

**EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

This discussion and analysis of the County of Eddy's (County) financial performance provides an overview of the County's financial activities for the fiscal year ending June 30, 2004. The MD&A should be read in conjunction with the accompanying transmittal letter, the basic financial statements and the accompanying notes to those financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of FY 2004 by \$59,834,197 (net assets) for an increase of 7.9% over 2003. Of this amount, \$10,812,115 is restricted for specific purposes. As required by GASB 34, net assets also reflect \$37,066,641 that is invested in capital assets not related to debt.
- In contrast to the government-wide statements, the fund statements report a combined fund balance at year end of \$24,589,371.
- Eddy County has no General Obligation Bond indebtedness.
- Undesignated cash reserves remain in excess of \$6,000,000.
- Current Gross Receipts Tax indebtedness includes:
 - Jail Bonds – P&I of \$2,095,780.
 - Fire Excise Bonds – P&I of \$786,375.
 - NM Finance Authority Loan for Courthouse – P&I of \$2,556,270.
- Oil & Gas production and equipment taxes were up 8.3% at \$8,585,208 for 2004.
- Payment In Lieu of Taxes for federal lands payment was up 2.8% at \$1,841,789 for 2004.
- Gross Receipts Taxes were up 10.5% at \$5,197,756 for 2004.
- Overall expenditures increased 8.6%.
- Overall fund balance showed an 11.9% increase for 2004.

Of the County's total assets of \$67,831,889, the largest components are: (1) cash and investments of \$22,051,648 or 32.5%, and (2) capital assets net of accumulated depreciation of \$42,208,709 or 62.2%.

The County's net assets for fiscal year ended June 30, 2003 and 2004 are summarized as follows:

	Governmental Activities	
	2003	2004
Current and other assets	\$22,295,038	\$25,623,180
Capital assets (net of depreciation)	<u>41,974,991</u>	<u>42,208,709</u>
Total assets	64,270,029	67,831,889
Net assets:		
Invested in capital assets, net of related debt	29,414,192	37,066,641
Restricted	10,903,852	10,812,115
Unrestricted	<u>13,987,206</u>	<u>11,955,441</u>
Total net assets	\$54,305,250	59,834,197

MAJOR REVENUE FUNDS
(Reflected in thousands of dollars)

Fund	2002	2003	2004
General Fund	\$12,987	\$13,958	\$15,098
Road Fund	* 4,416	3,191	3,273
Environmental Services	723	713	748
Indigent Fund	1,494	1,500	1,644
Fire Excise Fund	682	625	793
Capital Improvements Fund	744	1,317	1,180

EXPLANATION OF MAJOR REVENUE FUND DIFFERENCES

General Fund – the increase in the general fund revenue from 2002 to 2004 is attributed to an increase in Oil & Gas Production taxes collected.

*Road Fund – the decrease in road fund revenue from 2002 to 2003 is attributed to receipt of two Payments in Lieu of Taxes distributions in fiscal year 2002.

Environmental Services – The gross receipts revenue has turned around over the past year showing an increase from 2003 to 2004. This is due mainly to increased activity in the oil and gas industry.

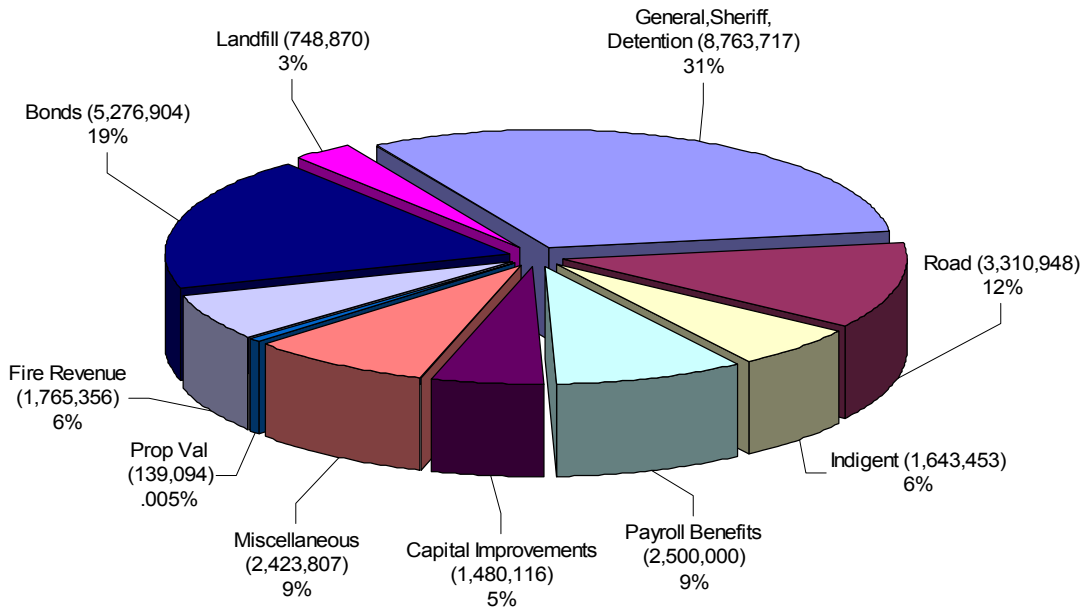
Indigent Fund – this fund is supported mainly through county wide gross receipts taxes which have shown a trend of increases due to oil and gas activity.

Fire Excise – The gross receipts revenue has turned around over the past year showing an increase from 2003 to 2004. This is due mainly to increased activity in the oil and gas industry.

Capital Improvements – This decrease is due to revenues being directed to other funds. The main revenue source for this fund is gross receipts tax.

MAJOR REVENUE SOURCES
(reflected in thousands of dollars)

Source	2002	2003	2004
Property Taxes	\$4,537	\$4,595	\$4,803
Oil & Gas Production	5,205	6,590	7,515
Oil & Gas Equipment	1,271	1,281	1,068
Interest on Investments	367	311	235
PILT	*3,048	1,790	1,841
Indigent GRT	1,475	1,486	1,635
Environmental GRT	587	559	642
Fire Excise GRT	682	626	793



EXPLANATION OF MAJOR REVENUE SOURCES

Property Taxes (residential & non-residential) – the increase in property taxes is attributed to an increase in the overall property valuation. The county property tax rate has remained at 7.5 for over 16 years. Any deviation from that collection rate is determined by a state yield control formula which may reduce the collection rate on residential property.

Oil & Gas Production – the increase in Oil and Gas production is attributed to higher crude oil and natural gas prices.

Oil & Gas Equipment – this funding source showed a slight decrease over last year, and is attributed to taxes levied on equipment located in Eddy County at the end of the calendar year.

Interest on Investments – the decrease in revenue from investments is attributed to the sluggish economy and struggling market. All investments are in bank certificates of deposit or the State of New Mexico Investment Pool.

*PILT – Payment in Lieu of Taxes is a distribution made by the federal government for Bureau of Land Management properties located in Eddy County. The major difference in receipts from 2002 to 2003 reflects two payments received in FY2002. Based on actual budgeted receipts, FY2002 should have reflected receipts of \$1,489 and FY2003 receipts of \$1,559 which would represent a 4.5% increase. The \$1,790 reflected as 2003 receipts was intended for FY2004, with \$1,841 received at the end of the 2004 fiscal year.

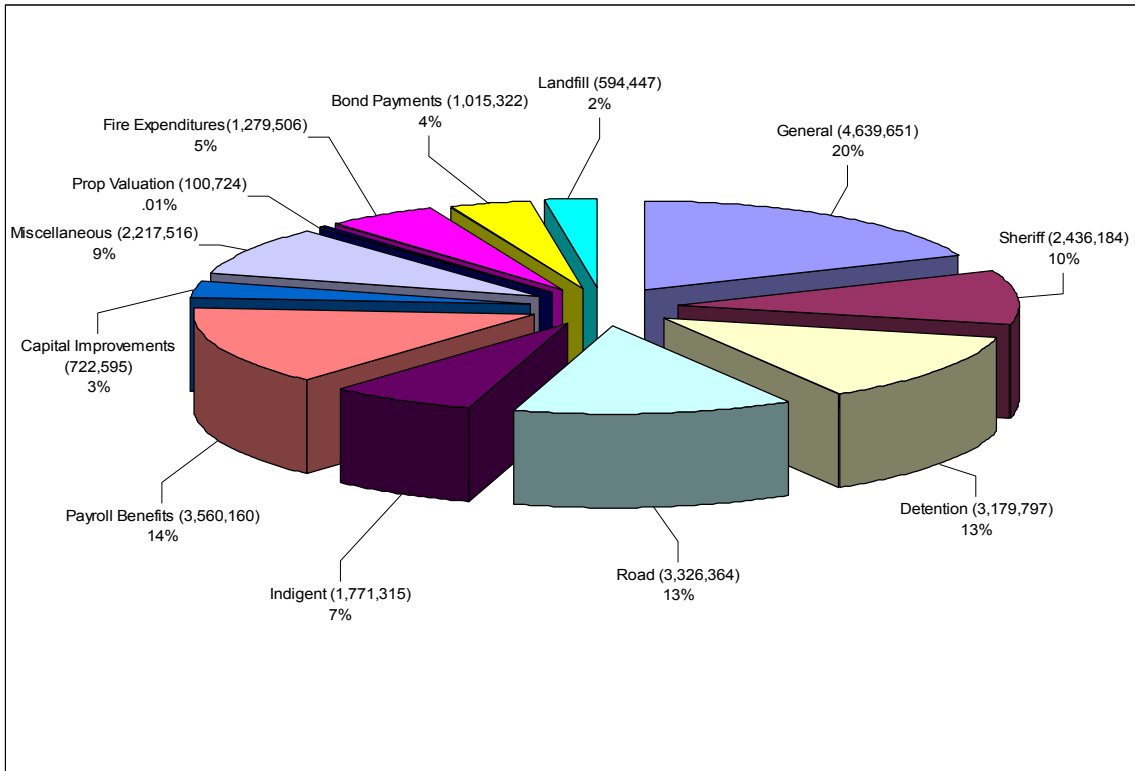
Indigent, Environmental Services and Fire Excise Gross Receipts Taxes – These taxes have turned around mainly due to increased activity in the oil and gas industry.

CASH BALANCES ON JUNE 30

2002	2003	2004
\$17,864	\$18,790	\$21,337

MAJOR EXPENDITURE FUNDS
(reflected in thousands of dollars)

Fund	2002	2003	2004
General Fund	\$8,019	\$8,774	\$9,661
Road Fund	2,225	2,424	3,222
Environmental Services	635	649	594
Indigent	1,136	1,290	1,665
Fire Excise	309	573	344
Capital Improvements	1,231	777	286



EDDY COUNTY DEMOGRAPHICS

Census Population

1900 - 963 / 1990 - 48,646 / 2000 - 51,658

County Classification

Class "B" (pop. < 100,000) **"Over"** (> \$300,000,000 in valuation)
 2002 Valuation - \$1,703,172,149 2003 Valuation - \$1,737,463,068
 Increase of 2%

Land Area

4,182 sq. miles

Property Ownership

60% Federal/20% State/2% Local/18% private

County Road Miles Maintained

1,292

2003-2004 Expenditures

\$24,843,580

Municipalities

Carlsbad, Artesia, Loving, Hope

HISTORY AND OPERATION OF EDDY COUNTY NEW MEXICO

Eddy County was established in 1889 when Lincoln County split into Lincoln, Chaves and Eddy Counties. At that time its boundaries went from the Texas State Line to the South, to the Texas State Line to the East. Eddy County is now one of 33 counties in the state of New Mexico and encompasses approximately **4,200 square miles** of surface area.

There are four incorporated municipalities within Eddy County: Carlsbad, Artesia, Hope and Loving. There are also numerous rural communities such as Otis, Malaga, Happy Valley, Cottonwood, Atoka and Riverside. There are over 30 rural water cooperatives in Eddy County, none of which are controlled by the county.

The county is headed up by five elected county commissioners, who appoint a county manager to run the day-to-day affairs of the County. There are also five other elected positions, the Clerk, Treasurer, Assessor, Sheriff and Probate Judge, who are responsible for the statutory duties of their respective offices and act as department heads for those departments.

Eddy County is statutorily responsible for housing various state agencies which include the District Court, District Attorney, Juvenile Probation and Parole Office and two County Health Offices.

Eddy County maintains approximately **246 full time positioned employees**, and an additional 17 part-time or temporary employees in 24 departments.

County governments historically receive most of their operating funds through Ad Valorem or “property” taxes. Of the 4,200 square miles in Eddy County, only 18% is privately owned and subject to property tax. 22% is controlled by the State and Local Government and about 60% controlled by federal agencies such as the Bureau of Land Management, Bureau of Reclamation, National Park Service, Department of Energy and the U. S. Forrest Service.

The County Road Department maintains approximately **1300 miles of county roads**, along with signage and vector control throughout the county.

Eddy County is classified as a Class “B Over” county, which means it has a population of under 100,000 with property values over \$300,000,000. The county’s net taxable value for 2002 was \$1.7 billion, which generates about \$4.6 million in revenue for the county. We continue to maintain the lowest mil rate in the state.

Other major sources of revenue include Oil & Gas production taxes, which generated about \$8.5 million this year, Gross Receipts taxes, which generate about \$5.2 million, and Payment In Lieu of Taxes (PILT) from the federal government which generated just over \$1.8 million. We also receive gasoline taxes, motor vehicle taxes, state fire funds along with various grants and reimbursements.

Eddy County ran a 2002/2003 **general fund budget** of approximately **\$17,000,000**. With special funds such as the Eagle Draw Flood District, 12 Volunteer Fire Departments, DWI and Drug programs and Artesia Motor Vehicle Department, the **total operating budget** is around **\$24.8 million**. There are over 50 funds administered by Eddy County.

EDDY COUNTY DEPARTMENTS & SERVICES

COUNTY COMMISSION AND ADMINISTRATION

The County Commission sets the policy by which the county operates through resolutions and ordinances. The Commission serves as the County Finance Board as well as the Indigent Hospital Claims Board. Commissioners are elected by district for four-year terms and are limited to two consecutive terms. They appoint a County Manager who oversees the day to day activities of the county, which includes the county budget, human resources, building maintenance, accounts payable and grant programs.

COUNTY ASSESSOR

The Assessor’s office is run by the elected County Assessor, whose duties include the proper assessment of all property subject to valuation for taxation purposes within the county.

COUNTY CLERK

The Clerk’s office is run by the elected County Clerk, whose duties include acting as ex-officio clerk to the County Commission, recording and filing of official documents in the county, keeping historic records of the county, issuing marriage licenses, and is responsible for the partisan election process within Eddy County.

COUNTY SHERIFF

The elected County Sheriff is the principle preserver of the peace in the county. The sheriff and his deputies are empowered to suppress assaults, batteries, apprehend and

commit to jail all offenders violating statutes, ordinances and other laws. The sheriff is also responsible for serving and executing all processes, writs and other orders directed to him by the courts. The sheriff also provides for courthouse security.

COUNTY TREASURER

The elected County Treasurer is responsible for the supervision of all county moneys received and disbursed, regular accounts of all warrants drawn and paid, and serves ex-officio as the county tax collector. All fiscal activities with the county must be coordinated through the County Treasurer.

PROBATE JUDGE

The Probate Judge is elected countywide, and is required to hold court in the county seat. This is a part-time position of the county, and is elected for four-year terms.

ROAD DEPARTMENT

The County Road Department maintains approximately 1300 miles of county roads, along with keeping proper signs on these roads throughout the county. They also operate a vector control department to assist in the control of mosquitoes and other insects in the county.

DETENTION

Both the Adult and Juvenile Detention Centers are operated by the county, under the control of the County Commission. These facilities serve inmates who are awaiting trial, as well as those who have been sentenced for less than 365 days.

EMERGENCY PREPAREDNESS

The Emergency Preparedness office oversees the County Emergency Operations Plan for the entire county. He also provides supervision as the County Fire Marshall for the 12 volunteer departments located throughout the county.

SPECIAL SERVICES

The county also has several special services including our information systems department, Geographic Information System for updated county maps, rural addressing, planning & zoning, DWI programs as well as other special projects and services.

EDDY COUNTY MISSION STATEMENT

EXCELLENCE IN LEADERSHIP

QUALITY SERVICE

VISION

Eddy County continues to move forward as a leader in county government in New Mexico. As a class “B Over” county, we maintain one of the lowest property tax rates in the state, while maintaining a healthy, fiscally responsible operation.

This remodel of the Historic Eddy County Courthouse was made possible through a 1/8% Gross Receipts Tax voted on by the Citizens of Eddy County. The tax is being used to pay off bonds issued through the New Mexico Finance Authority. Once these bonds have been retired, the tax will sunset. Through a partnership with the Carlsbad Schools, a temporary location at the old Eisenhower School was arranged for the courts during the remodel.

The County Commission acquired the Eddy County Administration Complex at 101 W. Greene in 1998, showing their dedication to the stability of downtown Carlsbad, while securing land for the future needs of the county.

To avoid closure by the State of New Mexico, Eddy County took over the operation of the Artesia Motor Vehicle Office in 1999 in order to continue this vital service to the citizens of North Eddy County. Eddy County is the only county in New Mexico to operate an MVD field office.

Eddy County strives to work with the local municipalities to bring better services without duplication, where practical. We currently partner with the Cities of Carlsbad and Artesia on our fire and ambulance services as well as operating only one landfill in the county.

The County Commission and Elected Officials of Eddy County thank you for your trust and support as they serve you during their terms.

PHILOSOPHY

The Eddy County Commission has maintained a philosophy of progressive conservatism. While maintaining a property tax rate of 7.5 out of a possible 11.850, the commission strives to provide the best possible service at the lowest possible tax rate. As a service organization, a major percentage of the budget is dedicated to personnel expenses. Eddy County is constantly burdened with unfunded state and federal mandates, and strives to continue a high level of service with minimal growth in government.

Budget priorities in the near future include paying off the jail bonds with surplus cash balances, and paying off the NM Finance Authority loan on the courthouse renovation, which would cause the retirement of a 1/8th % county wide gross receipts tax and paying off the Fire Excise Tax Bonds.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, and investors, with a general overview of the County's finances, and to show the County's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Office of the County Manager, Eddy County Administration Complex, 101 W. Greene, Carlsbad, NM 88220, (505) 887-9511.