from, and summaries and explanations of the laws, regulations and documents contained herein do not purport to be complete and reference is made to such laws, regulations and documents for full and complete statements of their provisions. Copies, in reasonable quantity, of such laws, regulations and documents (including the Authority's most recent Annual Information Statement, dated March 27, 2014) may be obtained upon request to the Authority at One Civic Plaza, N.W., Room 5012, Albuquerque, New Mexico 87102, Attention: Office Coordinator.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the Authority and the purchasers or holders of any of the Series 2014 Bonds.

APPROVAL BY THE AUTHORITY

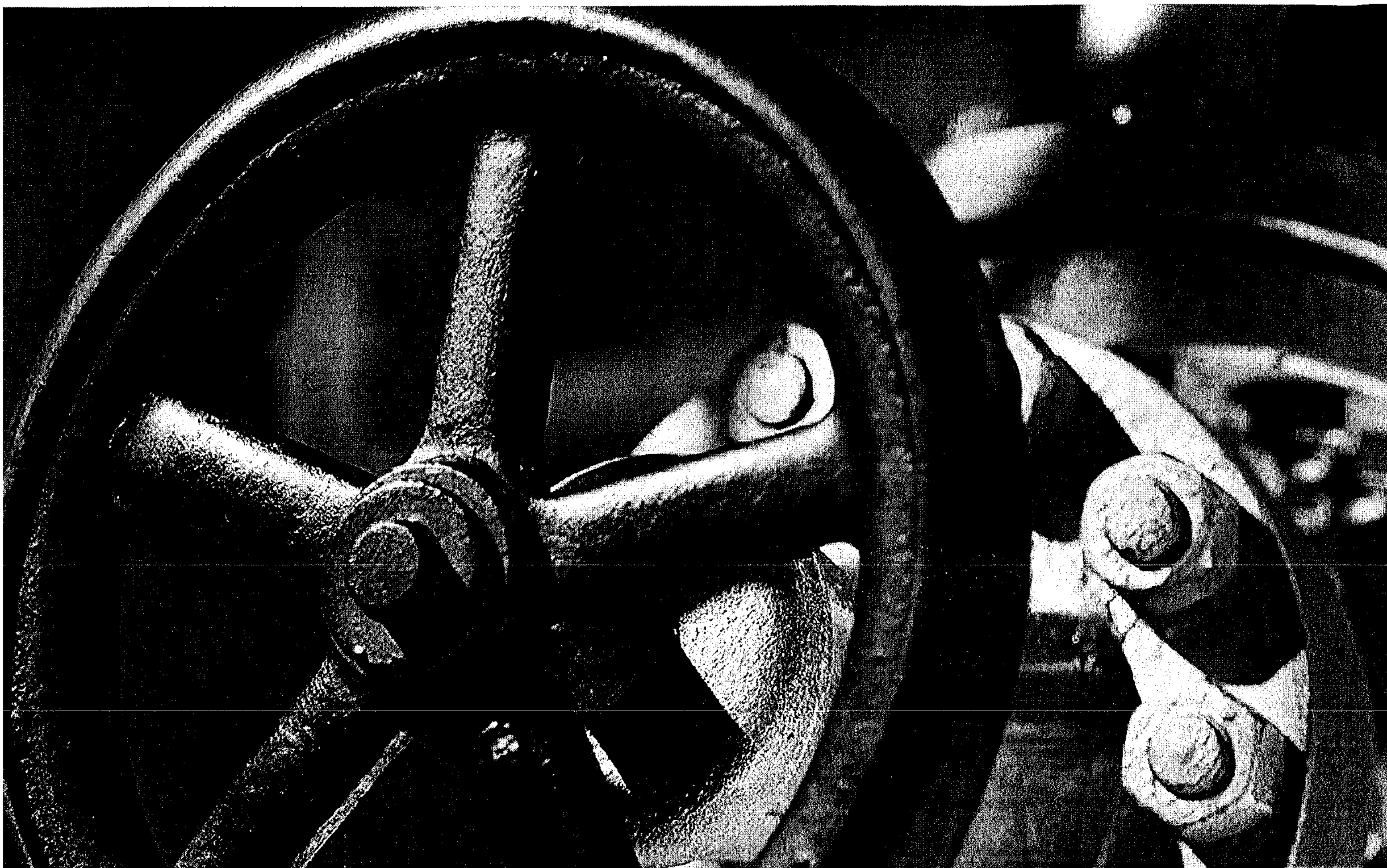
This Official Statement has been duly authorized and approved by the Authority and has been executed and delivered by the Chair of the Board on behalf of the Authority.

ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY

By: ________________________________
Chair

APPENDIX A

EXCERPT FROM THE AUDITED FINANCIAL REPORT OF THE ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY FOR THE FISCAL YEAR ENDED JUNE 30, 2013



COMPREHENSIVE ANNUAL FINANCIAL REPORT

JULY 1, 2012 - JUNE 30, 2013

Albuquerque Bernalillo County
Water Utility Authority
STATE OF NEW MEXICO

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATE OF NEW MEXICO

COMPREHENSIVE ANNUAL FINANCIAL REPORT
July 1, 2012 through June 30, 2013

Albuquerque Bernalillo County Water Utility Authority
Comprehensive Annual Financial Report
Year ended June 30, 2013

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Albuquerque Bernalillo County Water Utility Authority
Comprehensive Annual Financial Report
Year ended June 30, 2013

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STATE COMPLIANCE AND OPERATIONAL FINDINGS

April 29, 2014

Board of Directors
Albuquerque Bernalillo County Water Utility Authority

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the Albuquerque Bernalillo County Water Utility Authority (Authority) for the fiscal year ended June 30, 2013. New Mexico State Statute 12-6-3, NMSA 1978 mandates that the financial affairs of the Authority's records be thoroughly examined and audited each year by independent public accountants.

The Comprehensive Annual Financial Report consists of four major sections:

1. The Introductory Section includes the Transmittal Letter with the Authority's Organizational Chart, and a listing of the Authority's Officials, as well as other relevant information to assist the reader in understanding the Authority's management structure, operations and financial condition.

2. The Financial Section which includes the Independent Auditor's Report, Management's Discussion and Analysis of the Financial Statements, the Authority's Financial Statements for the Fiscal Year ended June 30, 2013, explanatory footnotes, and supplementary information.

3. The Statistical Information Section contains tables with general information about the Authority and comparative data for prior years.

4. State Compliance and Operational Findings include certain schedules required by the New Mexico State Auditor's Office.

This report was prepared by the Albuquerque Bernalillo County Water Utility Authority in conjunction with the City of Albuquerque's Department of Finance and Administrative Services. The Water Authority management assumes full responsibility for the accuracy of the data presented and the completeness and fairness of presentation, including all disclosures, based upon a comprehensive framework of internal control that has been established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. REDW LLC, Certified Public Accountants, has issued an unmodified opinion on the Authority's comprehensive annual financial report for the year ended June 30, 2013. As indicated by the opinion of the Authority's independent auditors, the report fairly presents the financial position and results of operations of the Authority. The report has been set forth in a manner that will give the reader a broad understanding of the Authority's financial affairs, and it includes disclosures necessary for the reader to gain an understanding of the Authority's financial activities. The independent auditor's report is located at the front of the financial statements.

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

Profile of the Authority

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provides that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the 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 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 Authority. Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding between the Authority and the City of Albuquerque (City) became effective July 1, 2007 and ran through June 30, 2012. The Authority extended the MOU through June 30, 2013. Under the new MOU, the Authority operates with greater autonomy from the City while continuing to utilize core central services of the City. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Members of the Water Authority Board at June 30, 2013 are as follows:

Councilor Art De La Cruz, Chair
Councilor Rey Garduño, Vice-Chair
Mayor Richard J. Berry
Commissioner Maggie Hart Stebbins
Councilor Trudy E. Jones
Commissioner Debby O'Malley
Councilor Ken Sanchez
Ex Officio Member at June 30, 2013:
Pablo Rael, Trustee, Village of Los Ranchos

Summary of Local Economy

Albuquerque is the major commercial, trade, service and financial center of the state. It is located in the central part of the state, at the intersection of two major interstate highways, and served by both rail and air. The Albuquerque Metropolitan Statistical Area (MSA) includes Bernalillo, Sandoval, Torrance and Valencia Counties. The MSA has a population of 887,000 as of the 2010 census. The largest employers in the Albuquerque area are the University of New Mexico, Albuquerque Public Schools, Sandia National Labs (SNL), and Kirtland Air Force Base.

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

Albuquerque MSA Employment in Thousands				
NAICS CATEGORY	Employment FY/13	Share of FY/13 Employment	Growth FY/12 to FY/13	Compound Annual Average FY/08 to FY/13
Total Nonfarm Employment [(1)]	36774%	100%	0.0%	-1.5%
Natural Resources and Mining and Construction	1873%	5%	-2.0%	-8.8%
Manufacturing	1731%	5%	-2.0%	-5.4%
Trade, Transportation, and Utilities	6129%	17%	0.0%	-2.4%
Information	859%	2%	8.0%	-1.4%
Financial Activities	1759%	5%	1.0%	-1.5%
Aggregate of Services	16195%	44%	0.0%	-0.5%
Professional and Business Services	5458%	15%	-2.0%	-3.2%
Educational and Health Services	5658%	15%	1.0%	2.6%
Leisure and Hospitality	3899%	11%	3.0%	-0.2%
Other Services	1180%	3%	1.0%	-0.8%
Government	8228%	22%	0.0%	0.5%
Military	624%	NA	0.0%	1.7%

While the U.S. has shown some gains in employment, the Albuquerque MSA has only recently begun to add jobs. FY/13 shows no job growth in total, with continued losses in Professional and business Services, Construction and Manufacturing. The unemployment rate increased from 3.5% in FY/08 to a maximum of 8.3% in November of 2010. The rate has declined and was 6.2% in June of 2013. Although fiscal year 2013 showed no gain in employment, the second half of the fiscal year showed some increases. Construction declined 37% from fiscal year 2008 to fiscal year 2013, an average annual decline of nearly 9%. Single family construction activity has increased, but it is at a low level. Commercial and public construction have increased and at the end of fiscal year 2013 employment in the construction sector showed an increase. Government employment, after holding up in the recession, declined in fiscal year 2012 and was flat in fiscal year 2013.

One of the strengths for the Albuquerque economy is the national labs. Sandia National Laboratories (SNL) has devoted a great deal of research to anti-terrorism and homeland security and the mission to protect the nuclear weapons arsenal. The micro-systems technology, or nano-technology, for which SNL is well known, may provide many novel and inexpensive answers to medical and materials sciences. The labs expertise and technology is also becoming more readily available to the private sector.

Additional historic economic information is presented in the statistical section of this report.

Long-term financial planning

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

In order to plan for the future and to ensure financial stability, an amendment to the Authority's Rate Ordinance was approved by the Board which will increase rates by 5% in fiscal year 2014, fiscal year 2016 and again in fiscal year 2018. The 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 Authority Board approved new policies that will impact financial planning for the future. A Rate Reserve 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 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 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 Authority also develops a Decade Plan 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 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 sewer rate revenues. The balance of capital funding is obtained through revenue bond or loan financing. Growth-related 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 appropriations to CIP projects. The development of a Decade Plan allows for long-term planning for both initial construction and rehabilitation costs as well as additional operating costs to operate and maintain new water and wastewater facilities.

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

Relevant Financial Policies

Budgetary Controls

The fiscal year 2013 budget provided the financial basis of operation for the Authority through June 30, 2013. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City of Albuquerque financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2013, it is at the general ledger fund level that expenditures may not exceed appropriations. Outstanding encumbrances at June 30, 2013, were not re-appropriated in fiscal year 2014.

Cash Management

Pursuant to the Memorandum of Understanding, the Authority participates in the pooled cash investment program as outlined in the Fiscal Agent Ordinance of the City. Cash temporarily idle during the year was invested in those investments and deposits authorized by the City's Investment Policy. The City's policy is to minimize investment and market risk while seeking to obtain a competitive yield on its total portfolio.

Risk Management

The Authority participates in the City's Risk Management program that is operated as an Internal Service Fund. Managerial control and accountability over workers compensation, tort liability, and other risks are maintained through this fund. The program is intended as a self-insurance program with added risk control and prevention techniques.

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

Major Initiatives

The Authority implemented the SunGard Enterprise Resource Planning (ERP) system in fiscal year 2014. This project implemented a full range of financial and human capital resources modules. In fiscal year 2013 Phase 1 was completed and the project went live on July1, 2013. The Authority's first payroll run began in June of 2013. Phase 1 included all the Financial Modules, Payroll and the HR functions as they relate to Payroll. Phase 2 began on July 1, 2013 and is anticipated to be completed on April 28, 2014. This Phase will implement the remaining HR modules to include items such as Employee Self Service. Other SunGard modules will become available during fiscal year 2015 and the Authority will develop work plans to implement those modules.

Along with the implementation of the new ERP system, the Authority has moved most services performed by the City of Albuquerque on the Authority's behalf at the end of fiscal year 2013.

The Authority's San Juan-Chama Drinking Water Project became operational in December 2008. When fully operational, the Surface Water Treatment Plant (SWTP) will supply up to 70% of the metropolitan area's future water. San Juan-Chama water is diverted from the Rio Grande River and transported to a state-of-the-art treatment plant, from which purified water is being delivered to Albuquerque area homes and businesses. The SWTP is an integral component of the Authority's strategy to be in compliance with federal standards for the allowable amount of arsenic in municipal drinking water through the blending of low arsenic surface water with high arsenic well water.

The San Juan-Chama Drinking Water Project (DWP) is expected to increase surface water treatment to provide 60% of water supplied to the service area, but this may change as we enter the fifth year of drought in the Middle Rio Grande. With the pending drought, the Authority provided a loan of 20,000 acre-feet to the Middle Rio Grande Conservancy District along with providing supplemental water for the Bureau of Reclamation. The goal is to sustain endangered species and partner with other water entities during this irrigation season. It is anticipated that the Authority will still have more than three years of water available at the end of calendar year 2014.

The Plant Division began a major renovation of the Southside Water Reclamation Plant (SWRP) in fiscal year 2010 called the Reclamation Rehabilitation and Asset Management Plan (RRAMP). The RRAMP is a multi-year program to renew the treatment processes at the plant. Construction began on the Preliminary Treatment Facility (PTF) in late 2013 and will continue until summer 2015. Engineering evaluation of alternatives for the Solids Dewatering facility continue including replacing the facility with a new facility or rehabilitation of the existing facility. Construction improvements to the blower complex, aeration basins and systems, digester mixers and electrical systems are underway and will continue in 2014. The funding for the RRAMP improvements will be provided through the Authority's Capital Improvement Program (CIP).

In May 2009, the Authority acquired New Mexico Utilities Inc. (NMUI), a for-profit water provider and sewer carrier that served approximately 55,000 residents in a thirty-four square mile service area located in northwest Albuquerque. For fiscal year 2011, the Authority created a Northwest Service Area (NWSA) encompassing the area formerly serviced by NMUI and successfully integrated the NWSA operations into the general operations of the Authority. The NWSA provides services not only to former customers of NMUI but also to other Authority Westside rate payers.

Major renovation of the Southside Water Reclamation Plant, under a multi-year upgrade and replacement program, will continue in fiscal year 2014. The new headworks facility and a new solids dewatering facility are in the final stages of design. Construction on these two facilities is expected to begin in the fall of 2014. The funding for these projects will be provided through the Authority's CIP Program.

The Water Authority continues to participate in American Water Works Association's (AWWA) QualServe Benchmarking program which allows the utility to compare its performance against other utilities at least every two years. The most recent survey data was compiled in 2012 by AWWA from over 100 different utilities. 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.

The Authority has established an asset management program with a steering committee to oversee the program. The program is an extensive, well thought out 'Business Model' that helps utility managers make better acquisition, operations and maintenance, renewal, and replacement decisions. The principles of asset management were developed to address the critical problem of aging public infrastructure and changing utility business environment. In fiscal year 2011, the Authority completed a comprehensive Asset Management Plan (AMP) used to provide a rational framework for understanding and planning of long-range asset renewal (rehabilitation and replacement) requirements. The AMP consolidates the Authority's asset information into a structured framework and uses it to provide a justifiable basis to support long-term organization, operations, and asset management decisions. In fiscal year 2012, the Authority began work on preparing a set of 10-year asset management plans for various asset classes (i.e., small diameter pipes, large diameter pipes, wastewater treatment plant, groundwater and collection system facilities). The 10-year plans are generated to provide the Authority with a more accurate understanding of the short and intermediate-term renewal requirements. In fiscal year 2014, the Authority will continue to improve on its asset management practices and completed the planned 10-year asset management plans. Those plans were submitted for Board approval.

The fiscal year 2013 operating budget continues non-recurring funding for a safety/performance incentive program. This program will reward employees for cost savings due to increased efficiencies or a decrease in work related losses. Funding for this program is contingent on the Authority generating the same or a greater amount in savings.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) of the United States and Canada has established a Certificate of Achievement for Excellence in Financial Reporting program. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report (CAFR) which meets program standards and which satisfies both generally accepted accounting principles and applicable legal requirements.

The Authority received the Certificate of Achievement for each annual CAFR it prepared through the fiscal year ended June 30, 2008. While the Authority believed that the CAFRs for the fiscal years ended June 30, 2009, 2010, 2011 and 2012 met Certificate requirements, these CAFRs were not submitted to the GFOA for certificate determination because of delays in completing the CAFR. For similar reasons the CAFR for the fiscal year ended June 30, 2013 will not be submitted to the GFOA for certificate determination although the Authority believes the 2013 CAFR meets Certificate requirements.

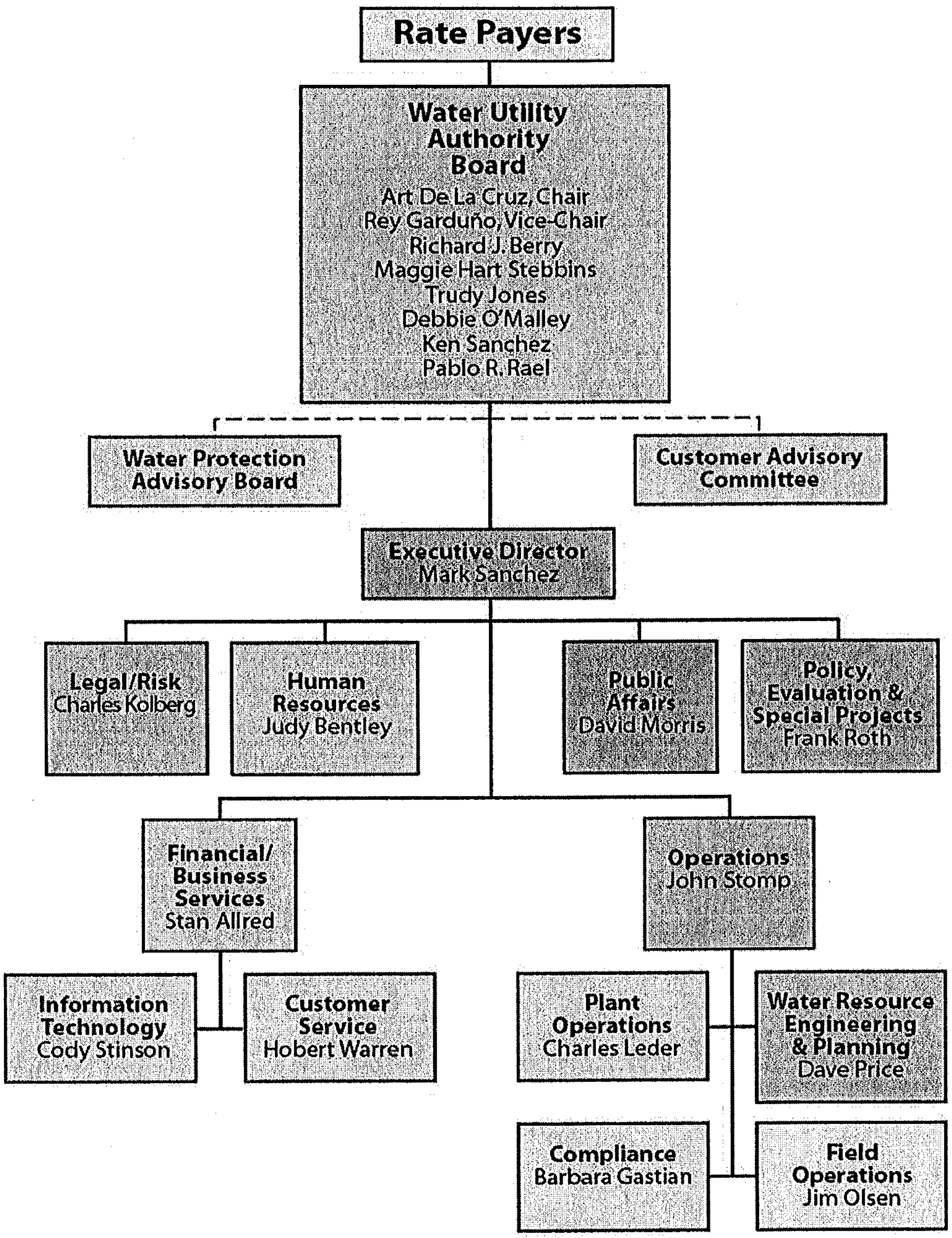
We would like to thank the Board for their support in the planning and implementation of the financial affairs of the Authority. The Authority also wishes to express its appreciation to the City's Department of Finance and Administrative Services who contributed to the preparation of this report and recognize in particular the Accounting Division and its Financial Reporting Section in administering the City's accounting system and in preparing this report.

Respectfully submitted,

Mark S. Sanchez
Executive Director

Stanley Allred
Chief Financial Officer

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
ORGANIZATION CHART



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Independent Auditor's Report

Mr. Hector Balderas
New Mexico State Auditor,
and the
The Board of Directors of the Albuquerque
Bernalillo County Water Utility Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Albuquerque Bernalillo County Water Utility Authority (the "Authority") as of and for the year ended June 30, 2013, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of June 30, 2013, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the Schedule of Funding Progress for Life Insurance Benefit Plan on pages 11-25 and 51 respectively, 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 Authority's financial statements. The Statement of Revenues, Expenses, and Changes in Net Position – Budget and Actual, the Schedule of Deposits and Investments by Financial Institution, the Schedule of Pledged Collateral by Financial Institution, and the Joint Power Agreements, Memorandums of Understanding, and Other Agreements (collectively the "other schedules required by 2.2.2 NMAC"), and the introductory and statistical sections, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other schedules required by 2.2.2 NMAC are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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 April 29, 2014 on our consideration of the 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 Authority's internal control over financial reporting and compliance.

REDW LLC

Albuquerque, New Mexico
April 29, 2014

As management of the Albuquerque Bernalillo County Water Utility Authority (Authority), we offer readers of the Authority's financial statements this narrative overview and analysis of the financial statements for the fiscal year ended June 30, 2013. 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.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements contain two components: 1) financial statements, and 2) notes to those financial statements. This comprehensive annual financial report also contains other supplementary and statistical information in addition to the basic financial statements.

The Authority for financial statement reporting purposes is considered a business like entity and accounted for similar to an enterprise fund. 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 Authority distinguishes operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations which are the provision of water and sewer services to customers within the Authority's service area. The principal operating revenues result from exchange transactions in which each party receives and gives up essentially equal values.

Measurement Focus / Basis of Accounting:

The 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 expenditures 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 Authority's budgetary basis is consistent with the accrual basis of accounting with the exception of the accounting for debt service, which includes debt service principal payments, certain cash transfers, capital contributions, capital outlay, and capitalized interest costs.

Basic Financial Statements

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

The statement of net position presents information on the Authority's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equal net position. Over time, increases or decreases in net position may serve as a useful indicator of whether or not the financial position of the 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 Authority's net position for the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

Other Information

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

Net Position

The equity reported in the statement of net position should be labeled net position and displayed in the following three components: (1) net investment in capital assets; (2) restricted (distinguishing between major categories of restrictions); 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 also should be 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 should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

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

Net position should be 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 Authority with an explicit understanding between the 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.

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 Authority's obligations to its customers and its creditors.

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FINANCIAL ANALYSIS

Net Position

Table 1 - Condensed Statement of Net Position

	FY 2013	FY 2012 (as restated)	Change
Assets			
Current assets	$ 57,200,878	$ 64,820,403	$ (7,619,525)
Non-current other than capital assets	8,273,685	33,408,958	(25,135,273)
Capital assets, net	1,271,185,020	1,311,476,156	(40,291,136)
Total assets	1,336,659,583	1,409,705,517	(73,045,934)
Liabilities			
Current liabilities	67,802,472	68,706,981	(904,509)
Long term payables	613,650,972	661,326,909	(47,675,937)
Other non-current liabilities	1,855,519	52,457	1,803,062
Total liabilities	683,308,963	730,086,347	(46,777,384)
Net Position			
Net investment in capital assets	617,398,422	636,174,669	(18,776,247)
Unrestricted	35,952,198	43,444,501	(7,492,303)
Total net position	$ 653,350,620	$ 679,619,170	$ (26,268,550)

Table 2 - Condensed Statement of Changes in Net Position

	FY 2013	FY 2012	Change
Operating revenues	$ 179,677,625	$ 177,054,690	$ 2,622,935
Operating expenses other than depreciation, amortization, life insurance premiums and bad debt expense	107,213,677	100,532,321	6,681,356
Depreciation, amortization, life insurance premiums and bad debt expense	88,222,868	85,360,738	2,862,130
Total operating expenses	195,436,545	185,893,059	9,543,486
Operating loss	(15,758,920)	(8,838,369)	(6,920,551)
Non-operating income (expenses)			
Utility expansion charges	8,197,016	8,035,123	161,893
Investment income	42,009	148,520	(106,511)
Interest expense	(30,579,433)	(31,094,270)	514,837
Current year capitalized interest	1,946,692	4,384,347	(2,437,655)
Other income	1,743,925	2,146,169	(402,244)
Lease of stored water	1,094,892	190,010	904,882
Amortization of deferred amount on refunding / premium	4,066,823	2,555,736	1,511,087
Non-capital expenses paid in a capital project general ledger fund	(1,153,368)	(1,137,408)	(15,960)
	(14,641,444)	(14,771,773)	130,329
Loss before capital contributions	(30,400,364)	(23,610,142)	(6,790,222)
Capital contributions	4,131,814	5,058,962	(927,148)
Change in net position	(26,268,550)	(18,551,180)	(7,717,370)
Net position, July 1, as restated (Note I.C.10)	679,619,170	698,170,350	(18,551,180)
Net position, June 30	$ 653,350,620	$ 679,619,170	$ (26,268,550)

Table 1 presents a summarized comparative statement of net position for the current and prior fiscal year. Table 2 presents a summarized comparative statement of changes in net position for the current and prior fiscal year. The fiscal year 2012 figures have been restated to conform to fiscal year 2013 presentation and the early implementation of Governmental Accounting Standards Board (GASB) Statement No. 65 '*Items Previously Reported as Assets and Liabilities*'. GASB Statement No. 65 concluded that deferred bond issuance costs no longer met the criteria for recognition as an asset. Accordingly, the June 30, 2012 balance in deferred bond issuance costs was removed through a downward adjustment of the Authority's net unrestricted position as of that date. For purposes of Table 1, FY 2012 non-current assets other than capital assets were reduced by $3,537,317 and FY 2012 unrestricted net position were reduced by the same figure from balances previously reported. For purposes of Table 2, FY 2012 amortization expense was reduced by $348,123 and the July 1, 2011 net position figure was reduced by $3,189,194 from balances previously reported.

The decrease in current assets is primarily from the $9 million reduction in the unrestricted cash balance of which $7 million is attributed to spending within the Authority's capital program in fiscal year 2013 and the other $2 million is the combined decrease in the cash balance between the Authority's operating and debt service general ledger funds. The decrease in non-current assets other than capital assets is primarily from the $24.6 million reduction in the restricted cash balance. The $24.6 million was spent within the Authority's capital program in fiscal year 2013.

Operating revenues increased by $2.6 million in fiscal year 2013 while operating expenses (exclusive of depreciation, amortization, other post-employment life insurance benefits, and bad debt) increased by $6.7 million in fiscal year 2013. The net difference of $4.1 million is consistent with the decline in the cash balance in the Authority's general ledger operating fund. Increases of $2.03 million in salary and fringe benefit costs and $3.65 million in fuels, repairs and maintenance were responsible for almost $5.7 million of the $6.7 million increase in operating expenses. The 2% cost of living adjustment (discussed below) for salaries also increased employer benefit expenses such as PERA and FICA and there were a significant number of pay increases from promotions and certifications as the Authority's work force matures.

Utility expansion charge (UEC) revenues increased by less than $200 thousand in fiscal year 2013. While UEC revenues are not considered operating revenues because they do not derive from the sale of water and sewer services, these revenues are a funding source for debt service and for capital acquisition similar to operating revenues and thus for many management purposes are considered together. UEC revenues in fiscal year 2013 were used to cover the $2 million increase in debt service costs as the transfer from the operating general ledger fund for debt service stayed the same between fiscal years 2012 and 2013.

Operating Budget

Table 3 - Comparative Statement of Operating Revenues and Expenses Using Budgetary Functional Categories of Expenses

	FY 2013	FY 2012	Change
Operating revenues:			
Water charges including reuse	$ 77,606,359	$ 77,292,289	$ 314,070
Sewer charges	58,031,482	58,200,526	(169,044)
Strategy implementation fee	29,161,140	28,747,537	413,603
Franchise fees billed	6,629,318	6,517,918	111,400
High consumption water surcharges	8,305,901	7,152,349	1,153,552
Low consumption water credits	(1,198,575)	(1,902,931)	704,356
Administrative fees	1,142,000	1,047,002	94,998
Total operating revenues	179,677,625	177,054,690	2,622,935
Operating expenses:			
Program expenses:			
Water plant facility production	6,504,770	13,439,322	(6,934,552)
Water plant facility distribution	15,899,295	11,187,155	4,712,140
Water distribution facilitation	2,211,249	2,217,809	(6,560)
Wastewater treatment	11,562,601	15,268,209	(3,705,608)
Compliance	3,761,225	3,846,553	(85,328)
Wastewater collection	7,090,736	8,854,518	(1,763,782)
Sustainable water supply	3,160,070	8,306,086	(5,146,016)
North I-25 reuse	9,263	254,187	(244,924)
Customer services	5,489,640	5,290,049	199,591
Finance	6,117,949	5,652,534	465,415
Human resources	1,052,049	952,475	99,574
Northwest service area	1,237,460	1,119,150	118,310
San Juan-Chama	750,272	927,249	(176,977)
Water resources management	6,295,368	6,273,032	22,336
Information systems	5,565,463	4,839,801	725,662
Low income utility credit	141,410	238,933	(97,523)
Water Authority	21,926,539	3,535,796	18,390,743
Administrative expenses:			
Franchise fees paid	6,629,318	6,524,463	104,855
Administrative fees paid to City	1,809,000	1,805,000	4,000
Other operating expenses:			
Depreciation and amortization	87,087,062	85,283,614	1,803,448
Other post employment benefit - life insur.	1,108,722	-	1,108,722
Bad debt expense	27,084	77,124	(50,040)
Total operating expenses	195,436,545	185,893,059	9,543,486
Operating loss	$ (15,758,920)	$ (8,838,369)	$ (6,920,551)

Budget Parameters:

In the preparation of the fiscal year 2013 budget, certain assumptions were made related to the operations of the Authority, the economic climate and system growth within Bernalillo County and the City of Albuquerque.

- There was no rate adjustment effective for fiscal year 2013. The most recent rate adjustment was a 5% rate adjustment effective for fiscal year 2012 which continued in fiscal year 2013.
- Operating revenues were projected using a 5 year historical trend based upon growth and consumption. The trend was structured by class of customer as well as by the service size of each class. The projected revenues took into account the Authority's continued conservation efforts.
- System growth was based on a 2% growth factor offset in part by an estimated 1% water conservation effect.
- Utility expansion charge revenues were increased by $1 million in fiscal year 2013 up to $8 million to match the fiscal year 2012 actual revenues.
- There was a 2.0% cost of living adjustment for fiscal year 2013 and the full year cost from the addition of eleven net new positions added mid-year in fiscal year 2012.
- The largest budgeted increase in operating costs was $2.1 million for paving and barricade costs which is consistent with the actual increase in fuels, repairs and maintenance costs in fiscal year 2013.
- Fringe benefits were calculated at 47.62% of gross wages, an increase of .58% from fiscal year 2012. The employer/employee split in employee benefit costs other than health insurance costs remained at 80%/20%.
- $2 million was appropriated for addition to the Rate Reserve Fund making the balance in the Rate Reserve Fund equal to $4 million.

Significant Organizational Changes:

The Authority for fiscal year 2013 moved the electricity, fuel and chemical expenses from individual programs into a general government department in the Water Authority program. There was a two-fold purpose behind this action. First, moving these primarily non-discretionary expenditures into their own program was thought to allow for more effective central management of these costs which after salaries and benefits comprise the largest segment of operating expenditures. At the same time, the individual programs from where these costs were moved were left with a larger proportion of controllable costs that could be subject to evaluation for effective management and accountability.

The Authority approved $3.3 million in issue papers for fiscal year 2013 which represented increased costs for various purposes. Most significant was $2.4 million added to the Water Plant Facility Distribution program for barricading, paving and permit expenses which in prior years had been charged to the Authority's capital program. The barricading, paving and permit expenses were primarily associated with line repairs done in the normal course of business. The budget increase allowed these costs to be charged to operating consistent with the thinking that these costs were more operating than capital in nature.

The Authority made a conscious decision to ask the plant and field operating departments to take a more proactive approach to maintenance and do more work on a planned basis rather than a reactive basis. Accordingly, the budget for repairs and maintenance in the affected programs was increased to allow Authority personnel to do more scheduled maintenance.

Results of Operations:

The Authority's operating budget as approved had an excess of revenues compared to expenditures of $9.76 million. The anticipated surplus in the operating fund was intended to meet the Authority's objective of maintaining a working capital balance of $10 million in that fund. Actual results produced a deficit of $2.65 million.

Actual results fell below budgeted goals primarily because actual revenues were less than budgeted revenues. Actual results for revenues were $9.57 million below budget. Actual results for expenditures were $2.84 million above budget. In the spring of calendar year 2013, the Authority enacted drought restrictions and added another tier of high consumption surcharge. In tandem with the Authority's ongoing and effective water conservation efforts, the drought restrictions led to reduced consumption during the normally high consumption period of spring and the month of June with a corresponding negative impact on overall revenues.

Underlying the Authority's operating costs is the continuing responsibility to operate and maintain two water systems, the well/aquifer system and the surface water treatment system. Although the well/aquifer system usage is being reduced as the surface water system increases capacity, the well/aquifer system will still have to be fully operational to supplement the surface water as necessary. The operation of these systems represents a dual cost for the Authority.

Year to Year Program Differences:

The year to year program differences mirror the organizational changes discussed above. The newly created general government department in the Water Authority program in fiscal year 2013 accounted for more than $17.99 million of the increase in this program. Correspondingly, the two plant programs, water plant facility production and wastewater treatment had declining expenditures from the removal of electricity, fuel and chemical expenses. Although the wastewater treatment program had an overall decline in expenditures, this program and the water plant facility distribution program saw higher repairs and maintenance costs arising from the directive to do more planned maintenance of plant assets.

Debt Service Budget:

The Authority's debt service budget as approved had an excess of expenditures compared to revenues of $.88 million. Actual results produced a deficit of $1.03 million. Actual debt service expenditures were slightly lower than budgeted and UEC revenues were slightly higher than budgeted. However, these two positive items were insufficient to offset investment income being much less than budgeted investment income.

Utility expansion charge (UEC) remained constant at fiscal year 2012 levels but debt service was $2 million higher in fiscal year 2013 than in fiscal year 2012. Although the transfer from the operating fund remained constant, more of the UEC revenue was needed to pay debt service rather than being allowed to accumulate and build up the working capital balance.

CAPITAL ASSETS

The 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/sewer rate structure. Special Projects are done outside of the Basic program but are funded from the same revenue stream that funds the Basic Program. Since the Basic Program is the first in line to get this revenue, the size and scope of these Special projects depend upon the availability of resources. "Dedicated Revenue" projects have a revenue element in the rate structure dedicated for that specific purpose and accordingly, their size and scope are dependent upon the revenue stream generated. In recent years, the Authority has increased its utilization of state and federal grants to fund some capital projects in whole or in part.

The blueprint for the Authority's Basic Program is its Decade Plan, a ten-year capital plan required to be updated biennially in even numbered fiscal years with two, four, six, eight and ten year planning elements. The Decade Plan includes detailed requirements for program development and project scope, schedule, budget, justification and alternatives. The Decade Plan requires approval by the Authority Board with at least one public hearing and due deliberation. In those fiscal years where the Decade Plan must be updated, the new Decade Plan must be approved by the Authority's Board before that year's Capital program budget can be approved. This policy ensures there is always an approved two-year planning element in place for every approved annual Basic Program budget. FY/13 was the second year of the two year planning element included in the FY/12 – FY/21 Decade Plan approved by the Board in April, 2011.

Basic Program capital needs are incorporated into the water/sewer rate structure through the Rate Ordinance. Funding for the Basic Program comes from a combination of cash and debt. The rate structure is intended to generate sufficient revenues such that approximately 50% of the Basic Program can be paid with cash transfers and there is sufficient funding 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 Authority capital projects. UEC revenue is considered cash for purposes of meeting the 50% test. The current Rate Ordinance requires a $30 million Basic rehabilitation program. The Rate Ordinance does not specify the size of the Basic growth program.

The Basic growth program has shifted in focus from placing new pipe in the ground to meeting the demands of a business intent on achieving performance improvement goals and meeting mandated standards. The discretionary spending in the FY/13 Growth program budget continued initiatives in Information Technology (IT) support for the operating divisions. The remainder of the FY/13 Growth program was primarily non-discretionary and included funding for the low income connection program managed by Bernalillo County and repayment to developers as connections are made to the System.

The most significant project in the IT area is a special project for the acquisition and implementation of the Authority's own financial and human resource systems. The Authority for fiscal year 2013 continued to utilize the City of Albuquerque's PeopleSoft systems which went live on January 1, 2009. The continuing difficulties with the PeopleSoft systems have been a primary contributor to the inability of the City and the Authority to get their annual external financial audit done on a timely basis and to timely monitor actual results against budgeted amounts. The Authority chose a financial system appropriate to its size and needs with the goal of minimal customization while changing business processes as needed to accommodate the delivered software. The software choice was the SunGard Financial Systems product titled 'One Solution'.

The Authority engaged the services of the Governmental Finance Officers Association to assist with system criteria, vendor selection and implementation services. The financial system and the payroll portion of the human resources system went live as scheduled on July 1, 2013. The remainder of the human resources system will go live on January 1, 2014. The FY/13 capital program appropriation includes $2.0 million for this project.

Table 4 - Schedule of Infrastructure and Capital Assets

	FY 2013	FY 2012	Change
Buildings and Improvements	$ 2,210,836	$ 2,210,836	$ -
Improvements other than Buildings	2,075,704,412	2,025,226,113	50,478,299
Machinery and Equipment	51,825,486	49,877,090	1,948,396
Purchased Water Rights	44,581,533	43,720,597	860,936
Total capitalized assets	2,174,322,267	2,121,034,636	53,287,631
Less accumulated depreciation and amortization	(932,729,932)	(845,642,870)	(87,087,062)
Net capitalized assets	1,241,592,335	1,275,391,766	(33,799,431)
Land	25,699,732	25,699,732	-
Construction work in progress	3,892,953	10,384,658	(6,491,705)
Total capital assets	$ 1,271,185,020	$ 1,311,476,156	$ (40,291,136)

Table 5 - Schedule of Fiscal Year 2013 Major Capital Additions

		In Millions
Basic Program with supplemental Southside Water Reclamation Plant funding		
Southside Water Reclamation Plant and collection system improvements	$	7.0
Sanitary sewer pipeline renewal		8.5
Drinking water pipeline renewal		9.8
Drinking water facilities renewal		5.3
Aquifer recharge demonstration project		2.4
Non-Basic Program		
Automated meter infrastructure project		6.3
Third Party Financed		
Private developer and grant funded infrastructure improvements		4.1
	$	43.4

Table 4 presents the Authority's infrastructure and capital assets at June 30, 2013 and 2012 while Table 5 presents significant capital projects or combinations of smaller individual projects with a common purpose that were placed in service in fiscal year 2013. The project values include capitalized interest.

The capital program expended fewer dollars in fiscal year 2013 than in fiscal year 2012 due to the lack of an ongoing major project or any major capital initiative. The construction of a replacement preliminary treatment facility (PTF) at the Southside Water Reclamation Plant with an expected cost in excess of $30 million will be the major initiative in the fiscal year 2014 capital program.

There was only one large scale planned water and sewer line project ongoing in fiscal year 2013. The majority of the basic rehabilitation program was comprised of smaller emergency and non-emergency projects done by the Authority's on-call contractors for small diameter water and sewer line repair and the repair of a large diameter sewer 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, purchasing replacement water meters, and making improvements at the Surface Water Treatment Plant.

DEBT ADMINISTRATION

The Authority's debt obligations at June 30, 2013 are presented below. Net revenues of the System secure debt issued by the Authority.

Table 6 - Schedule of Debt Obligations at June 30, 2013

	Outstanding				
	June 30, 2012	Increases	Decreases	June 30, 2013	Payable in one year
Parity Obligations:					
Revenue Bonds	$ 443,015,000	$ -	$ 22,235,000	$ 420,780,000	$ 23,545,000
Loan Agreements - NMFA	211,918,729	-	17,497,222	194,421,507	17,606,701
Subordinate Obligations:					
Loan Agreements - NMED	7,433,738	-	992,059	6,441,679	453,894
Loan Agreements - NMFA	9,980,080	-	466,842	9,513,238	475,158
Junior Obligations:					
Loan Agreements - NMFA	311,232	-	17,353	293,879	17,397
Lines of Credit - NMFA	-	191,380	56,406	134,974	56,548
Water rights contract	12,932,117	-	1,007,322	11,924,795	1,038,005
Less deferred amounts:					
Unamortized bond premiums	17,432,095	-	4,098,492	13,333,603	-
Bond refunding costs	(31,669)	-	(31,669)	-	-
	$ 702,991,322	$ 191,380	$ 46,339,027	$ 656,843,675	$ 43,192,703

In the ordinances pursuant to which the System obligations have been issued, the Authority agreed to charge all purchasers of services reasonable rates sufficient to produce net revenues annually to pay 133% of the annual debt service requirements on all System obligations (excluding reserves). The calculation of "net revenues" is done in a prescribed manner using data from these financial statements. "Net revenues" are then divided by debt service requirements. The resulting ratio, called the debt service coverage ratio, is then compared to the 1.33 ratio required by Ordinance.

The debt service coverage ratio for all system obligations in fiscal year 2013 was 1.34. The debt service coverage ratio for senior lien obligations in fiscal year 2013 was 1.42. The Authority's bond ratings at the time the Joint Water and Sewer System Improvement and Refunding Revenue Bonds (see below) closed on October 22, 2013 were Aa2 from Moody's, AA from Fitch and AA from Standard & Poors.

Debt issued for basic capital needs is scheduled for a twelve year retirement while debt issued for San Juan Chama Drinking Water and Southside Reuse projects have a twenty five year retirement schedule. Net revenues of the system secure all debt of the Authority.

New Debt

The Joint Water and Sewer System Improvement (Series 2013A) and Refunding (Series 2013B) Revenue Bonds closed on October 22, 2013. Series 2013A had a par amount of $62,950,000 with a premium of $7,503,235. Series B had a par amount of $55,265,000 with a premium of $7,711,334. Series 2013A has a Serial Bond component - $57,110,000 - and a Term Bond component - $5,840,000 - with final maturity due July 1, 2038. Series 2013B is a Serial Bond with final maturity due July 1, 2024. Principal is paid annually on July 1st of every year beginning July 1, 2014 for both Series A and B.

The coupon rate for Series 2013A is 3% for the July 1, 2014 installment and 4% for the July 1, 2015 and 2016 installments and is 5% thereafter for all subsequent installments. The coupon rate for Series 2013B is 3% for the July 1, 2014 installment and is 5% thereafter for all subsequent installments.

Proceeds from the Series 2013A issue will be used for the Basic rehabilitation program, provide supplemental funding for rehabilitation work at the Southside Water Reclamation Plant, provide funding for the Authority's Automated Meter Infrastructure (AMI) project, and replacement of steel water lines.

Proceeds from the Series 2013B issue were placed in a refunding escrow for the purpose of refunding the 2004 NMFA-PPRF (New Mexico Finance Authority-Public Project Revolving Fund) loan in the principal amount of $61,005,000 on May 1, 2014. The Authority is responsible for making the scheduled May 1, 2014 principal payment of $8,670,000 on the NMFA loan at which time all subsequent installment payments become callable.

Three Water Trust Board grant/loans closed on November 23, 2011. Water Trust Board grant/loan numbers 205 and 206 are for the continued planning, design and construction of a regional water conveyance and delivery system for the residents of the community of Carnuel east of Albuquerque in Bernalillo County. Number 205 has a grant amount of $1,808,000 and a loan amount of $452,000 for a total of $2,260,000. Number 206 has a grant amount of $960,000 and a loan amount of $640,000 for a total of $1,600,000. As with the Authority's other agreements with the Water Trust Board, these agreements do not provide forward funding for work but instead will reimburse the Authority as eligible expenditures are made. Water Trust Board grant/loan number 207 is for the planning and design of a large scale aquifer recharge project. Number 207 has a grant amount of $95,032 and a loan amount of $63,354 for a total of $158,386. This funding represents a continuation of state funding for the Authority's aquifer recharge efforts. Phase one of the project was funded in part by an earlier state grant. The interest rate on all three grant/loans is 0% but a .25% fiscal agent fee expense is charged.

The agreements with the New Mexico Finance Authority or the New Mexico Water Trust Board which provide for reimbursement to the Authority upon submission of eligible expenditures are considered lines of credit for financial statement purposes until the final amount of the agreement is known at project completion and all reimbursements have been received. At that point, the line of credit is considered to be converted to a loan agreement.

As of June 30, 2013 all three Water Trust Board grant/loan numbers 205, 206 and 207 are considered lines of credit. There have been reimbursable expenditures and reimbursements received on grant/loan numbers 205 and 207 in fiscal year 2013 while there have been no expenditures and no reimbursements relative to grant/loan number 207. However, each of the three agreements required the payment of principal beginning July 1, 2012 and each July 1 thereafter regardless of whether the lines of credit have been converted to loan agreements and regardless of whether any reimbursements have been received on the lines of credit. Accordingly, the Authority made principal payments on all three grant/loans on July 1, 2012 and 2013. For financial statement purposes, reimbursements are first considered loan proceeds to the full extent of the loan amount and grant revenues thereafter.

More detailed information can be found in the notes to the accompanying financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

National Economy and Key Points from the Global Insight Outlook

It should be noted that the following is based on the October 2012 Global Insight forecast and events have transpired that may or may not agree with this forecast. Along with the baseline forecast alternative forecasts are prepared with pessimistic and optimistic occurrences.

Baseline Scenario

In the baseline forecast, assigned a probability of 60%, IHS Global Insight (GI) expects limited growth. The year over year growth in real GDP for FY/14 is expected to be 1.9% which is below the 2.0% growth in FY/13. Growth remains low due to the many uncertainties both in the U.S. and in the world. Exports, which had been leading the recovery, are lagging as Europe and the rest of the world still remain weak and the dollar remains relatively strong against the Euro. Consumer spending continues to be sluggish. Consumers have reduced their debt levels though they are still relatively high. In addition consumers lack confidence in the strength of the economy and the government's ability to make things better. With the government shutdown in October consumer confidence fell to an all-time low. GI assumes that the automatic spending cuts of the sequestration will continue through calendar year 2014. Then some combination of tax increases and spending cuts will occur moving forward. Employment growth remains sluggish but has shown steady increases. Growth was 1.6% in FY/13, and 1.7% in FY/14. Total employment is not expected to reach its previous peak of FY/08 until FY/15. Unemployment reached a peak of 9.9% in the fourth quarter of 2009 and by FY/18 declines to 5.5%.

Inflation is one of the few bright spots in the GI forecast. Weak employment growth puts little pressure on wages helping to limit pressure on prices. Inflation is expected to remain below 2% from FY/14 through FY/18. Oil prices increase in FY/14 to over $100 per barrel, but remain below $100 for the remainder of the forecast. GI expects growth in the Consumer Price Index (CPI) to remain muted, around 1.5% in FY/14 and increasing slightly in FY/15 to 1.7% and only reaching 1.9% in FY/17 and FY/18. The low inflation expectation also plays into moderate increases in interest rates. GI believes that the Federal Reserve Bank (FRB) will not raise rates until FY/16; reaching 1.1% in FY/16 and 4% by FY/18.

There are a number of risks in the economy. With the rate of growth in GDP so low, any unexpected occurrence could push the economy into recession. The battle in congress over spending, taxes and extension of the debt ceiling pushed confidence to a new low in October 2013. The shutdown of the federal government in October was not directly factored into the forecast, but the November forecast showed little impact. The "sequester" is expected to be in place through December 2014. The current levels of uncertainty on businesses restrain activity in investment and hiring. Unfortunately, these high levels of uncertainty are likely to remain with us over the next few years.

Pessimistic Scenario

This scenario is assigned a probability of 20%. In this scenario, the recovery stalls. Construction is weak in part due to more difficulty in access to credit; an increase in the credit crunch. The "sequester" is replaced by more severe cuts including a suspension of long term unemployment benefits. Unemployment basically remains at a high level, only decreasing to 7.4% by FY/18. Inflation is above the baseline at 2.5% in the out years in part due to supply constraints that raise the price of oil to $112 per barrel. Internationally the Eurozone falls back into recession and emerging markets are weak. The FRB doesn't increase rates until FY/18 as it attempts to continue to stimulate the economy.

Optimistic Scenario

This scenario is assigned a probability of 20%. In it basically everything goes right. A tax and spending compromise is reached, The Eurozone and emerging markets show strong growth helping exports. Inflation is above the baseline originally as strong demand pushes it up. The FRB reacts and starts raising interest rates in FY/15 to limit inflation. Even with higher interest rates housing starts accelerate and unemployment drops to near 4.1% in FY/18.

Albuquerque Economy

The Albuquerque economy is affected by the U.S. and world economies. Albuquerque fell with the national economy, but has lagged in its recovery. Employment has begun to grow, but at very modest rates. The FOR-UNM forecast of employment in October 2013, has positive employment growth beginning in FY/13. FY/13 increased 0.5% and FY/14 is expected to grow 1.3%.

National Economy and Key Points from the Global Insight Outlook, continued

The Albuquerque economy lost over 27 thousand jobs from FY/08 to FY/12 a loss of 7% of total employment. Growth for FY/15 is expected at 1.7% with FY/16 increasing at the same rate. This is a muted growth rate for pulling out of a recession. The economy does not reach FY/08 levels until FY/18. Construction has improved and is now helping the economy. The unemployment rate continues to decline, but some of this is due to discouraged workers leaving the labor force. The rate is expected to slowly decline to 5.6% in FY/18.

FY 2014 Budget and Rates

The fiscal year 2014 approved budget included a 5% revenue rate adjustment.

The fiscal year 2014 budget is a maintenance of effort budget within the projected estimated revenues. The fiscal year 2014 budget has an increase of $1.9 million for total personnel expenditures including a 1.45% increase in other employee benefits and the full year impact of eight net new positions added mid fiscal year 2013 plus three net new positions added for fiscal year 2014.

General operating expenditures increase $.7 million with the major increase being the franchise fee based upon the 5% revenue adjustment effective July 1, 2013. The most significant expense of the Authority continues to be debt service payments which will comprise 38% of the total operating expense in fiscal year 2014.

On the revenue side, revenues classified as operating revenues in the accompanying financial statements were budgeted at $196.374 million or $8.240 million higher than fiscal year 2013 budgeted amounts and $16.696 million higher than fiscal year 2013 actual amounts.

Utility expansion charge (UEC) revenue was budgeted at $8.0 million or the same amount in the fiscal year 2013 budget and $.197 million less than fiscal year 2013 actual amounts.

REQUESTS FOR INFORMATION

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF NET POSITION
June 30, 2013

ASSETS	
Current assets:	
Cash, investments, and accrued interest	$ 4,376,391
Cash held for debt service	34,205,405
Accounts receivable, net of allowance for uncollectible accounts	15,487,864
Notes receivable, current portion	920,432
Due from other governments	2,194,935
Prepaid assets	15,851
Total current assets	57,200,878
Noncurrent assets:	
Long-term notes receivable	5,216,608
Restricted assets:	
Cash, investments, and accrued interest	3,057,077
Capital assets:	
Buildings and improvements	2,210,836
Improvements other than buildings	2,075,704,412
Machinery and equipment	51,825,486
Purchased water rights	44,581,533
	2,174,322,267
Less accumulated depreciation and amortization	932,729,932
Net capital assets	1,241,592,335
Land	25,699,732
Construction work in progress	3,892,953
Total capital assets	1,271,185,020
Total noncurrent assets	1,279,458,705
Total assets	1,336,659,583

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF NET POSITION, continued
June 30, 2013

LIABILITIES	
Current liabilities:	
Trade accounts payable	2,817,948
Accrued payroll	1,912,951
Accrued vacation and sick leave pay	3,071,653
Deposits	702,845
Accrued interest payable	302,691
Construction contracts payable	4,274,419
Other payables - debt obligations	
Current portion:	
Bonds	23,545,000
Loan agreements	18,609,698
Water rights contract	1,038,005
Accrued interest	11,527,262
Total current liabilities	67,802,472
Noncurrent liabilities:	
Long-term payable:	
Bonds, net of current portion, discounts and premiums	410,568,603
Loan agreements, net of current portion	192,195,579
Water rights contract, net of current portion	10,886,790
Total long-term payable	613,650,972
Other:	
Post-employment life insurance benefit obligation	1,108,722
Accrued vacation and sick leave pay	746,797
Total other	1,855,519
Total noncurrent liabilities	615,506,491
Total liabilities	683,308,963
NET POSITION	
Net investment in capital assets	617,398,422
Unrestricted	35,952,198
Total net position	$ 653,350,620

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
Year ended June 30, 2013

Operating revenues:	
Charges for services	$ 179,677,625
Operating expenses:	
Salaries and fringe benefits	48,510,025
Professional services	882,847
Utilities	12,889,006
Supplies	9,295,557
Fuels, repairs, and maintenance	13,095,120
Contractual services	9,694,480
Franchise fees	6,629,318
Tort and other legal fees	2,618,768
Workman's compensation	754,159
Administrative fees to other government	1,550,000
Life insurance premiums	1,108,722
Other operating expenses	1,294,397
Depreciation	86,644,314
Amortization	442,748
Bad debt expense	27,084
Total operating expenses	195,436,545
Operating loss	(15,758,920)
Nonoperating revenues (expenses):	
Interest on investments	42,009
Interest expense	(24,565,918)
Water service expansion charges	8,197,016
Other	1,685,449
Total nonoperating revenues (expenses), net	(14,641,444)
Loss before capital contributions	(30,400,364)
Capital contributions	4,131,814
Change in net position	(26,268,550)
Net position, July 1, as restated (Note I.C.10)	679,619,170
Net position, June 30	$ 653,350,620

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

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF CASH FLOWS
Year ended June 30, 2013

Cash flows from operating activities:	
Cash received from customers	$ 180,053,082
Cash payments to employees for services	(46,530,030)
Cash payments to suppliers for goods and services	(59,824,588)
Miscellaneous cash received	2,271,730
Net cash provided by operating activities	75,970,194
Cash flows from capital and related financing activities:	
Proceeds from line of credit	191,380
Principal paid on revenue bond maturities	(22,235,000)
Interest and other expenses paid on revenue bond maturities	(20,954,795)
Principal paid on loan agreements	(18,973,475)
Interest and fees paid on loan agreements	(9,827,089)
Principal paid on water rights contract	(1,007,322)
Interest paid on water rights contract	(393,912)
Principal paid on lines of credit	(56,407)
Purchased water rights	(860,936)
Acquisition and construction of capital assets	(44,132,793)
Capital grants received	187,879
Water service expansion charges	8,768,458
Net cash used for capital and related financing activities	(109,294,012)
Cash flows from investing activities:	
Interest received on investments	164,564
Net decrease in cash and cash equivalents	(33,159,254)
Cash and cash equivalents, July 1	74,798,127
Cash and cash equivalents, June 30	$ 41,638,873

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

Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	$ (15,758,920)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	86,644,314
Amortization	442,748
Miscellaneous cash received	2,271,730
Provision for bad debts	27,084
Decrease (increase) in assets:	
Accounts receivable	346,515
Prepaid assets	20,796
Increase (decrease) in liabilities:	
Accounts payable and customer deposits	(1,112,790)
Post-employment life insurance benefit obligation	1,108,722
Accrued payroll and vacation and sick leave pay	1,979,995
Net cash provided by operating activities	$ 75,970,194
Cash and cash equivalents at June 30 consist of:	
Current assets:	
Cash, investments, and accrued interest	$ 4,376,391
Cash held for debt service	34,205,405
Non-current assets:	
Restricted assets:	
Cash, investments, and accrued interest	3,057,077
Total cash and cash equivalents, June 30	$ 41,638,873
Noncash transactions:	
Capital contributions by developers	1,939,091
Unrealized loss on investments	(47,704)

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

I. Summary of Significant Accounting Policies

The financial statements of the Albuquerque Bernalillo County Water Utility Authority (Authority), a related organization of the City of Albuquerque, New Mexico, (City) have been prepared in conformity with generally accepted accounting principles as applied to governmental entities. The significant governmental accounting policies are described below.

A. Reporting entity

In 2003, the New Mexico Legislature adopted Laws 2003, Chapter 437 (Section 72-1-10, NMSA 1978), which created the Authority and provided that all functions, appropriations, money, records, equipment and other real and personal property pertaining to the Joint Water and Sewer Systems (System) would be transferred to the Authority. The legislation also provided that the debts of the City payable from Net Revenues of the System shall be debts of the Authority and that the 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 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 Authority. All policy-making for the System resides with the Authority. During the 2005 New Mexico Legislative Session, Senate Bill 879 was passed which provided the Authority the statutory powers provided to all public water and wastewater utilities in the state and recognized the Authority as a political subdivision of the state.

Effective July 1, 2007, the Authority assumed all management and operation of what was the City Water Utility Department. A new Memorandum of Understanding (MOU) between the Authority and the City became effective July 1, 2007 and was due to expire on June 30, 2012. The existing MOU was extended through June 30, 2013. Although the extension of the MOU for fiscal year 2013 did not change any terms and conditions of the MOU and in fact the administrative fee the Authority paid to the City in fiscal year 2013 was identical to the fee paid to the City in fiscal year 2012, the Authority began in fiscal year 2013 to operate with greater autonomy from the City in preparation for fiscal year 2014 when the Authority assumed almost all business processes previously performed by the City on the Authority's behalf.

The accompanying financial statements present only the financial position of the Authority at June 30, 2013, and the results of its operations for the year ended June 30, 2013. The Authority is a related organization of the City, and these financial statements are not intended to present fairly the financial position of the City as of June 30, 2013, and the changes in its financial position, or where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. However, certain disclosures are for the City as a whole, since such information is generally not available for the Authority on a separate Authority basis. Where applicable, the Authority's share of the balance/activity is included (See Notes III, A., G., and H.). There are no component units of the Authority.

The accounting policies of the Authority as reflected in the accompanying financial statements conform to generally accepted accounting principles for local governmental units. The more significant of these accounting policies are summarized below.

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

The Authority accounts for all activities to provide water and sewer 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 Authority distinguishes operating revenues and expenses from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the 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 nonoperating revenues or expenses. These include investment earnings, interest expense, and transactions that result from nonexchange transactions or ancillary activities.

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

The 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. Cash, investments, and accrued interest

In accordance with City policies, the Authority participates in the City's cash management program that is administered by the City's Treasury Division. A significant portion of cash and investments held by the City is pooled. The pooled cash investment program of the City is operated under the provisions of City ordinance and a specific City investment policy. The policy states that the City shall invest cash balances over the anticipated amount needed to meet operating requirements. Investments are stated at fair market value. The balance reported as "Cash, Investments, and Accrued Interest" represents the equity of the Authority in the pooled cash, investments, and accrued interest. The Authority's share of the interest earnings on pooled investments is determined by allocating interest to the Authority based on average daily balances.

The investment policy states that the City will not commit any funds invested in the pool to maturities longer than three years from the date of purchase, except investments held to meet legal reserve requirements on bonded indebtedness. The maturity date of these investments will not exceed the final maturity date of the bond issue to which they are pledged. Funds are invested based on a minimum of three bids and/or offers. Certificates of deposit are based on competitive rates for specific maturities.

All investments are valued at quoted market prices except for the investment in Special Assessments District bonds and in State of New Mexico Mortgage Finance Authority bonds that are computed at amortized cost approximating market value.

Investments in the State of New Mexico Local Government Investment Pool (LGIP) are valued at fair value based on quoted market prices as of the valuation date in accordance with GASB Statement No. 31. The LGIP is not SEC registered. The State Treasurer is authorized to invest the LGIP, with the advice and consent of the State Board of Finance, in accordance with Sections 6-10-10 I through 6-10-10 P and Sections 6-10-10.IA and E, NMSA 1978. The pool does not have unit shares. Per Section 6-10-10.1F, NMSA 1978, at the end of each month all interest is distributed by the State Treasurer to the contributing entities in amounts directly proportionate to the respective amounts deposited in the fund and the length of time the fund amounts were invested. Participation in the LGIP is voluntary. This pool is subject to the standards set forth in the State Treasurer's Local Government Investment Policy document incorporated in and made a part of the State Treasurer's Investment Policy Document. The independent Auditor's Report, together with the Financial Statements, the accompanying Notes to the Financial Statements and the Independent Auditor's Report on Compliance and Internal Controls are available from the State Investment Council, 2055 South Pacheco Street, Suite 100, Santa Fe, New Mexico 87505, upon written request.

The following categories of investments are specifically authorized by the policy:

1. Repurchase Agreements - secured by collateral, which is delivered to a third-party safekeeping institution, with a market value equal to or greater than the value of the agreement.
2. U.S. Treasury Obligations - bills, notes, and bonds.
3. Obligations of Federal Agencies or Instrumentalities - interest bearing or discount form.
4. Municipal Bonds - rated in any of the three highest major rating categories by one or more nationally recognized rating agencies.
5. Fixed-income securities - through a diversified investment company registered pursuant to the federal Investment Company Act of 1940, provided the investment company or manager has total assets under management of at least one hundred million dollars ($100,000,000).

C. Assets, liabilities, and net position, continued

The following categories of deposits are specifically authorized by the policy:

1. Checking Accounts - at insured financial institutions.
2. Certificates of Deposit - subject to restrictions set forth in the City's Fiscal Agent Ordinance (City policy requires a minimum of 50% security consisting of insurance and/or collateral).
3. Money market instruments - rated in the highest rating category by any nationally recognized rating agency.

2. Accounts receivable

Accounts receivable include water and sewer billings that are considered 100% collectible since a lien can be placed on the customer's property for nonpayment. Consequently, the 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.

3. 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 Authority defines capital assets as assets with an initial individual cost of more than $5,000 and estimated useful life in excess of one year. The Authority implemented the new $5,000 capitalization threshold in fiscal year 2007 for items purchased during the fiscal year. Such assets are recorded at historical cost or estimated historical cost if historical cost information is not available. Software is capitalized when acquired. Donated capital assets are recorded at estimated fair market value at the date of donation.

Construction costs of water and sewer 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	*50 years*
Improvements other than buildings	*25 years*
Machinery and equipment	*5 – 12.5 years*

Purchased water rights are recorded at cost and are being amortized using the straight-line method over one hundred 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.

4. Trade accounts payable and construction contracts payable

Trade accounts payable are recorded as the liability is incurred and represent payables from daily operations. Payment is made from unrestricted assets. Construction contracts payable are liabilities incurred for the acquisition of new capital projects or for rehabilitation of existing water and sewer lines and facilities. These contracts are funded by operational revenues, utility expansion charge revenues, and long-term debt proceeds.

C. Assets, liabilities, and net position, continued

5. Accrued vacation and sick leave pay

The employees of the 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 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.

6. 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 Authority's revenues and are recorded in the 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. Bonds payable are reported net of the applicable bond premium or discount.

7. Net position

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

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

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

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

8. Statement of cash flows

For the purposes of the statement of cash flows, all pooled cash and investments are considered to be cash equivalents, although there are investments with a maturity in excess of three months when purchased, because they have characteristics of demand deposits. Non-pooled investments with original maturities of three months or more are deducted from cash, investments, and accrued interest. Purchases and sales of these investments are reported as cash flows from investing activities.

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.

C. Assets, liabilities, and net position, continued

10. New accounting pronouncements

For fiscal year 2013, the Authority early implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement addressed in part the recognition of certain items previously recorded as assets and liabilities. In prior years, the Authority capitalized bond issuance costs and amortized the costs over the remaining maturity period of the related bond issues under a method that approximated the level interest rate method. This pronouncement requires that debt issuance costs be expensed as incurred. Changes from adoption of this pronouncement should be applied retroactively by restating financial statements for all periods presented. As such, the Authority has restated beginning unrestricted net position as of July 1, 2012 by $3,537,371, resulting in restated beginning net position of $679,619,170.

The following GASB pronouncements have been issued, but are not yet effective at June 30, 2013.

- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – and amendment of GASB Statement No. 27*
- GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The Authority will implement the new GASB pronouncements in the fiscal year no later than the required effective date. Except as discussed in the following paragraph, the Authority believes that the above listed new GASB pronouncements will not have a significant financial impact to the Authority or in issuing its financial statements.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, becomes effective in the fiscal year ending June 30, 2015. The new standard will substantially change accounting and financial reporting for the City's participation in the Public Employees Retirement System (PERA), a cost sharing multiple-employer defined benefit retirement plan. The new standard will require the City's financial statements that use the economic resources measurement focus and accrual accounting to recognize a liability for the City's proportionate share of PERA's net pension liability, and to recognize pension expense, and to report deferred outflows of resources and deferred inflows of resources related to pensions, for its proportionate shares of PERA's collective pension expense and collective deferred outflows of resources and deferred inflows of resources.

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, capital outlay, and capitalized interest costs. The annual budget is formulated by the 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. After Board approval of the budget, a formal appropriation and encumbrance system to control expenditures is maintained by the City's financial system. The appropriated amounts reflected in the accompanying supplementary information represent the Authority's budget by program. For fiscal year 2013, expenditures may not exceed budgetary appropriations at the general ledger fund level. The Authority uses general ledger funds for internal accounting purposes. However, since the Authority is accounted for similar to an enterprise fund, it does not include in its financial statements financial information for individual general ledger funds.

III. Detailed Notes

A. Cash and investments

As discussed in Note I, C.1., the Authority participates in the City's pooled investment program. Cash and investments are held by the City and balances are allocated between the City and Authority. The total cash, investments, accrued interest and cash held for debt service of the Authority at June 30, 2013, which represents approximately 4.9% of the City's pooled investment program in which the Authority is a participant, consist of the following:

	(in 000's)
Cash, investments, accrued interest and cash held for debt service	
Held in the City's pooled investment program:	
Investments	
Repurchase agreements	$ 177
Local government obligations	15
Obligations of federal agencies or instrumentalities	3,025
Total investments	3,217
Certificates of deposit	2,230
Bank accounts at book balance	34,867
Accrued interest receivable	6
Total held in City's pooled investment program	40,320
Not held in the City's pooled investment program	1,318
Total cash, investments, accrued interest and cash held for debt service	$ 41,638
Current cash, investments and accrued interest:	
Held in the City's pooled investment program	$ 3,058
Not held in the City's pooled investment program	1,318
Total current cash, investments, and accrued interest	4,376
Restricted noncurrent cash, investments and accrued interest held in the City's pooled investment program	3,057
Cash held for debt service	34,205
	$ 41,638

Custodial credit risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the funds of the participants in the pool may not be returned to them. The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). At June 30, 2013, none of the bank balances were exposed to custodial credit risk.

Custodial credit risk – Investments. Custodial credit risk with respect to investments is the risk that in the event of the failure of the counterparty, the participants in the pool will not be able to recover the value of their investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that all security transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment basis. The investment policy further requires that all collateral securities held by a third party custodian, designated by the City Treasurer, shall be held in the City's name and evidenced by a safekeeping receipt or Federal Reserve book-entry reporting. The City's investment in the New Mexico State Treasurers Office (STO) Local Government Investment Pool (LGIP) represents a proportionate interest in the Pool's portfolio. The City's portion is not identified with specific investments and is not subject to custodial credit risk.

A. Cash and investments, continued

Credit risk Credit risk is the risk that in the event an issuer or other counterparty to an investment does not fulfill its obligations, the participants in the pool will not be able to recover the value of its principal. As a home rule city, the City's general investment policy is to apply the prudent-person rule: Investments are made as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments. The City's Investment Committee annually reviews its asset allocation strategies and guidelines for the percentage of its total portfolio that may be invested in securities other than repurchase agreements, U.S. Treasury bills and notes or insured/collateralized certificates of deposit. As part of the City's allocation evaluation, these guidelines are reviewed periodically, considering the probability of market and default risk in various investment sectors. The City's investment policy describes permitted investments as those allowed for municipalities with a population in excess of 65,000 per Section 10-10-10 of the Statutes of the State of New Mexico. Among permitted investments, the investment policy requires that 1) repurchase agreements have a collateralized value of 102% of the par value of the agreement, and 2) certificates of deposit with local banks be fully insured by the FDIC. Investments in direct obligations of the U.S. Treasury are permitted as are securities of the U.S. Government agencies denoted in Section 6-10-10 F (2) of the State Statutes. At June 30, 2013, the City's internal investment pool held investments in fully-collateralized overnight repurchase agreements (repos), a fully-insured money market account, U.S. Government agency notes and a local government obligation.

In 2009, the City's internal investment pool liquidated its position in the STO LGIP. However, at June 30, 2013, the City continued to hold $134,524 in the STO's "Reserve Contingency Fund" which represented the maximum potential loss from assets previously held in the LGIP's Primary Money Market Fund. The City does not expect any further recoveries from the reserve and has accrued the remaining balance as a loss. The City's Housing Authority Fund continued to hold a non-pooled position in the STO LGIP Fund of $8,047,579 and a balance in the Reserve Contingency Fund of $3,886. The State of New Mexico's LGIP is rated AAAm by Standard and Poors.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer. The City's investment policy states the City will develop diversification strategies to avoid incurring concentration risk. The following general policies and constraints shall apply: With the exception of collateralized repos, U.S. Treasury securities, and authorized pools (comprising the "liquidity segment" of the portfolio), no more than 50% of the residual investment portfolio (the "core segment") will be invested in a single issue or at a single maturity. At June 30, 2013, the City's core segment is invested in debt securities issued by four Government Sponsored Entities (GSEs): the Federal Home Loan Bank, the Federal National Mortgage Association, the Federal Farm Credit Bank and the Federal Home Loan Mortgage Corporation. These investments comprise 9%, 68%, and 23% respectively, of the core segment residual. Portfolio maturities shall be staggered to avoid undue concentration of assets in a specific maturity range. At June 30, 2013, liquidity and core segment maturities are allocated as follows: 0-12 months – 0%; 1-2 years – 12%; 3-5 years – 88%. Holdings in the STO LGIP represent 1% of the total portfolio.

Summarized information concerning the GSE investments is as follows:

U.S. Agency Investments (summarized by GSE)	Wtd. Avg. Days to Maturity	Weighted Average Days to Call	Standard & Poor's Rating	Moody's Rating
Federal Home Loan Banks	964	50	AA+	Aaa
Federal National Mortgage Association	947	112	AA+	Aaa
Federal Home Loan Mortgage Corporation	852	157	AA+	Aaa

A. Cash and investments, continued

Interest rate risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. The City's investment policy limits the City's exposure to interest rate risk by requiring that no less than 80% of the funds invested in the core segment of the internal investment pool or in other discretionary funds be in maturities of no more than three years from date of purchase. No more than 20% of the funds may be invested in maturities between three and five years. Investment of non-discretionary assets, including funds to be held in trust, may be committed to maturities up to ten years from the date of purchase. The weighted average maturity of the investments in the internal investment pool's core segment at June 30, 2013, was 926 days. The weighted average days to call of the core segment was 117 days.

Pledged collateral by bank - The City is required to obtain from each bank that is a depository for public funds pledged collateral in an aggregate amount equal to one half of the public money in each account (Section 6-10-17 NMSA 1978). No security is required for the deposit of public money that is insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides insurance of $250,000 per depositor, per insured bank. The pledged collateral by bank (in thousands) at June 30, 2013, was as follows:

	US Bank	Bank of America	Bank of the West	Wells Fargo Bank	NM Bank & Trust	Bank of Albuquerque
Total amount on deposit	$ 983	$ 213,413	$ 252,261	$ 376	$ 961	$ 1,560
Less FDIC coverage	250	250	250	250	250	250
Total uninsured public funds	733	213,163	252,011	126	711	1,310
50% collateral requirement	367	106,581	126,005	63	356	655
Pledged securities, fair value	598	198,306	362,738	969	492	1,500
Pledged in excess of requirement	$ 231	$ 91,725	$ 236,733	$ 906	$ 136	$ 845

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

Accounts receivable are primarily revenues earned from the Authority's water and sewer utility billing system. These are considered 100% 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, 2013 were $15,566,280 net of an allowance for doubtful accounts of $78,416.

Notes receivable are for utility expansion charges. The borrower is allowed to pay the Authority for the extension of water and sewer lines over a ten year period at 7% interest. Notes receivable at June 30, 2013 were $6,137,040.

Due from other governments are primarily Federal and State grants receivable of $2,147,648 that are for capital improvements. Also included are miscellaneous receivables of $47,287.

C. Capital assets

Capital asset activity of the Authority for the year ended June 30, 2013, is as follows:

	Balance July 1	Increases	Decreases	Balance June 30
Assets not being depreciated:				
Land	$ 25,699,732	$ -	$ -	$ 25,699,732
Construction work in progress	10,384,658	4,769,720	11,261,425	3,892,953
Total assets, not being depreciated	36,084,390	4,769,720	11,261,425	29,592,685
Assets being depreciated:				
Buildings	2,210,836	-	-	2,210,836
Improvements other than buildings	2,025,226,113	50,478,299	-	2,075,704,412
Machinery and equipment	49,877,090	1,948,396	-	51,825,486
Total assets, being depreciated	2,077,314,039	52,426,695	-	2,129,740,734
Less accumulated depreciation:				
Buildings	1,754,573	44,217	-	1,798,790
Improvements other than buildings	801,524,213	80,927,525	-	882,451,738
Machinery and equipment	30,428,688	5,672,572	-	36,101,260
Total accumulated depreciation	833,707,474	86,644,314	-	920,351,788
Capital assets being depreciated, net	1,243,606,565	(34,217,619)	-	1,209,388,946
Assets being amortized:				
Purchased water rights	43,720,597	860,936	-	44,581,533
Less amortization	11,935,396	442,748	-	12,378,144
Capital assets being amortized, net	31,785,201	418,188	-	32,203,389
Total capital assets, net	$ 1,311,476,156	$ (29,029,711)	$ 11,261,425	$ 1,271,185,020

Changes to capital assets of the Authority for the fiscal year ended June 30, 2013, include the following amount of capitalized interest:

	Total Interest	Interest Related to Tax-Exempt Borrowing	Net
Interest expense	$ 26,512,610	$ 1,946,692	$ 24,565,918
Interest income	164,563	122,554	42,009
Capitalized interest		$ 1,824,138	

D. Short-term and long-term obligations

The change in the short-term and long-term obligations of the Authority for the year ended June 30, 2013, are as follows:

	Outstanding				
	June 30, 2012	Increases	Decreases	June 30, 2013	Payable in one year
Parity Obligations:					
Revenue Bonds	$ 443,015,000	$ -	$ 22,235,000	$ 420,780,000	$ 23,545,000
Loan Agreements - NMFA	211,918,729	-	17,497,222	194,421,507	17,606,701
Subordinate Obligations:					
Loan Agreements - NMED	7,433,738	-	992,059	6,441,679	453,894
Loan Agreements - NMFA	9,980,080	-	466,842	9,513,238	475,158
Junior Obligations:					
Loan Agreements - NMFA	311,232	-	17,353	293,879	17,397
Line of Credit - NMFA	-	191,380	56,406	134,974	56,548
Water rights contract	12,932,117	-	1,007,322	11,924,795	1,038,005
Accrued vacation and sick leave pay	3,316,874	4,135,409	3,633,833	3,818,450	3,071,653
Less deferred amounts:					
Unamortized bond premiums	17,432,095	-	4,098,492	13,333,603	-
Deferred refunding costs	(31,669)	-	(31,669)	-	-
	706,308,196	4,326,789	49,972,860	660,662,125	46,264,356
Current portion of long-term obligations	(44,928,830)	-	1,335,526	(46,264,356)	-
Total	$ 661,379,366	$ 4,326,789	$ 51,308,386	$ 614,397,769	$ 46,264,356

Parity Obligations – Revenue Bonds, Loan Agreements, and Lines of Credit:

Authority parity obligations are secured by a pledge of net revenues derived from the operations of the Authority's water and sewer system. In ordinances pursuant to the issuance of these bonds, the 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 system obligations. If the annual net revenues are less than 133% of the annual debt service requirements, the Authority shall either promptly increase rates in order to produce sufficient net revenues or employ a consultant or manager to make recommendations to revise the Authority's rate structure and other charges in order to satisfy the rate covenant as soon as practicable. For the year ended June 30, 2013, the net revenues were 134% of the annual debt service on all outstanding system obligations.

D. Short-term and long-term obligations, continued

Authority Parity Revenue Bonds outstanding at June 30, 2013, are as follows:

Revenue Bonds Issued	Amount	Interest Rate	Final Maturity	Call Provisions
October 25, 2005	$ 117,390,000	3.50% to 5.00%	July 1, 2025	100% beginning July 1, 2015
July 12, 2006	115,710,000	4.25% to 5.165%	July 1, 2026	100% beginning July 1, 2016
April 9, 2008	55,630,000	5.00%	July 1, 2033	100% beginning July 1, 2018
April 8, 2009	128,140,000	3.00% to 5.50%	July 1, 2029	100% beginning July 1, 2019
April 8, 2009, Refunding	3,910,000	3.00% to 5.00%	July 1, 2013	Not callable
Total outstanding	$ 420,780,000			
Unamortized:				
Premiums	6,192,228			
Net outstanding	$ 426,972,228			

Authority Parity Loan Agreements outstanding at June 30, 2013, are as follows:

Loan Agreements Issued	Current Loan Balance	Original Loan Amount	Interest Rate	Final Maturity
April 11, 2003	$ 981,922	$ 3,600,000	2.00%	January 1, 2016
October 13, 2004	69,675,000	118,415,000	1.32% to 4.16%	May 1, 2024
October 28, 2005	17,405,000	20,000,000	2.93% to 4.01%	May 1, 2025
September 26, 2007	56,305,000	77,005,000	4.00% to 5.0%	May 1, 2025
December 1, 2010	954,585	1,000,000	0.75%	July 1, 2031
December 15, 2011	49,100,000	53,400,000	3.00% to 5.0%	June 1, 2036
Total outstanding	$ 194,421,507			
Unamortized:				
Premiums	7,141,375			
Net outstanding	$ 201,562,882			

Subordinate Obligations – Loan Agreements and Lines of Credit:

On May 20, 2005, the Authority executed a promissory note with the New Mexico Environment Department that converted an existing $12,000,000 line of credit agreement. The note payable of $9,627,877 (total draws on the line of credit plus accrued interest of $242,655) has an interest rate of 3%. The note requires annual payments of $647,145, due on May 20th each year. Final payment is due May 20, 2025. The balance due at June 30, 2013, is $6,441,679.

D. Short-term and long-term obligations, continued

On November 17, 2008, the Authority entered into a line of credit agreement with the New Mexico Finance Authority. The agreement provided that the Authority could draw a total of $12,000,000. Construction of the project was completed in fiscal year 2010 for a total cost of $10,426,232. This credit line was converted to a long-term subordinate loan agreement on November 11, 2010 at an interest rate of 1.75% with annual payments due beginning May 1, 2011 and maturing on May 1, 2030. The balance due at June 30, 2013, is $9,304,961.

The Authority entered into a line of credit agreement on January 22, 2010, with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to $200,000. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then $140,000 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, expansion of the leak detection system to cover an additional 5% of the distribution system. This project was completed in fiscal year 2011 for a total cost of $199,873, of which $140,000 was forgiven and a new long-term subordinate loan created for $59,873. The interest rate is .75%, with an administrative fee of .25%. The close occurred August 11, 2010. The loan requires annual principal payments and semi-annual interest payments beginning November 1, 2010 and maturing on May 1, 2030. The balance due at June 30, 2013, is $52,083.

The Authority entered into a line of credit agreement on January 22, 2010, with the New Mexico Finance Authority (NMFA) whereby the Authority could draw up to $156,826. The agreement was partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complied with the terms of the agreement, then $109,778 would be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, the replacement of approximately 1,086 high flow urinals with high efficiency fixtures in City of Albuquerque facilities. The Authority completed the project in fiscal year 2011, for a total cost of $150,207, of which $109,778 was forgiven and a new long-term subordinate loan created for $40,429. The interest rate is .75%, with an administrative fee of .25%. The close occurred May 1, 2011. The loan requires annual principal payments and semi-annual interest payments beginning July 1, 2012 and maturing on July 1, 2031. The balance due at June 30, 2013, is $38,593.

Also on January 22, 2010, the Authority entered into a line of credit agreement with the New Mexico Finance Authority (NMFA) whereby the Authority can draw up to $414,036. The agreement is partially funded with federal grants received by the NMFA through the American Recovery and Reinvestment Act. If the Authority complies with the terms of the agreement, then $289,825 will be subsidized by the grant and therefore not repayable. The purpose of the project was to upgrade and improve the water utility system, including, but not limited to, a water use efficiency retrofit analysis. The Authority completed the project in fiscal year 2012 for a total cost of $413,969, of which $289,797 was forgiven and a new long-term subordinate loan created for $124,172. The interest rate is .75%, with an administrative fee of .25%. The close occurred March 5, 2012. The loan requires annual principal payments and semi-annual interest payments beginning July 1, 2012 and maturing on July 1, 2031. The balance due at June 30, 2013, is $117,601.

<u>Junior Obligations – Loan Agreements</u>:

The Authority entered into three loan and grant agreements with the New Mexico Finance Authority (NMFA) and the Water Trust Board on November 23, 2011. The general term for each agreement is a repayable loan amount at 0% interest and a .25% administrative fee. The loans require 20 annual installments beginning July 1, 2012, and ending July 1, 2031. The grant amount is not repayable. The agreements with the New Mexico Finance Authority/New Mexico Water Trust Board (which provide for reimbursement to the Authority upon submission of eligible expenditures) are considered lines of credit for financial statement purposes until the final amount of the agreement is known at project completion. Upon completion the amount to be repaid will be resized and converted to a junior loan agreement.

D. Short-term and long-term obligations, continued

The three agreements and purpose are as follows:

Issue	Loan Amount	Grant Amount	Total	Purpose
ABCWUA #12 (#0205-WTB)	$ 452,000	$ 1,808,000	$ 2,260,000	Construction of a regional water conveyance and delivery system for the community of Carnuel
ABCWUA #13 (#0206-WTB)	$ 640,000	$ 960,000	$ 1,600,000	Construction of a regional water conveyance and delivery system for the community of Carnuel
ABCWUA #14 (#0207-WTB)	$ 63,354	$ 95,032	$ 158,386	Planning and design of a large scale aquifer recharge

At June 30, 2013, $191,380 had been drawn against these three lines. Pre-payments of $56,406 were made in fiscal year 2013, with a balance due at June 30, 2013 of $134,974.

On November 13, 2009, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for $50,000 with 0% interest and an administrative fee of .25%. The agreement includes a $450,000 grant funded through the State of New Mexico. The grant amount was not repayable. The project was for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It extended water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. The loan payments began June 1, 2010, and extend until June 1, 2029. The project was completed in November, 2010 with all drawdowns on the grant received. The balance due on the loan at June 30, 2013, is $41,041.

Also on November 13, 2009, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for $100,000 with 0% interest and an administrative fee of .25%. The agreement included a $400,000 grant funded through the State of New Mexico. The grant amount was not repayable. The project was for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It extended water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. The loan payments began June 1, 2010, and extend until June 1, 2029. The project was started and completed in fiscal year 2011. All drawdowns on the grant were received. The balance due on the loan at June 30, 2013, is $82,205.

On May 28, 2010, the Authority entered into a loan agreement with New Mexico Water Trust Board and New Mexico Finance Authority for $200,000 with 0% interest and an administrative fee of .25%. The agreement includes an $800,000 grant funded through the State of New Mexico. The grant amount is not repayable. The project is for the benefit of the Carnuel Mutual Domestic Water and Wastewater Consumers Association. It will extend water lines to the community of Carnuel (an unincorporated city) just east of Albuquerque. Loan payments began June 1, 2011, and extend until June 1, 2030. Phase one of this project was completed in fiscal year 2013. All drawdowns on the grant were received. The balance due on the loan at June 30, 2013, is $170,633.

Water Rights Contract

A Water Rights Contract with the United States Government was entered into by the 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, 2013, is $11,924,795.

D. Short-term and long-term obligations, continued

The annual debt service requirements on the revenue bonds, loan agreements, and the water rights contract payable outstanding at June 30, 2013, are as follows:

	Principal	Interest	Total
2014	$ 43,192,703	$ 29,327,584	$ 72,520,287
2015	42,395,465	27,471,242	69,866,707
2016	45,671,380	25,604,785	71,276,165
2017	41,340,952	23,596,740	64,937,692
2018	46,010,799	21,615,814	67,626,613
2019 - 2023	212,129,678	78,138,057	290,267,735
2024 - 2028	124,056,013	35,210,660	159,266,673
2029 - 2033	65,798,082	14,405,341	80,203,423
2034 - 2036	22,915,000	1,092,917	24,007,917
Total	$ 643,510,072	$ 256,463,140	$ 899,973,212

E. Defined benefit pension plan – Public Employees Retirement Association

Plan Description. Substantially all of the Authority's full-time employees participate in a public employee retirement system authorized under the Public Employees Retirement Act (Chapter 10, Article 11, NMSA 1978). The Public Employees Retirement Association (PERA) is the administrator of the plan, which is a cost-sharing multiple-employer defined benefit retirement plan. The plan provides for retirement benefits, disability benefits, survivor benefits, and cost of living adjustments to plan members and beneficiaries. PERA issues a separate, publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to PERA, P.O. Box 2123, Santa Fe, New Mexico, 87504-2123. The report is also available on PERA's website at www.pera.state.nm.us.

Funding Policy. Plan members are required to contribute 13.15% of their gross salary. The Authority is required to contribute 9.15% of the gross covered salary. The Authority has elected to pay a percentage of the employee's contributions. The contribution requirements of plan members and the Authority are established in State statute under Chapter 10, Article 11, NMSA 1978. The requirements may be amended by acts of the legislature. The Authority's employer contribution to PERA for the fiscal years ending June 30, 2013, 2012, and 2011, were $2,703,455, $2,668,261 and $2,477,629 respectively, which equal the amount of the required contributions for each fiscal year.

F. Defined contribution retirement plan

On March 31, 2004, the Authority Board approved a Declaration of Trust for a 401 qualified defined contribution retirement plan through ICMA Retirement Corporation for Authority employees. Under this defined contribution plan, an employee's eventual retirement benefit is based upon the total contributions made by the employee and employer, plus investment earnings on those contributions. The plan meets the requirements of Section 401(a) of the Internal Revenue Code. Employees have a 30-day election period from the date of initial eligibility to elect to participate in the plan. Participation is not mandatory. Under the plan the employer contributes 19.01% of earnings for 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 one of 3.29%, 5%, 7%, 10% for full time employees and 7% for part time employees. Total contributions to the plan were $164,469 in fiscal year 2013 of which $122,639 were from employer contributions and $41,830 was from employee contributions.

G. Post employment benefits

In addition to providing pension benefits described in Notes E and F, the Authority provides certain health care and life insurance benefits for retired employees. The Authority has ended the postemployment life insurance benefit for those employees hired after June 30, 2013 and reduced the benefit amount for future eligible retirees to a lump sum amount of $5,000. The benefit amount for current retirees is unchanged. The plan previously provided a sliding benefit based on salary up to a maximum of $25,000 with a minimum benefit of $12,500. There were no changes made to the Authority's participation in the New Mexico Retiree Health Care Act.

Postemployment Life Insurance Benefits.

Plan Description. The Authority as of the fiscal year end date of June 30, 2013 participated in the City of Albuquerque's Life Insurance Benefit Plan (the City Plan). The Authority will continue to participate in the City Plan after June 30, 2013 but with its own terms of participation and benefits. The City Plan is a single employer defined benefit plan administered by the City which includes coverage for the employees of the Authority. Upon retirement an eligible Authority employee will continue to be covered by the City Plan at no cost to the employee. The number of Authority retired employees covered under the City Plan at June 30, 2013 was 124. The number of active employees at June 30, 2013 was 553. Normal retirement eligibility conditions are defined as a retirement eligible for a PERA benefit.

Funding Policy. The Authority recognizes the cost of providing the life insurance benefits by charging the insurance premiums to expenses. Life insurance benefits are paid through premiums to an insurance company, currently Hartford, under an indemnity plan. The insurance company has the right to adjust the premiums based on claims paid. Historically, the claims paid in any one year have not exceeded the premiums. The required contribution is based on projected pay-as-you-go financing requirements. The current rate for the City Plan is $.28 per $1,000 face value of life insurance for actives and retires.

Annual OPEB Cost and Net OPEB Obligation. The Authority's annual other postemployment benefit (OPEB) cost is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 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 the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the Authority's net OPEB obligation to the Life Insurance Benefit plan.

Net OPEB Obligation at beginning of year	$ 911,210
Plus Projected Annual OPEB Cost:	
Interest on Net OPEB Obligation at beginning of year	36,448
Annual Required Contribution (ARC) for current fiscal year	339,258
ARC Adjustment for current fiscal year	(42,463)
	333,243
Less Net Employer Contribution	(135,732)
Expected Net OPEB Obligation at end of year	$ 1,108,721

The Authority's net OPEB obligation is $1,108,722 and is reported in the accompanying financial statements as a long-term liability.

G. Post employment benefits, continued

Funding Status and Funding Progress. As of June 30, 2013, the most recent actuarial valuation date, the City Plan was 0% percent funded, meaning there were no plan assets, using the criteria established by GASBS 45. The Authority's actuarial accrued liability (AAL) for benefits was calculated as 8% of the total actuarial accrued liability of $63,758,573 reported at June 30, 2013 for the City Plan. Accordingly, the Authority's AAL at June 30, 2013 was $5,100,686 of which the full amount represents the Authority's unfunded actuarial accrued liability (UAAL). The covered payroll for the Authority (annual payroll of active employees covered by the plan) was $25,842,595 and the ratio of the UAAL to the covered payroll was 19.74%. The Authority's ARC as a percent of payroll is 1.31% of which .428% is the normal cost as a percent of payroll. The ARC per active employee is $568. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and changes in life expectancies. Amounts determined regarding the funded status of the plan and the annual required contributions of the 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.

Actuarial Methods and Assumptions.
Projections of benefits for financial reporting purposes are based on the Life Insurance Benefit plan as understood by the City and the plan members and include the types of benefits provided at the time of each valuation and the City's historical pattern of paying for the plan. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the June 30, 2013 actuarial valuation, the Entry Age Normal (EAN) funding method was used where, for each plan member, the actuarial present value of benefits is levelly spread over the plan member's earnings or service from entry age to assumed exit age. The EAN cost method is generally regarded by actuaries as the most stable of the funding methods. The goal of GASBS 45 is to match recognition of retiree life expense with the periods during which the benefit is earned, and the City's actuary believes that EAN funding method effectively meets that goal in most circumstances.

Another important issue in these calculations is the treatment of implicit subsidies where retiree coverage is subsidized by active employee costs. The City pays the same insurance premium rates for both active and retired employees, because the retired employees are on average older than active employees, there is an implicit subsidy of retiree coverage by active employee costs, which GASBS 45 generally requires be attributed to the retiree liability. The actuarial assumptions included a 4.0 percent investment rate of return on expected long-term returns on the City's own investments calculated on the funded level of the plan at the valuation date. As of June 30, 2013, the plan has not been funded and no interest was earned on the plan assets during the year. The City intends to amortize the UAAL over a thirty-year period under the level percentage of pay method, beginning in the next fiscal year. The remaining amortization period at June 30, 2013, was 25 years. The ARC was based on a 4.0 percent discount rate, funding will be based on a 6.0 percent discount rate.

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G. Post employment benefits, continued

Retiree Health Care Act Contributions

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

Funding Policy. The Retiree Health Care Act (Section 10-7C-13 NMSA 1978) authorizes the RHCA Board to establish the monthly premium contributions that retirees are required to pay for healthcare benefits. Each participating retiree pays a monthly premium according to a service-based subsidy rate schedule for the medical plus basic life plan plus an additional participation fee of five dollars if the eligible participant retired prior to the employer's RHCA effective date or is a former legislator or former governing 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.

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, 2013, 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, 2013, the statute required each participating employer to contribute 2% 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 authority in order to ensure the actuarial soundness of the benefits provided under the Retiree Health Care Act.

The Authority's contributions (employer and employee) to the RHCA for the years ended June 30, 2013, 2012, and 2011, were $883,814, $819,943 and $677,304, respectively, which equal the required contributions for each year.

G. Post employment benefits, continued

H. Risk management

The Authority is exposed to various risks of loss related to torts and civil rights claims (including law enforcement and employment related exposures); theft, damage and destruction of its real and personal assets; workers compensation losses; errors and omissions of its officers and officials; and natural disasters. The Authority participates in the City's Risk Management Fund (an internal service fund of the City) to account for and finance its uninsured risks of loss. Under this program, the Risk Management Fund provides coverage for up to a maximum of $1,000,000 for each workers' compensation incident, $1,050,000 for each tort liability claim, and $50,000 for each City and Authority real and contents damage claim. Losses in other categories and catastrophic losses in the mentioned categories are the subject of insurance and/or actuarially reviewed retentions. Whenever a risk exposure is insured, the City and Authority continue to benefit from case coverage on claims that were incurred during the insured claim year.

The Risk Management Fund tracks claims on a fund by fund basis and assesses charges to each fund and the Authority based on historical claims experience and the need to establish a reserve for unanticipated catastrophic losses. That reserve was $1,000,000 at June 30, 2013, and is included in the unrestricted net position of the Risk Management Fund. The claims liabilities reported in the Risk Management Fund are based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a 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 an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic factors. The estimate of the claims liability also includes amounts for incremental claim adjustments expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Based on historical data, the City believes the Risk Management Fund is adequately funded. Moreover, pursuant to Section 41-4-25(B) NMSA 1978, in the event of a judgment against the City in excess of $1,000,000 the City, with Council approval, may levy a tax on real property to provide for the payment of catastrophic losses. In addition, the City started fiscal year 2013 with $41,400,000 available in the committed General Fund balance.

In recent years, the City has experienced an increase in claim amounts. In response to this increase, the City conducted a review of both its philosophy for reserving funds and the tools used to analyze the reported claims liability. As a result of this review, and based on information pertaining to existing claims, the City determined that a higher reserve liability was needed. The City plans to increase annual funding to the Risk Management Fund reserve in the amount of $2.5 million per year by increasing charges to other funds beginning in fiscal year 2015.

Finally, the City has reserve amounts created by the City's policy to reserve one-twelfth of the General Fund budgeted amount. The amounts and change in the City's Risk Management Fund's claims liability in fiscal year 2013 and 2012 were:

		2013		2012
Claims liability at July 1	$	72,136,558	$	66,902,536
Current year claims and change in estimates		65,079,418		26,923,508
Claims liquidated		(27,383,326)		(21,689,486)
Claims liability at June 30	$	109,832,650	$	72,136,558

The Authority paid $3,372,927 for its share of the risk management charges for the year.

I. Transactions with City of Albuquerque

As discussed in Note I-A, the Authority has entered into a Memorandum of Understanding with the City for operations of the utility. In addition to the risk management charges reported in Note III-H, the Authority engaged in the following transactions with the City. The Authority paid the City for the following services:

Franchise fees	$ 6,005,881
Administrative indirect overhead, including accounting and other central services	2,319,162
Warehouse supplies	1,785,815
Fleet management services	1,597,118
Barricading and street sweeping	462,088
Total	$ 12,170,064
The City paid the Authority for water, sewer and other services in the amount of:	$ 7,273,482

J. Commitments and contingencies

Construction Commitments. At June 30, 2013, the uncompleted construction and other commitments in the Authority was $9,477,171. This amount will be paid from unspent bond proceeds used for construction, improvements and replacements, or from operating revenues.

In October 2008, the Authority and the Carnuel Mutual Domestic Water and Waste Water Consumer Association (CMDWWCA) entered into an agreement to extend water infrastructure improvements and provide water service to the Carnuel community. This agreement was amended in December 2008 to identify that the Authority would serve as the fiscal agent for the CMDWWCA on all state and federal grant and /or loan agreements. The Authority will own, operate, and maintain the water system which supplies and distributes water to the CMDWWCA. Reimbursement for costs associated with operation and maintenance of the system, including reserves, shall be collected by the Authority through collection of payments from customers based on costs for monthly water usage rates.

Federal and State Grant Commitments. The 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, Authority management believes that such disallowances, if any, will not be material.

Contingencies. In the normal course of business, the 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 Authority management that the ultimate resolution of other litigation will not have a material effect on the financial position of the Authority.

The Authority received permit SP-4830 from the Office of the State Engineer in 2004 for diverting and fully consuming imported Colorado River water (San Juan-Chama water) in the amount of 96,200 acre-feet per annum. A group of environmentalists and farming activists filed an appeal of the surface diversion permit in State District Court. The District Court upheld the Office of the State Engineer decision including the permit conditions imposed by the State Engineer and ruled in favor of the Authority on all counts. The decision of the District Court granting the surface diversion permit was appealed by the same group of protestants to the New Mexico Court of Appeals.

Because of various requests for rehearing filed by the parties, the Court of Appeals has issued three opinions affirming the previous decisions by the State Engineer and District Court that the San Juan-Chama Drinking Water Project is not contrary to conservation, is not detrimental to the public welfare, does not impair the water rights of downstream users, and does not adversely affect New Mexico's obligation under the Rio Grande Compact. Each of the Court of Appeals decisions noted that the primary issues (conservation, public welfare, impairment and compact deliveries) had been exhaustively addressed and disposed of and need not be raised or litigated again. The Court of Appeals decision has introduced a new process under the law that requires a non-consumptive appropriation permit. The

J. Commitments and contingencies, continued

Court of Appeals was careful to emphasize that this process would not threaten the already established fact that the Drinking Water Project does not impair downstream users. To the contrary, the Court emphasized that a new non-consumptive 'appropriation' process would provide permanent protection to water users such as the Authority. Because this decision was adverse to the protestants, the protestants have filed a petition for writ of certiorari in the State Supreme Court requesting that an appeal of the Court of Appeals decision be heard.

In a related environmental permitting process, the Authority received a Record of Decision on the National Environmental Policy Act process on June 1, 2004, and an approved Biological Opinion from the Fish and Wildlife Service in February 2004. The Biological Opinion concludes that the effects of the San Juan-Chama Project will not jeopardize the continued existence of the Rio Grande Silvery Minnow and will not adversely affect critical habitat. The Authority has completed the design of the environmental mitigation and will be starting construction in September 2013 and continuing through the winter months until April 2014. If the mitigation construction cannot be completed in one winter season (September to April), then the Authority will complete the work in the following year.

On May 17, 2011, the United States Environmental Protection Agency (EPA) issued Administrative Order CWA-06-2012-1777 to the Authority for violations of its permit to discharge effluent into the Rio Grande River at its Southside Water Reclamation Plant. The permit is obtained under the National Pollutant Discharge Elimination System (NPDES) program. The Administrative Order (AO) listed NPDES violations that occurred between 2006 and 2010. The majority of the violations related to Sanitary Sewer Overflows (SSO's). The Authority responded to the AO and provided supplemental information regarding the violations and also presented a draft Corrective Action Plan (CAP) that included rehabilitation and new construction totaling $250 million over the next ten years. The Authority's management is awaiting comments from EPA on the draft CAP that was submitted in October 2011 and revised and resubmitted in April 2012.

On May 31, 2012, the Authority received a letter from the Internal Revenue Service (the 'IRS') informing the Authority that the IRS would be conducting an examination of its Joint Water and Sewer System Improvement Revenue Bonds Series 2006A issued July 12, 2006 (the 'Bonds'). The letter indicates that the IRS routinely examines debt issuances to determine compliance with Federal tax requirements. On April 10, 2013 the Authority received notification from the IRS that the examination was complete and there was no-change to the Authority's position.

K. Significant effects of subsequent events

The Joint Water and Sewer System Improvement (Series 2013A) and Refunding (Series 2013B) Revenue Bonds Series 2013A&B closed on October 22, 2013. Series 2013A had a par amount of $62,950,000 with a premium of $7,503,235. Series B had a par amount of $55,265,000 with a premium of $7,711,334. Series 2013A has a Serial Bond component - $57,110,000 - and a Term Bond component - $5,840,000 - with final maturity due July 1, 2038. Series 2013B is a Serial Bond with final maturity due July 1, 2024. Principal is paid annually on July 1st of every year beginning July 1, 2014 for both Series A and B.

The coupon rate for Series 2013A is 3% for the July 1, 2014 installment and 4% for the July 1, 2015 and 2016 installments and is 5% thereafter for all subsequent installments. The coupon rate for Series 2013B is 3% for the July 1, 2014 installment and is 5% thereafter for all subsequent installments.

Proceeds from the Series 2013A issue will be used for the Basic rehabilitation program, provide supplemental funding for rehabilitation work at the Southside Water Reclamation Plant and provide funding for the Authority's Automated Meter Infrastructure (AMI) project and for replacement of steel water lines.

Proceeds from the Series 2013B issue were placed in a refunding escrow with the Bank of Albuquerque for the purpose of refunding the 2004 NMFA PPRF (Public Project Revolving Fund) loan in the principal amount of $61,005,000 on May 1, 2014. The Authority is responsible for making the scheduled May 1, 2014 principal payment of $8,670,000 on the NMFA loan at which time all subsequent installment payments become callable.

ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR LIFE INSURANCE BENEFIT PLAN
Year ended June 30, 2013

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age Normal	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL Percentage of Covered Payroll
6/30/2011	0	1,296,421	1,296,421	0.00%	27,047,218	4.79%
6/30/2012	0	1,416,172	1,416,172	0.00%	33,131,853	4.27%
6/30/2013	0	5,100,685	5,100,685	0.00%	25,842,595	19.74%

Note: This schedule represents the funding progress for the Albuquerque Bernalillo County Water Utility Authority portion of the City of Albuquerque's total unfunded actuarial accrued liability of $63,758,573.

ALBUQUEROUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
Year ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Charges for services	$ 157,734,000	$ 157,734,000	$ 150,119,305	$ (7,614,695)
City water service expansion charges	8,000,000	8,000,000	8,197,016	197,016
Sustainable water supply	30,400,000	30,400,000	29,558,320	(841,680)
Interest on investments	1,250,000	1,250,000	80,618	(1,169,382)
Valley system connection charges	50,000	50,000	20,800	(29,200)
City system connection charges	350,000	350,000	385,502	35,502
Other miscellaneous	2,124,000	2,124,000	1,757,729	(366,271)
Transfer to cash held for debt service from cash for operations	66,362,000	66,362,000	66,362,000	-
Total revenues	266,270,000	266,270,000	256,481,290	(9,788,710)
Expenses:				
Water plant facility production	6,561,000	6,561,000	6,590,618	(29,618)
Water plant facility distribution	14,706,000	14,706,000	16,323,438	(1,617,438)
Water distribution facilitation	2,050,000	2,050,000	2,211,249	(161,249)
Wastewater treatment	11,792,000	11,792,000	12,315,432	(523,432)
Compliance	4,270,000	4,270,000	3,761,225	508,775
Wastewater collection	6,352,000	6,352,000	7,097,701	(745,701)
Sustainable water supply	2,712,000	2,712,000	3,203,147	(491,147)
North I-25 reuse	76,000	76,000	9,263	66,737
Customer services	5,552,000	5,552,000	5,509,269	42,731
Finance	7,022,000	7,022,000	6,741,386	280,614
Human resources	1,085,000	1,085,000	1,052,049	32,951
NW service area	2,394,000	2,394,000	1,403,042	990,958
San Juan-Chama	2,247,000	2,247,000	2,125,937	121,063
Water resources, engineering and planning	6,515,000	6,515,000	6,333,208	181,792
Information systems	4,152,000	4,152,000	5,565,463	(1,413,463)
Low income utility credit	250,000	250,000	141,410	108,590
Water authority administration	21,253,000	21,253,000	21,926,539	(673,539)
Debt service - principal and interest	72,738,000	72,738,000	72,669,745	68,255
Transfer from cash for operations to cash held for debt service	66,362,000	66,362,000	66,362,000	-
Transfer of cash held for debt service to cash used for capital acquisitions	3,000,000	3,000,000	3,000,000	-
Transfer from cash for operations to cash used for capital acquisitions	8,000,000	8,000,000	8,000,000	-
Administrative services to City	8,294,000	8,294,000	7,814,881	479,119
Total expenses	257,383,000	257,383,000	260,157,002	(2,774,002)
Excess of revenues over (under) expenses	$ 8,887,000	$ 8,887,000	(3,675,712)	$ (12,562,712)

ALBUQUEROUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - BUDGET AND ACTUAL, continued
Year ended June 30, 2013

	Actual
Revenues (expenses) not budgeted:	
Interest on investments in capital acquisition fund	130,793
Proceeds from loss of vehicle	17,480
Depreciation	(86,644,314)
Amortization on water rights contract	(442,748)
Amortization on premium and discounts	4,098,493
Amortization of deferred amounts on refundings	(31,670)
Unrealized gain (loss) on investments	(46,848)
Life insurance expense	(1,108,722)
Miscellaneous expenses	(1,023,128)
Bad debt expense	(27,084)
Lease of water rights	1,094,892
Net expenses over revenues not budgeted	(83,982,856)
Changes to conform to generally accepted accounting principles:	
Principal payments on bonds and loan agreements	43,465,977
Transfer in to cash used for capital acquisitions from cash held for debt service and for operations	11,000,000
Capital contributions	4,131,814
Capital outlay	968,089
Capitalized interest on long-term debt	1,824,138
Net changes to conform to generally accepted accounting principles	61,390,018
Change in net position	$ (26,268,550)

APPENDIX B

BERNALILLO COUNTY ECONOMIC AND DEMOGRAPHIC INFORMATION

General

Bernalillo County (the "County") is the economic and population hub of New Mexico and is located in the north central region of the state at the conjunction of Interstate Highways 25 and 40. Its boundaries encompass the entire City of Albuquerque. With approximately 662,544 residents (2010 Census), the County comprises approximately 32% of New Mexico's total population. The County is home to the University of New Mexico, Kirtland Air Force Base and Sandia National Laboratories. Government employment is a large factor in the economic livelihood within the County. Kirtland Air Force Base, Sandia National Laboratories, the City of Albuquerque, Bernalillo County, the University of New Mexico and Albuquerque Public Schools are some of the largest employers in the County. Because of its accessibility and tourist facilities, the County and the surrounding area is the gateway for tourism in New Mexico as well as an attraction in its own right. The County and the City of Albuquerque feature tourist attractions which include: "Old Town," the Sandia Peak Tramway and ski area, the Albuquerque International Balloon Fiesta, the National Hispanic Cultural Center, the Gathering of Nations Native American event and the New Mexico State Fair. While economic diversification has increased in recent years, the recent financial crisis and global economic recession have had a negative effect on the continuation of growth in the County.

Population

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

POPULATION

Year	City	Bernalillo County	Albuquerque MSA	State
1960	201,189	262,199	292,500[(1)]	951,023
1970	244,501	315,774	353,800[(1)]	1,017,055
1980	332,920	420,262	485,500[(1)]	1,303,303
1990	384,736	480,577	589,131	1,515,069
2000[(2) (4)]	448,607	556,678	729,649	1,819,046
2005[(3)]	497,543	606,502	797,146	1,912,884
2010[(4)]	545,852	662,564	887,077	2,059,179
2011[(3)]	552,180	669,880	897,320	2,078,674
2012[(3)]	555,417	673,460	901,700	2,085,538

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

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

Age Distribution

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

Population by Age Group

Age	City	State	U.S.
0-17	23.79%	24.76%	23.37%
18-24	9.62%	9.80%	9.98%
25-34	15.21%	13.16%	13.21%
35-44	12.88%	11.78%	12.74%
45-54	12.98%	12.94%	13.84%
55 and Older	25.52%	27.56%	26.86%

Source: The Nielsen Company, 2014

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
2003	$29,466	$26,307	$32,676
2004	30,300	27,470	34,300
2005	31,628	29,095	35,888
2006	33,189	30,610	38,127
2007	34,102	31,963	39,804
2008	34,978	33,399	40,873
2009	34,151	32,491	39,357
2010	34,177	33,170	40,163
2011	35,529	34,782	42,298
2012	36,272	35,682	43,735

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

The following table reflects the Percent of Households by Effective Buying Income Groups ("EBI"). EBI is defined as money income less personal tax and non-tax payments described below. Money income is the aggregate of wages and salaries, net farm and nonfarm self-employment income, interest, dividends, net rental and royalty income, Social Security and railroad retirement income, other retirement and disability income, public assistance income, unemployment compensation, Veterans Administration payments, alimony and child support, military family allotments, net winnings from gambling, and other periodic income. Deducted from this total money income are personal income taxes, personal contributions to social insurance (Social Security and federal retirement payroll deductions), and taxes on owner-occupied non-business real estate. Receipts from the following sources are not included as money income: money received from the sale of property; the value of "in kind" income such as food stamps, public housing subsidies, and employer contributions for persons; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; gifts and lump-sum inheritances, insurance payments, and other types of lump-sum receipts.

Percent of Households by
Effective Buying Income Groups

Effective Buying Income Group	Albuquerque MSA	New Mexico	United States
Under $25,000	29.27%	29.40%	24.44%
$25,000 - $34,999	11.68%	11.45%	10.55%
$35,000 - $49,999	14.46%	14.77%	13.88%
$50,000 - $74,999	17.37%	16.99%	17.95%
Over $75,000	27.22%	27.39%	33.18%
2012 Est. Median Household Income	$44,482	$41,958	$49,581
2013 Est. Median Household Income	$47,699	$43,273	$49,297
2014 Est. Median Household Income	$44,391	$44,292	$51,579

Source: The Nielsen Company, 2014

BUILDING PERMITS ISSUED IN THE CITY OF ALBUQUERQUE

	Single Family		Multi-Family		Commercial		Public		Additions & Alterations	Total Permits
Fiscal Year	**Permits**	**$ Value**	**Units**	**$ Value**	**Permits**	**$ Value**	**Permits**	**$ Value**	**$ Value**	**$ Value**
2004	5,046	575,455,103	1,000	60,496,038	120	127,369,680	10	29,698,218	131,866,466	924,885,505
2005	4,967	720,890,242	470	25,206,921	131	113,672,827	16	58,844,052	166,695,983	1,085,310,025
2006	4,373	731,846,449	389	32,917,627	156	213,525,989	9	43,710,103	154,431,159	1,176,431,317
2007	2,490	467,022,842	1,083	103,574,132	125	206,558,035	4	14,681,069	268,512,462	1,060,348,540
2008	1,214	222,075,316	638	45,836,909	124	220,788,429	10	79,282,230	225,299,537	793,282,421
2009	436	77,223,886	198	18,549,849	81	103,040,438	20	58,529,283	233,224,405	490,567,861
2010	876	140,369,408	168	14,763,081	34	26,197,123	8	18,076,792	209,624,603	409,031,007
2011	725	120,749,010	278	37,022,789	45	65,940,484	1	3,300,300	165,845,129	392,857,712
2012	846	153,465,589	350	32,509,563	36	46,257,090	4	31,907,654	165,883,476	430,023,373
2013	923	170,470,736	945	73,378,214	63	78,523,292	4	5,545,791	226,949,710	554,867,742
Growth 2012 to 2013	9.1%	11.1%	170.0%	125.7%	75.0%	69.8%	0.0%	(82.6%)	36.8%	29.0%

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
2012-2013 Housing Units Added	4,067	2,494	1,573	n/a
Estimated Units as of July 2013	243,233	164,995	68,412	9,826

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

Gross Receipts

The following table shows the total reported gross receipts generated (both in retail trade only and in total) in Bernalillo County and the State of New Mexico. For the purposes of this table, gross receipts means the total amount of money received from selling property in the State of New Mexico, from leasing property employed in the State and from performing services in the State.

	Bernalillo County		State of New Mexico	
Fiscal Year	**Retail**	**Total**	**Retail**	**Total**
2012	$7,869,110,746	$31,580,537,228	$23,941,356,636	$105,352,789,051
2011	7,048,760,758	31,156,765,623	23,979,155,514	104,217,123,006
2010	7,648,441,111	30,038,320,765	24,628,944,385	95,703,873,056
2009	7,770,672,860	29,531,008,750	23,812,635,284	104,562,006,074

Source: Taxation and Revenue Department – State of New Mexico

Employment

Employment in the Albuquerque area in the period from Fiscal Year 2004 to Fiscal Year 2013 grew at an average of 0.2% a year. This growth is limited due to declines in employment in Fiscal Year 2009 through Fiscal Year 2012. The local economy posted strong growth in Fiscal Years 2006 and 2007 but growth slowed to 0.4% in Fiscal Year 2008 and declined by 2.2% in Fiscal Year 2009 and 3.4% in Fiscal Year 2010. In Fiscal Year 2011 employment declined by 0.7%, in Fiscal Year 2012 it was near flat with a 0.9% decline, and in Fiscal Year 2013 growth was flat at 0.0%.

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.

Non-Agricultural Employment
(000s)

Fiscal Year	ALBUQUERQUE MSA Employment	% Chg.	NEW MEXICO Employment	% Chg.	UNITED STATES Employment	% Chg.
2004	363	0.2%	783	1.53%	130,517	0.3%
2005	369	1.5%	799	2.00%	132,486	1.5%
2006	385	4.5%	821	2.68%	134,980	1.9%
2007	394	2.4%	838	2.03%	136,919	1.4%
2008	396	0.4%	847	1.06%	137,662	0.5%
2009	387	(2.2%)	832	(1.77%)	133,868	(2.8%)
2010	374	(3.4%)	805	(3.25%)	129,714	(3.1%)
2011	371	(0.7%)	803	(0.25%)	130,505	0.6%
2012	368	(0.9%)	804	0.11%	132,578	1.6%
2013	368	0.0%	807	0.4%	134,733	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.

Civilian Employment/Unemployment Rates

Fiscal Year	Civilian Labor Force	Number Employed	Albuquerque MSA	New Mexico	United States
2004	383,328	362,304	5.48%	5.95%	5.80%
2005	389,323	369,149	5.18%	5.52%	5.30%
2006	396,772	379,431	4.37%	4.64%	4.82%
2007	403,738	389,569	3.51%	3.64%	4.54%
2008	406,748	391,537	3.74%	3.72%	4.84%
2009	406,700	382,776	5.88%	5.64%	7.27%
2010	401,586	370,035	7.86%	7.65%	9.73%
2011	399,627	367,115	8.14%	7.74%	9.29%
2012	397,445	366,932	7.68%	7.18%	8.60%
2013	399,252	370,674	7.16%	6.82%	7.83%

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 2013. Albuquerque Public Schools, University of New Mexico, Kirtland Air Force Base, Sandia National Laboratories, UNM Hospital, the City and Presbyterian Healthcare Services were the largest employers in the Albuquerque area.

MAJOR EMPLOYERS IN THE ALBUQUERQUE AREA[1]
By Number of Employees – 2013

ORGANIZATION	EMPLOYEES	DESCRIPTION
Albuquerque Public Schools	14,810	Public School District
University of New Mexico	14,644	Educational Institution
Sandia National Labs	8,930	Science-Based Technologies that Support National Security
Presbyterian Healthcare Services	8,217	Hospital/Medical Services
Kirtland Air Force Base (Civilian)	6,095	Air Force Material Command
UNM Hospital	5,959	Hospital/Medical Services
City of Albuquerque	5,854	Government
State of New Mexico	5,590	Government
Kirtland Air Force Base (Military Active Duty)	4,520	Air Force Material Command
Lovelace	4,000	Hospital/Medical Services
Intel Corporation	3,500	Semiconductor Manufacturer
Bernalillo County	2,348	Government
Central New Mexico Community College	1,976	Educational Institution

(1) For a discussion regarding major employers and certain changes which may impact their number of employees, see "Major Industries" under this caption.

Source: City survey of employers

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 2014 Bonds. These summaries and excerpts do not purport to be complete and reference is made to the Ordinance for a full and complete statement of such provisions. See "ADDITIONAL INFORMATION."

Definitions

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

ACCRETED VALUE. Unless stated otherwise in an ordinance or resolution of the Board, with respect to an Individual Capital Appreciation Bond, an amount equal to the original principal amount of that Capital Appreciation Bond plus the amount, assuming semiannual compounding of earnings, which would be produced on the investment of such original principal amount, beginning on the dated date of that Individual Capital Appreciation Bond and ending at the Accretion Term Date thereof, at an interest rate which, if continued until the Accretion Term Date, will produce the defined value of an Individual Capital Appreciation Bond at the Accretion Term Date. As of any Valuation Date, the Accreted Value of any Capital Appreciation Bond shall mean the amount set forth for such date in the applicable resolution or ordinance. As of any date other than a Valuation Date, the Accreted Value shall mean the sum of (1) the Accreted Value on the preceding Valuation Date and (2) the product of (a) a fraction, the numerator of which is the number of days having elapsed from the preceding Valuation Date and the denominator of which is the number of days in a single compounding period, and (b) the difference between the Accreted Values for such Valuation Dates.

ACCRETION TERM DATE. The maturity date of a Capital Appreciation Bond or other date on which a Capital Appreciation Bond converts to a Current Interest Bond.

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

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.

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 2014 BONDS. Collectively, the Albuquerque Bernalillo County Water Utility Authority Senior Lien Joint Water and Sewer System Refunding Revenue Bonds 2014A issued pursuant to the Bond Legislation in the aggregate principal amount of $97,165,000 and the Albuquerque Bernalillo County Water Utility Authority Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014B, issued pursuant to the Bond Legislation, in the principal amount of $88,585,000.

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. The Bond Ordinance and the Confirming Resolution.

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

BOND PURCHASE AGREEMENT. The Bond Purchase Agreement between the Water Authority and the Purchaser for the Bonds.

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.

CAPITAL APPRECIATION BONDS. System Obligations on which the first scheduled date for payment of principal and/or interest is the Accretion Term Date. For the purposes of (1) receiving payment of the redemption price if a Capital Appreciation Bond is redeemed prior to maturity or (2) determining the principal amount of System Obligations held by the owner of a Capital Appreciation Bond in giving any notice, consent, request, or demand pursuant to an ordinance or resolution of the Board or related document for any purpose whatsoever, the principal amount of a Capital Appreciation Bond shall be deemed to be its Accreted Value.

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 Refunding Project.

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 City or the Water Authority; 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 whose senior unsecured debt is rated no lower than the current rating on the applicable System Obligations and in any event no lower than “A” by Moody’s, S&P and Fitch to the extent each such rating agency is then rating those System Obligations, 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 Subordinate 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 and the amount of credit against Debt Service Requirements for payments to be received by the Water Authority based upon Variable Rate Obligations to be made by a counterparty pursuant to a Qualified Exchange Agreement.

(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 reserve requirement, shall be the date of initial 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 Subordinate 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 Subordinate 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, 55 Water Street, 22nd Floor, New York, New York 11220, Fax (212) 855-8440; 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 the Water Authority, by an Authorized Officer, may designate in a certificate of the Water Authority.

DRINKING WATER STATE REVOLVING FUND LOAN AGREEMENT (2003). The loan agreement dated April 11, 2003 between the NMFA and the City in the original principal amount of $3,600,000, authorized and approved by City Ordinance Enactment No. 10-2002 and Resolution Enactment No. 19-2003 constituting a senior lien on the Net Revenues.

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 the Ordinance 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.

EID. The New Mexico Environment Department, formerly the New Mexico Environmental Improvement Division of the Health and Environment Department of the State.

EID LOAN. As of the date of adoption of the Bond Ordinance: The loan made to the City by EID, evidenced by a Loan Agreement dated June 18, 2002, authorized by City Ordinance No. 58–2001 in the original principal amount of $15,000,000 constituting a subordinate lien on the Net Revenues and to be refunded in whole with the proceeds of the Series 2014B Bonds on the Closing Date.

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

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

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

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

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

EXPENSE ACCOUNT. That account established for the purpose of appropriating for the annual budget that part of the Operation and Maintenance Expenses which are reasonably necessary for the administration of the Debt Service Fund 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, premiums and costs for any Credit Facility, costs of advertising and publication, underwriter's discounts, cost of printing bonds and disclosure documents, fees and costs of the Escrow Agent, legal fees and expenses, costs relating to the initial purchase of securities for deposit with the Escrow Agent, including any costs associated with any verification agent, and expenses of any Independent Accountant and all reasonable and necessary fees and administrative costs of the Water Authority relating to the foregoing.

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

FITCH. Fitch Ratings, its successors and assigns, and, if such entity is dissolved or liquidated or no longer performs the functions of a securities ratings agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Water Authority.

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; and.

(5) On and after July 1, 2006, 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:

(1) 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

(2) 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) of the Ordinance or additional Subordinate Obligations pursuant to Section 27.(C) of the Ordinance.

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 (a) is, in fact, independent and not under the domination of the Water Authority, the City or the County, (b) does not have any substantial interest, direct or indirect, with the Water Authority, the City or the County, and (c) 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 the date set forth in the Confirming Resolution.

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

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

NMFA. The New Mexico Finance Authority.

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

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

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

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

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

(2) insurance premiums for the System, including, without limitation,

premiums for property insurance, public liability insurance and workmen's compensation insurance, whether or not self-funded;

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

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

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

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

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

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

Operation and Maintenance Expenses do not include any allowance for depreciation, payments in lieu of taxes, liabilities incurred by the Water Authority as a result of its negligence or other misconduct in the operation of the System or any charges for the accumulation of reserves for capital 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 or liabilities incurred by the Water Authority as the result of negligence in the operation of the System.

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 or City 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 or the City at or prior to such date for cancellation;

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

(3) in the case of Variable Rate Obligations, System Obligations

deemed tendered but not yet presented for payment;

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

(5) those in lieu of or in exchange or substitution for which other System Obligations shall have been delivered, unless proof satisfactory to the Water Authority or the City 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) Government Obligations, but not including: General Services Administration – participation certificates; Government National Mortgage Association (GNMA) – GNMA guaranteed mortgage-backed securities and GNMA guaranteed participation certificates; U.S. Department of Housing & Urban Development – local authority bonds; and U.S. Export-Import Bank;

(2) Obligations of the following government-sponsored agencies: Federal Home Loan Mortgage Corporation – participation certificates and senior debt obligations; Farm Credit System (formerly: Federal Land Banks and Banks for Cooperatives) – consolidated system-wide bonds and notes; Federal Home Loan Banks – consolidated debt obligations; Federal National Mortgage Association – senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are valued greater than par on the portion of unpaid principal); letter of credit backed issues; Financing Corporation – debt obligations; and Resolution Funding Corporation – debt obligations;

(3) Certificates of deposit, time deposits and banker's acceptances of any bank or savings and loan association, the short-term obligations of which are rated in the highest Rating Category by S&P, Fitch and Moody's, if then rating the Bonds, provided that such deposits must be fully secured by securities designated in paragraphs (1), (2) and (8) of this

definition and held in safe-keeping for, or on behalf of, or held in book-entry form in the name of, the Water Authority;

(4) Accounts with banks, savings and loan associations, and credit unions located in Bernalillo County, provided that the banks, savings and loan associations and credit unions, and the collateral securing the investments permitted by this paragraph, satisfy the requirements of applicable State law;

(5) Obligations, the interest on which is excluded from gross income of the recipient for federal income tax purposes, which are rated in the highest Rating Category by S&P, Fitch and Moody's, if then rating the Bonds;

(6) 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 and 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), (2) and (8) of this definition;

(7) The "participating government investment fund" described in Section 6-10-10.1 NMSA. 1978 or other similar pooled fund maintained by the State for the investment of public funds of local public bodies of the State;

(8) Stripped Securities: (i) U.S. Treasury STRIPS and (ii) REFCORP STRIPS (stripped by Federal Reserve Bank of New York);

(9) 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), (2) and (8) 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;

(10) Deposits insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with Government Obligations; and

(11) Agreements which permit the Water Authority to require a commercial bank, broker-dealer or recognized financial institution to purchase from the Water Authority at a fixed price obligations described in paragraphs (1), (2) and (8) of this definition;

provided that, if required by law, the contract relating to such agreement is approved by resolution of the Board and all other requirements of law relating to any such investment are satisfied and provided further that such institution, or the guarantor of such institution or agreement, shall be rated in one of the top two Rating Categories by S&P, Fitch and Moody's, if then rating the Bonds.

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.

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 Subordinate Obligations, whichever is earlier.

PUBLIC PROJECT REVOLVING FUND LOAN AGREEMENT (2005). The loan agreement dated October 28, 2005 between the NMFA and the Water Authority in the principal amount of $20,000,000 and approved by Ordinance No. O-05-3 constituting a senior lien on the Net Revenues. Proceeds from the Series 2014A Bonds shall be applied to the advance refunding of the Public Project Revolving Fund Loan Agreement (2005) maturing on and after May 1, 2016 on the first optional redemption date of May 1, 2015.

PUBLIC PROJECT REVOLVING FUND LOAN AGREEMENT (2007). The loan agreement dated September 26, 2007 between the NMFA and the Water Authority in the principal amount of $77,005,000 and approved by Ordinance No. O-07-6 and Resolution No. R-07-26 constituting a senior lien on the Net Revenues.

PUBLIC PROJECT REVOLVING FUND LOAN AGREEMENT (2011). The loan agreement dated December 15, 2011 between the NMFA and the Water Authority in the principal amount of $49,100,000 and approved by Ordinance No. O-11-5 and Resolution No. R-11-17 constituting a senior lien on the Net Revenues.

PURCHASER. J.P. Morgan Securities LLC, Robert W. Baird & Co., Incorporated, Stifel, Nicolaus & Company, Incorporated and Piper Jaffray & Co., collectively, as the original purchasers of the Bonds.

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

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

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

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

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

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

REFUNDED OBLIGATIONS. Collectively, the Series 2014A Refunded Obligations and the Series 2014B Refunded Obligations.

REFUNDING PROJECT. Collectively, the Series 2014A Refunding Project and the Series 2014B Refunding Project.

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 and 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, S&P or Fitch if the Bonds are then rated by Moody's, S&P or Fitch. 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, S&P or Fitch if the Bonds are then rated by Moody's, S&P or Fitch.

S&P. Standard & Poor's Ratings Services, a division of the McGraw-Hill Companies, Inc., its successors and their assigns, and, if such corporation does not provide a rating for the Bonds, "S&P" shall be deemed to refer to any other nationally recognized securities agency rating the Bonds.

SENIOR OBLIGATIONS. The Drinking Water State Revolving Fund Loan Agreement (2003),, the Public Project Revolving Fund Loan Agreement (2005), the Public Project

Revolving Fund Loan Agreement (2007), the Series 2008A Bonds, the Series 2009 Bonds, the Drinking Water State Revolving Fund Loan Agreement (2009), the Public Project Revolving Fund Loan (2011), the Series 2013A&B Bonds, the Series 2014A 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 2005 BONDS. The Outstanding System Obligations designated as "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2005," in the original principal amount of $132,985,000 authorized and issued pursuant to Ordinance Enactment No. O-05-2 constituting a senior lien on the Net Revenues. Proceeds of the Series 2014B Bonds shall be used to advance refund the Series 2005 Bonds maturing on and after July 1, 2016 on their first optional redemption date of July 1, 2015.

SERIES 2006A BONDS. The System Obligations designated as "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2006A" in the original principal amount of $133,390,000, authorized and issued pursuant to Ordinance No. O-06-2 and R-06-6 constituting a senior lien on the Net Revenues. Proceeds from the Series 2014A Bonds shall be used to advance refund the Series 2006A Bonds maturing on and after July 1, 2017 on their first optional redemption date of July 1, 2016.

SERIES 2008A BONDS. The System Obligations designated as "Albuquerque Bernalillo County Water Utility Authority Joint Water and Sewer System Improvement Revenue Bonds, Series 2008A" in the original principal amount of $55,630,000, authorized and issued pursuant to Ordinance No. O-08-2, and Resolution No. R-08-5 constituting a senior lien on the Net Revenues.

SERIES 2009 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 No. 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

$97,165,000, authorized and issued pursuant to the Bond Legislation 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 $88,585,000, authorized and issued pursuant to the Bond Legislation constituting a subordinate lien on the Net Revenues.

SERIES 2014 BONDS DEBT SERVICE ACCOUNT. An account of the Debt Service Fund established for the deposit of amounts necessary to pay Debt Service Requirements on the 2014A Bonds.

SERIES 2014B 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 2014B Bonds.

SERIES 2014A REFUNDED OBLIGATIONS. The Public Project Revolving Fund Loan Agreement (2005), maturing on and after July 1, 2016 and the Series 2006A Bonds maturing on and after July 1, 2017.

SERIES 2014B REFUNDED OBLIGATIONS. The Series 2005 Bonds maturing on and after July 1, 2016 and all of the outstanding EID Loan.

SERIES 2014A REFUNDING PROJECT. The advance refunding of the Series 2014A Refunded Obligations and the payment of Expenses related to the issuance of the Series 2014A Bonds.

SERIES 2014B REFUNDING PROJECT. The advance refunding of the Series 2005 Bonds maturing on and after July 1, 2016, the current refunding of all of the outstanding EID Loan on the date of issuance of the Series 2014B Bonds, and the payment of Expenses related to the issuance of the Series 2014B Bonds.

STATE. The State of New Mexico.

SUBORDINATE OBLIGATIONS. The EID Loan, the Drinking Water State Revolving Fund Loan Agreement (2008), Series 2014B Bonds, and all other bonds and other obligations of the Water Authority (including those previously issued by the City) now or hereafter issued with a lien on the Net Revenues subordinate to the lien of Senior Obligations and superior to the liens of the Super Subordinated Obligations on the Net Revenues.

SUPER SUBORDINATE OBLIGATIONS. The Water Trust Board Loans, and all other bonds and other obligations of the Water Authority now or hereafter issued with a lien on the Net Revenues subordinate to the liens of the Senior Obligations and subordinate to the lien of the Subordinate Obligations on 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.

VALUATION DATE. Unless stated otherwise in an ordinance or resolution of the Board, each January 1 and July 1 while Capital Appreciation Bonds are Outstanding, being the dates on which the Accreted Value of Capital Appreciation Bonds are listed in the applicable ordinance or resolution.

VARIABLE RATE OBLIGATIONS. System Obligations, including reimbursement obligations pursuant to a Credit Facility, the interest rate on which is subject to change from time to time.

WATER AUTHORITY. The Albuquerque Bernalillo County Water Utility Authority created by Section 72-1-10 NMSA 1978 as a joint agency of the City and the County and operating under the name Albuquerque Bernalillo County Water Utility Authority.

WATER TRUST BOARD. The board created by Section 72-4A-4 NMSA 1978.

WATER TRUST BOARD LOANS. As of the date of adoption of the Bond Ordinance: (i) the 2009 loan made to the Water Authority by the Water Trust Board, evidenced by that loan agreement #51-WTB in the amount of $50,000; (ii) the 2009 loan made to the Water Authority by the Water Trust Board, evidenced by that loan agreement #79-WTB in the amount of $100,000; (iii) the 2010 loan made to the Water Authority by the Water Trust Board, evidenced by the loan agreement #177-WTB in the amount of $190,235; (iv) the 2011 loan made to the Water Authority by the Water Trust Board, evidenced by that loan agreement #205-WTB in the amount of $452,000; (v) the 2011 loan made to the Water Authority by the Water Trust Board, evidenced by that loan agreement #206-WTB in the amount of $640,000; and (vi) the 2011 loan made to the Water Authority by the Water Trust Board, evidenced by that loan agreement #207-WTB in the amount of $63,354.

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 2014 BONDS – Issuance of Additional System Obligations."

Payment of Series 2014 Bonds

The principal of and premium, if any, on the Series 2014 Bonds are payable upon presentation and surrender of the Series 2014 Bonds at the principal office of the Paying Agent at or after their maturity or prior redemption dates. Interest on Series 2014 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 2014 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 2014 Bonds (or of one or more predecessor Series 2014 Bonds) as of the Record Date, but will be payable to the Owners of those Series 2014 Bonds (or of one or more predecessor Series 2014 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 2014 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 2014 Bond presented for payment remains unpaid at maturity, the unpaid principal will bear interest at the rate designated in that Series 2014 Bond. Payments of Series 2014 Bonds will be made without deduction for exchange or collection charges.

The Authority shall transfer, or cause to be transferred, funds to the Paying Agent on a timely basis so that the Paying Agent may make payments of the principal of, premium, if any, and interest on the Series 2014 Bonds, when due, to the Owners and comply with the requirements of any Credit Source. The Authority shall notify the Paying Agent if there is or will be an insufficient amount of money of the Authority legally available to pay principal and interest on the Series 2014 Bonds when due.

Registration, Transfer, Exchange and Ownership of Series 2014 Bonds

The Authority will cause books for registration, transfer and exchange of the Series 2014 Bonds to be kept at the principal office of the Registrar. Upon surrender for transfer or exchange of any Series 2014 Bond at the principal office of the Registrar duly endorsed by the Owner or his attorney duly authorized in writing, or accompanied by a written instrument or instruments of transfer or exchange in form satisfactory to the Registrar and properly executed, the Authority will execute and the Registrar will authenticate and deliver in the name of the transferee or Owner replacement Series 2014 Bonds of the same maturity, interest rate and aggregate principal amount in Authorized Denominations.

The person in whose name any Series 2014 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 2014 Bonds in Section 7(D) of the Ordinance. Payment of either the principal of or interest on any Series 2014 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 2014 Bonds to the extent of the amount paid.

If any Series 2014 Bond is lost, stolen, destroyed or mutilated, the Registrar, upon receipt of that certificate, 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 2014 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 2014 Bond has matured or been called for redemption, the Registrar may direct the Paying Agent to pay that Series 2014 Bond in lieu of replacement.

Exchanges and transfers of Series 2014 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 2014 Bonds which may be and is tendered for purchase, the Registrar will not be required to transfer or exchange (a) any Series 2014 Bond during the five-day period preceding the mailing of notice calling Series 2014 Bonds, as applicable, for redemption and (b) any Series 2014 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.

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 2014 Bonds Debt Service Account as a separate account of the Debt Service Fund.

Rate Stabilization Fund

The Rate Stabilization Fund is continued as a separate fund.

Escrow Fund

The Escrow Fund is created as a separate fund.

Use of Gross Revenues

As long as any Series 2014 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:

(A) *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.

(B) *Debt Service Accounts for Senior Obligations*

Net Revenues are to be transferred to the Debt Service Accounts established for the Outstanding 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.

(C) *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 Serve 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.

(D) *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.

(E) *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.

(F) *Super Subordinate Obligations*

Net Revenues shall be used to pay Debt Service Requirements on Super Subordinate Obligations, and to fund any Reserve Requirement for Super Subordinate Obligations.

(G) *Rate Stabilization Fund*

At the option of the Authority, Net Revenues may be transferred to the Rate Stabilization Fund to be used for the purposes stated in the Bond Ordinance.

(H) *Surplus Net Revenues*

Surplus Net Revenues are to be retained in the Joint Water and Sewer Fund or used for any other lawful System purpose including, but not limited to, redeeming or purchasing System Obligations or paying costs and expenses of the Authority relating to the administration of System Obligations.

(I) *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 2014A Bonds Debt Service Account

Net Revenues are required to be transferred to the Series 2014A Bonds Debt Service Account sufficient to pay when due interest on and principal of the Series 2014A Bonds.

If, in the month immediately preceding any payment date for the Series 2014A Bonds, the Authority determines that there are not sufficient funds in the Series 2014A Bonds Debt Service Account to pay the amount becoming due on that payment date, the Authority is required to promptly deposit any available Net Revenues in the Series 2014A Bonds Debt Service Account in an amount equal to the deficiency. If, prior to any payment date for the Series 2014A Bonds, there has accumulated in the Series 2014A Bonds Debt Service Account the entire amount necessary to pay the amount becoming due on the Series 2014A Bonds payable from such account on that payment date, no additional Net Revenues need be deposited in the Series 2014A Bonds Debt Service Account prior to that payment date. In making the determinations permitted by this paragraph, the Authority may take into account the amount on deposit in any other fund or account or escrow relating to the Series 2014A Bonds irrevocably set aside for the next payment of the Series 2014A Bonds.

Amounts on deposit in the Series 2014A Bonds Debt Service Account will be applied first to the payment of interest and then to pay or satisfy any payment of principal.

Series 2014B Bonds Debt Service Account

Net Revenues are required to be transferred to the Series 2014B Bonds Debt Service Account sufficient to pay when due interest on and principal of the Series 2014B Bonds.

If, in the month immediately preceding any payment date for the Series 2014B Bonds, the Authority determines that there are not sufficient funds in the Series 2014B Bonds Debt Service Account to pay the amount becoming due on that payment date, the Authority is required to promptly deposit any available Net Revenues in the Series 2014B Bonds Debt Service Account in an amount equal to the deficiency. If, prior to any payment date for the Series 2014B Bonds, there has accumulated in the Series 2014B Bonds Debt Service Account the entire amount necessary to pay the amount becoming due on the Series 2014B Bonds payable from such account on that payment date, no additional Net Revenues need be deposited in the Series 2014B Bonds Debt Service Account prior to that payment date. In making the determinations permitted by this paragraph, the Authority may take into account the amount on deposit in any other fund or account or escrow relating to the Series 2014B Bonds irrevocably set aside for the next payment of the Series 2014B Bonds.

Amounts on deposit in the Series 2014B Bonds Debt Service Account will be applied first to the payment of interest and then to pay or satisfy any payment of principal.

Series 2014 Bonds Termination Upon Deposits to Maturity

No payments need be made into the Series 2014A Bonds Debt Service Account if the amount in the Series 2014A 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 2014A Bonds, both accrued and not accrued, and all proceeds paid under any Credit Facility for the Series 2014A Bonds have been reimbursed. The money retained in that account shall be used only to pay the Debt Service Requirements on the Series 2014A Bonds when due except that any money on deposit in the Series 2014A Bonds Debt Service Account which is not necessary to pay such Debt Service Requirements shall be used as surplus Net Revenues.

No payments need be made into the Series 2014B Bonds Debt Service Account if the amount in the Series 2014B 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 2014B Bonds, both accrued and not accrued, and all proceeds paid under any Credit Facility for the Series 2014B Bonds have been reimbursed. The money retained in that account shall be used only to pay the Debt Service Requirements on the Series 2014B Bonds when due except that any money on deposit in the Series 2014B 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 pursuant to Sections 21.(C) and (D) of the Ordinance shall be made with the priorities set forth in those paragraphs.

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 Ordinance. 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 but the computation need not be made more often than once in any month.

General Administration of Funds

The funds and accounts described above are to be administered as follows:

Investment of Money

To the extent practicable, any money in any such fund or account is to be invested in Permitted Investments, provided however that money in the Escrow Funds shall be invested as provided in the Escrow Agreement. Obligations purchased as an investment of money in any fund or account are to be deemed at all times to be part of that fund or account, and the interest accruing and any profit realized on those investments are to be credited to that fund or account, unless otherwise stated in the Bond Ordinance or related document (subject to withdrawal at any time for the uses directed and permitted for such money by the Bond Ordinance or related document), and any loss resulting from such investment is to be charged to that fund or account. The custodian for any such fund or account is required to present for redemption or sale on the prevailing market any Permitted Investment in a fund or account when necessary to provide money to meet a required payment or when required to be transferred from that fund or account.

Deposits of Funds

The money and investments which are part of the funds and accounts designated in the Ordinance shall be kept in an Insured Bank or Banks, or otherwise in Permitted Investments or may be held in book-entry form in the name of the Authority or by an agent or custodian of or for the Authority for the benefit of the Authority as permitted by State law and the money and investments deposited in the Escrow Funds shall be held by the Escrow Agent. Each payment or deposit shall be made into and credited to the proper fund or account at the designated time, except that when the designated time is not a Business Day, then the payment is to be made on the next succeeding Business Day unless otherwise required in the Bond Ordinance or related documents. The Authority may establish one or more accounts in Insured Banks for all of the funds and accounts with any other Insured Bank account or accounts for other funds and accounts of the Authority.

Valuation of Investments

Except as otherwise expressly provided in the Bond Ordinance, Permitted Investments will be valued at their cost (including any amount paid as accrued interest) or their principal amount, whichever is less; except that Permitted Investments purchased at a premium may initially be valued at their cost, but in each year after such purchase will be valued at a lesser amount determined by ratably amortizing the premium over the remaining term. Bank deposits will be valued at the amount deposited, exclusive of any accrued interest or any other gain to the Authority until such gain is realized by the receipt of an interest-earned notice, or otherwise. The valuation of Permitted Investments and bank deposits in any account will be made not less frequently than annually. Unless otherwise required by accounting standards applicable to the Authority, no loss or profit on Permitted Investments is to be deemed to take place as a result of fluctuation in the market quotations prior to the sale or maturity thereof.

Protective Covenants

The Authority has covenanted and agreed with the Owners in the Ordinance as follows:

Use of Series 2014 Bond Proceeds

The Authority will promptly apply the proceeds of the Series 2014 Bonds to the Refunding Project and for the other purposes permitted by the Ordinance.

Payment of Series 2014 Bonds

The Authority will promptly pay the Debt Service Requirements on Series 2014 Bonds at the place, on the dates and in the manner specified in the Bond Ordinance and the Series 2014 Bonds.

Rate Covenants

a. Series 2014A Bonds

The Authority will charge all purchasers of services of the System, including the Authority, the City and the County, such reasonable and just rates as are sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the Outstanding Senior Obligations (excluding accumulation of any reserves therefor). The Rate Covenants contained in the legislation authorizing the issuance of the Outstanding Senior Obligations are hereby clarified to provide that the Authority will charge all purchasers of services of the System, including the Authority, the City and the County, such reasonable and just rates as are sufficient to produce Net Revenues annually to pay 133% of the annual Debt Service Requirements on the Outstanding Senior Obligations (excluding accumulation of any reserves therefor).

b. Series 2014B Bonds

The Authority will charge all purchasers of services of the System, including the Authority, the City and the County, such reasonable and just rates as are sufficient to produce Net Revenues annually to pay 120% of the annual Debt Service Requirements on the Outstanding Senior Obligations and the Outstanding Subordinate Obligations (excluding accumulation of any reserves therefor).

Quarterly, the Authority shall determine that the Net Revenues are sufficient to satisfy the Rate Covenants. If the Net Revenues are not sufficient to satisfy the Rate Covenant upon the approval of the annual audit for a Fiscal Year, the Authority will either: (i) promptly increase the rates for use of the Services of the System in order to generate sufficient Net Revenues to satisfy the Rate Covenants or (ii) employ a consultant or manager for the System who shall have a favorable national reputation for skill and experience in the management, operation and financial affairs of water and sanitary sewer systems and who is not an employee or officer of the Authority. The Authority will request that consultant or manager to make its recommendations, if any, as to revisions of the Authority's rate structure and other charges for use of the System, its Operation and Maintenance Expenses and the method of operation of the System in order to satisfy the Rate Covenants as soon as practicable. Copies of any such requests and recommendations of the consultant or manager shall be filed with the Board. So long as the Authority substantially complies with the recommendations of the consultant or manager on a timely basis, the Authority will not be deemed to have defaulted in satisfying the Rate Covenants even if the resulting Net Revenues are not sufficient to be in compliance with the Rate Covenants, if there is no other default under the Bond Ordinance.

No free service, facilities or commodities shall be furnished by the System. If the Authority, the City or the County elects to use water supplied by, or the sanitary sewer facilities of, the System or in any other manner use the System, such use of the System by such entity shall be paid from lawfully available money of such entity at the reasonable value of the use made, service rendered or facility or commodity supplied as is charged to other similar users of the System.

Nothing contained in this section shall be interpreted to require the Authority to take any action in violation of any applicable requirement imposed by law.

Lien on Lands Serviced by System

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

Levy of Charges

The Authority will promptly fix, establish and levy the rates and charges which are required by Section 29.(C) of the Bond Ordinance. No reduction in any initial or existing rate schedule for the System may be made unless:

(1) the Authority has fully complied with the provisions of Section 21 of the Bond Ordinance for any 12 consecutive months out of the 16 calendar months immediately preceding the reduction of the rate schedule, and

(2) the audit required by Section 29.(I) of the Bond Ordinance or a separate certificate by an Independent Accountant for or relating to any 12 consecutive months out of the 16 calendar months immediately preceding any reduction discloses that the estimated Net Revenues resulting from the proposed reduced rate schedule would have been sufficient to meet the Rate Covenant during the applicable 12-month period.

Efficient Operation

The Authority will maintain the System in efficient operating condition and make such improvements, extensions, enlargements, repairs and betterments to the System as may be necessary or advisable for its economical and efficient operation at all times and to supply reasonable public and private demands for System services within the area served by the Authority.

Records; Right to Inspect

So long as Series 2014 Bonds remain Outstanding, the Authority will keep or cause to be kept proper books of records and accounts, separate from all other records and accounts, showing complete and correct entries of all transactions relating to the System. Owners, or their duly authorized agents, shall have the right to inspect at reasonable times all records, accounts and data relating to the System; however, pursuant to Section 6-14-10(E) NMSA 1978, records with regard to the ownership or pledge of the Series 2014 Bonds are not subject to inspection or copying.

Audits

So long as the Series 2014 Bonds are Outstanding, within 270 days following the close of each Fiscal Year, the Authority will cause an audit of the books and accounts of the System to be made by an Independent Accountant. Each audit of the System shall include those matters determined to be proper by the Independent Accountant.

Billing Procedure

Bills for water, water services or facilities, sanitary sewer service or facilities, or any combination thereof, furnished by or through the System are to be provided to customers on a regular basis each month following the month in which the service was rendered and shall be due as required by Authority Ordinance. If permitted by law, if a bill is not paid within the period of time required by Authority ordinance, water and sanitary sewer services are to be discontinued as required by Authority ordinance, and the rates and charges due are to be collected in a lawful manner, including but not limited to the cost of disconnection and reconnection.

Charges and Liens Upon System

The Authority will pay when due from Gross Revenues or other legally available funds all taxes and assessments or other municipal or governmental charges, lawfully levied or assessed upon the System and will observe and comply with all valid requirements of any municipal or governmental authority relating to the System. The Authority will not create or permit any lien or charge upon the System or the Gross Revenues or Net Revenues except as permitted by the Ordinance, or it will make adequate provisions to satisfy and discharge within 60 days after the same accrue, all lawful claims and demands for labor, materials, supplies or other objects, which, if unpaid, might by law become a lien upon the System or the Gross Revenues or the Net Revenues. However, the Authority will not be required to pay or cause to be discharged, or make provision for any tax assessment, lien or charge before the time when payment becomes due or so long as the validity thereof is contested in good faith by appropriate legal proceedings and there is no adverse effect on Owners.

Insurance

In its operation of the System, the Authority will carry fire and extended coverage insurance. As required by law, the Authority will acquire insurance or maintain a self-insurance fund to cover workmen’s compensation insurance and public liability insurance. In the event of property loss or damage to the System, insurance proceeds are to be used first for the purpose of restoring or replacing the property lost or damaged and any remainder is to be treated as Gross Revenues.

Alienating System

Except as permitted in the Ordinance, while any Series 2014 Bonds are Outstanding, the Authority will not sell, lease, mortgage, pledge or otherwise encumber, or in any manner dispose of, or otherwise alienate, any part of the System, except that the Authority may sell any portion of the property of the System which is replaced by other property of at least equal value, or which ceases to be necessary for the efficient operation of the System. In the event of any sale of System property, the proceeds of such sale which are not used to purchase other System property will be distributed as Gross Revenues.

Extending Interest Payments

To prevent any accumulation of claims for interest after maturity, except as permitted by the Ordinance, the Authority will not directly or indirectly extend or assent to the extension of the time for the payment of any claim for interest on Series 2014 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 Ordinance, to the benefit or security of the Bond Ordinance until the prior payment in full of the principal of and interest on all other Series 2014 Bonds then Outstanding.

Competent Management; Performing Duties

The Authority will employ experienced and competent personnel to manage the System, and will faithfully and punctually perform all duties with respect to the System required by State, City and County laws including, but not limited to, making and collecting reasonable and sufficient rates and charges for services rendered or furnished by the System as required by the Ordinance and the proper segregation and application of the Gross Revenues.

Other Liens

Other than as stated in or provided by the Bond Ordinance, there are no liens or encumbrances of any nature whatsoever, on or against the System or Gross Revenues or Net Revenues.

Authority's Existence

The Authority will maintain its corporate identity and existence as long as Series 2014 Bonds remain outstanding.

Tax Compliance

The Authority covenants that it will use and will restrict the use and investment of the proceeds of the Series 2014 Bonds in such manner and to such extent as may be necessary so that the Series 2014 Bonds will not (i) constitute private activity bonds, arbitrage bonds or hedge bonds under Sections 141, 148 or 149 of Code or (ii) be treated other than as bonds to which Section 103(a) of the Code applies, and (iii) the interest thereon will not be treated as a preference item under Section 57 of the Code. The Authority further covenants (a) that it will also take or cause to be taken such actions that may be required of it for the interest on the Series 2014 Bonds to be and remain excluded from gross income for federal income tax purposes, (b) that it will not take or authorize to be taken any actions that would adversely affect that exclusion, and (c) that it, or persons acting for it, will, among other acts of compliance, (i) apply the proceeds of the Series 2014 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.

Events of Default

Each of the following events is declared an "event of default" under the Ordinance:

(a) Failure to pay the principal or Accreted Value of the Bonds or any Senior Obligations when due and payable, either at maturity or otherwise.

(b) Failure to pay any installment of interest on the Bonds or Senior Obligations when due and payable.

(c) For any reason, the Authority becomes incapable of fulfilling its obligations under the Ordinance.

(d) Default by the Authority in the due and punctual performance of its covenants, conditions, agreements and provisions contained in System Obligations or in any Authority ordinance authorizing those System Obligations and the continuance of such default (other than a default as described above) for 60 days after written notice specifying such default and requiring the same to be remedied has been given to the Authority by any Credit Source or the Owners of 25% in principal amount and Accreted Value of the System Obligations then Outstanding.

Remedies upon Default

Upon the happening and continuance of any of the events of default stated in the Ordinance: (i) any applicable Credit Source may proceed with any available remedies under any Credit Facility; and (ii) the Owners of not less than 66% in principal amount and Accreted Value of the System Obligations then Outstanding, including but not limited to a trustee or trustees therefor, may proceed against the Authority or the Board or both to:

(a) 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 Ordinance 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,

(b) to enjoin any act or thing which may be unlawful or in violation of any right of any Owner,

(c) to require the Board to act as if it were the trustee of an express trust, or

(d) 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 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 Ordinance. The failure of any Owner to exercise any right granted by this section shall not relieve the Authority of any obligation to perform any duty. Each right or privilege of any Owner (or trustee or receiver therefor) is in addition and cumulative to any other right or privilege and the exercise of any right or privilege by or on behalf of any Owner will not be deemed a waiver of any other right or privilege of any Owner.

Notwithstanding any other provision in the Ordinance, no recourse may be had for the payment of any Series 2014 Bond or for any claim based on any other obligation, covenant or agreement contained in the Ordinance against any past, present or future officer, employee or agent of the Authority or member of the Board, and all such liability of any such officers, employees, agents or member (as such) is released as a condition of and consideration for the adoption of the Ordinance, execution of the Continuing Disclosure Undertaking and the issuance of the Series 2014 Bonds.

Duties upon Default

Upon the happening of any of the events of default under Section 31 of the Ordinance, the Authority will do and perform all proper acts on behalf of and for the Owners necessary to protect and preserve the security created for the payment of the System Obligations and for the payment of the Debt Service Requirements on the System Obligations promptly as the same become due. As long as any of the System Obligations are Outstanding, all Gross Revenues will be distributed and used for the purposes and with the priorities set forth in Section 21 of the Ordinance. If the Authority fails or refuses to proceed as provided in the 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 Ordinance.

Defeasance

When all principal, interest and prior redemption premiums, if any, in connection with all or any part of the Series 2014 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 Ordinance with respect to those Series 2014 Bonds and any Bond Insurance Policy will be discharged and those Series 2014 Bonds will no longer be deemed to be Outstanding within the meaning of the Ordinance.

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 2014 Bonds to be defeased as the same become due to the final maturities or upon designated prior redemption dates, and (ii) any Series 2014 Bonds to be redeemed prior to maturity shall have been duly called for redemption or irrevocable instructions to call such Series 2014 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 2014 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 2014 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.

If any Series 2014 Bonds are deemed to be paid and discharged as described above, within 15 days after the date of defeasance, the Authority is required to cause written notice to be given to each Owner of Series 2014 Bonds deemed paid and discharged at the address shown on the Bond register on the date on which those Series 2014 Bonds are deemed paid and discharged. The Notice shall state the numbers of the Series 2014 Bonds deemed paid and discharged (if less than all the Series 2014 Bonds are deemed paid and discharged), describe the Defeasance Obligations and specify any date or dates on which the Series 2014 Bonds defeased are to be called for redemption pursuant to notice of redemption given or irrevocable provisions made for that notice pursuant to the Ordinance.

Bonds Not Presented When Due

If any Series 2014 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 2014 Bonds is on deposit with the Paying Agent, and, in the case of Series 2014 Bonds to be redeemed, if notice of redemption has been given as provided in the Bond Ordinance, all liability of the Authority to the Owners of those Series 2014 Bonds will be discharged, those Series 2014 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

2014 Bonds.

Amendment of Ordinance

The Ordinance 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 2014 Bonds and is affected by the amendment if the Credit Source is not in default in its obligations under the Credit Facility:

(a) To cure any ambiguity, or to cure, correct or supplement any defect or inconsistent provision contained in the Ordinance;

(b) To grant to the Owners any additional rights, remedies, powers or authority that may lawfully be granted to them;

(c) To obtain or maintain a rating on the Series 2014 Bonds from any rating agency if the amendment, in the judgment of Bond Counsel, does not materially adversely affect the Owners;

(d) To achieve compliance with federal securities or tax laws; and

(e) To make any other changes in the Bond Ordinance which, in the opinion of Bond Counsel, are not materially adverse to the Owners.

Additional Amendments

Except as provided above, the Ordinance may only be amended or supplemented by ordinance or resolution adopted by the Board in accordance with the laws of the State, without receipt by the Authority of any additional consideration, but with the written consent of the Owners of a majority of the principal amount of the Series 2014 Bonds then outstanding which are affected by the amendment or supplement (not including any Series 2014 Bonds owned by or for the account of the Authority) and of any Credit Source providing a Credit Facility which is in effect affected by the amendment or supplement if the Credit Source is not in default in its obligations under the Credit Facility; provided, however, that no such ordinances or resolutions may have the effect of permitting:

(a) An extension of the maturity of any Series 2014 Bond; or

(b) A reduction in the principal amount of, premium, if any, or interest rate on any Series 2014 Bond; or

(c) The creation of a lien on or a pledge of Net Revenues ranking prior to the lien or pledge of Subordinate Obligations on Net Revenues unless issued in compliance with the ordinances authorizing the issuance of the Outstanding Senior Obligations; or

(d) A reduction of the principal amount of Series 2014 Bonds required for consent to such amendment or supplement.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

September __, 2014

Albuquerque Bernalillo County Water Utility Authority
Albuquerque, New Mexico

$_________
Albuquerque Bernalillo County Water Utility Authority
Senior Lien Joint Water and Sewer System Refunding Revenue Bonds,
Series 2014A

and
$__________
Albuquerque Bernalillo County Water Utility Authority
Subordinate Lien Joint Water and Sewer Refunding Revenue Bonds,
Series 2014B

Ladies and Gentlemen:

We have acted as bond counsel to the Albuquerque Bernalillo County Water Utility Authority (the "Water Authority") in connection with the issuance and sale of its $___________ Senior Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014A (the "2014A Bonds") and its $___________ Subordinate Lien Joint Water and Sewer System Refunding Revenue Bonds, Series 2014B (the "2014B Bonds" and, together with the 2014A Bonds, the "Bonds"). The Bonds are issued pursuant to the Constitution and laws of the State of New Mexico (the "State") and Ordinance No. O-14-2 and Resolution No. R-14-10, both adopted on August 20, 2014 (the "Bond Ordinance"). Except as expressly defined herein, capitalized terms used herein have the same meanings as such terms have in the Bond Ordinance.

We have examined the laws of the State and the United States of America relevant to the opinions herein, and other proceedings and documents relevant to the issuance by the Water Authority of the Bonds. As to the questions of fact material to our opinion, we have relied upon representations of the Water Authority contained in the certified proceedings and other certifications furnished to us, without undertaking to verify the same by independent investigation.

Based upon the foregoing, and subject to the assumptions and qualifications set forth below, we are of the opinion that, under existing law on the date of this opinion:

1. The Bonds are valid and binding special, limited obligations of the Water Authority under and in accordance with the Bond Ordinance.

2. The Bond Ordinance has been duly authorized, executed and delivered by the Water Authority and the provisions of the Bond Ordinance are valid and binding on the Water Authority.

3. The Bonds are payable as to principal, interest and any prior redemption premium, solely from, and are secured by a pledge (but not an exclusive pledge) of System Net Revenues of the Water Authority, as more fully described in the Bond Ordinance. The owners of the Bonds have no right to have taxes levied by the State or any political subdivision thereof for the payment of principal, interest and any prior redemption premium on the Bonds. The Water Authority does not have taxing power,

4. The Bond Ordinance creates the liens on the System Net Revenues that it purports to create.

5. Under existing laws, regulations, rulings and judicial decisions, interest on the Bonds is not includible in gross income for federal income tax purposes. We are also of the opinion that interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax provisions contained in the Internal Revenue Code of 1986, as amended (the "Code"); however, such interest on the Bonds will be included in the adjusted current earnings of certain corporations, and such corporations are required to include in the calculation of alternative minimum tax 75% of the excess of a corporation's adjusted current earnings over its alternative minimum taxable income (determined without regard to this adjustment and prior to reduction for certain net operating losses). Although we are of the opinion that interest on the Bonds is not includible in gross income for federal income tax purposes, the accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. We express no opinion regarding any such consequences.

6. The Bonds and the income from the Bonds are exempt from all taxation by the State or any political subdivision of the State.

The opinions set forth above in paragraph 5 are subject to continuing compliance by the Water Authority with covenants regarding federal tax law contained in the proceedings and other documents relevant to the issuance by the Water Authority of the Bonds. Failure to comply with these covenants may result in interest on the Bonds being included in gross income retroactive to their date of issuance.

The opinions expressed herein are based upon existing legislation as of the date of issuance and delivery of the Bonds, and we express no opinion as of any date subsequent thereto or with respect to any pending legislation.

The obligations of the Water Authority related to the Bonds are subject to the reasonable exercise in the future by the State and its governmental bodies of the police power inherent in the sovereignty of the State and to the exercise by the United States of the powers (including bankruptcy powers) delegated to it by the United States Constitution. The obligations of the

Water Authority and the security provided therefor, as contained in the Bond Ordinance, may be subject to general principles of equity which permit the exercise of judicial discretion and are subject to the provisions of applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect.

The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of result. We are passing upon only those matters set forth in this opinion and are not passing upon the accuracy or completeness of any statement made in connection with any sale of the Bonds or upon any tax consequences arising from the receipt or accrual or interest on, or the ownership of, the Bonds except those specifically addressed in paragraphs 5 and 6 above.

Respectfully submitted,

APPENDIX E

FORM OF CONTINUING DISCLOSURE UNDERTAKING

CONTINUING DISCLOSURE UNDERTAKING

$97,165,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SENIOR LIEN JOINT WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS
SERIES 2014A

$87,990,000*
ALBUQUERQUE BERNALILLO COUNTY WATER UTILITY AUTHORITY
SUBORDINATE LIEN JOINT WATER AND SEWER SYSTEM REFUNDING REVENUE BONDS
SERIES 2014B

This instrument constitutes the written undertaking by the Albuquerque Bernalillo County Water Utility Authority (the "Issuer") for the benefit of the holders of the above-captioned bonds (the "Bonds") required by Section (b)(5)(i) of Securities and Exchange Commission Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (17 C.F.R. Part 240, § 240. 15c2-12) (the "Rule"). Capitalized terms used in this undertaking and not otherwise defined in the Issuer's Ordinance WUA O-13-2 (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 2014, to EMMA. The Issuer may adjust the Report Date if the Issuer changes its fiscal year by providing written notice of the change of fiscal year and the new Report Date to EMMA provided that the new Report Date shall be 270 days after the end of the new fiscal year and provided further that the period between the final Report Date relating to the former fiscal year and the initial Report Date relating to the new fiscal year shall not exceed one year in duration. It shall be sufficient if the Issuer provides to EMMA the Annual Financial Information by specific reference to documents previously provided to EMMA or filed with the Securities and Exchange Commission and, if such a document is a final official statement within the meaning of the Rule, available from the Municipal Securities Rulemaking Board.

*Preliminary, subject to change.

(b) If not provided as part of the Annual Financial Information, the Issuer shall provide the Audited Financial Statements when and if available while any Bonds are Outstanding to EMMA.

(c) If a Material Event occurs while any Bonds are Outstanding, the Issuer shall provide a Material Event Notice in a timely manner not in excess of ten (10) business days after the occurrence of the event, a notice of such occurrence with EMMA. Each Material Event Notice shall be so captioned and shall prominently state the date, title and CUSIP numbers of the Bonds.

(d) The Issuer shall provide in a timely manner to the Municipal Securities Rulemaking Board notice of any failure by the Issuer while any Bonds are Outstanding to provide to EMMA, if any, Annual Financial Information 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 Bondholders, if material;

(viii) bond calls, if material, or tender offers;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bond, 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 an obligated person or the sale of all or substantially all of the assets of the 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 Bondholders, 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, Bondholders may sue to enforce performance of the undertakings set forth herein.

(7) *Beneficiaries*. This certificate shall inure solely to the benefit of the Authority, the Purchasers and owners from time to time of the Bonds, and shall create no rights in any other persons or entity.

DATE: SEPTEMBER __, 2014

ALBUQUERQUE BERNALILLO COUNTY
WATER UTILITY AUTHORITY

____
Chair