

**EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

This discussion and analysis of the County of Eddy's (County) financial performance provides and overview of the County's financial activities for the fiscal year ending June 30, 2005. 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 2005 by \$65,169,635 (net assets) for an increase of 9.0% over 2004. Of this amount, \$5,525,235 is restricted for specific purposes. As required by GASB 34, net assets also reflect \$43,297,430 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 \$24,158,389.
- Eddy County has no General Obligation Bond indebtedness.
- Undesignated cash reserves remain in excess of \$6,000,000.
- Oil & Gas production and equipment taxes were up 32.11% at \$11,454,129 for 2005.
- Payment In Lieu of Taxes for federal lands payment was up 2.2% at \$1,883,666 for 2005.
- Gross Receipts Taxes were up 26.9% at \$6,593,575 for 2005.
- Overall expenditures increased 11.3%.
- Overall fund balance showed an 8.96% increase for 2005.

Of the County's total assets of \$68,808,917, the largest components are: (1) cash and investments of \$21,851,780 or 31.8%, and (2) capital assets net of accumulated depreciation of \$43,658,370 or 63.4%.

The County's net assets for fiscal year ended June 30, 2004 and 2005 are summarized as follows:

Governmental Activities		
	2004	2005
Current and other assets	\$ 25,623,180	\$ 25,150,547
Capital assets (net of depreciation)	42,208,709	43,658,370
Total assets	67,831,889	68,808,917
Current liabilities	2,788,958	862,520
Long-term liabilities	5,232,320	2,776,762
Total liabilities	8,021,278	3,639,282
Net assets:		
Invested in capital assets, net of related debt	37,066,637	43,297,430
Restricted	10,812,115	5,525,235
Unrestricted	11,931,859	16,346,970
Total net assets	\$ 59,810,611	\$ 65,169,635

EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR REVENUE FUNDS
(Reflected in thousands of dollars)

Fund	2003	2004	2005
General Fund	\$ 13,958	\$ 15,098	\$ 1,478
Road Fund	3,191	3,273	1,478
Environmental Services	713	748	861
Indigent Fund	1,500	1,644	1,600
Fire Excise Fund	625	793	1,372
Capital Improvements Fund	1,317	1,180	1,018

EXPLANATION OF MAJOR REVENUE FUND DIFFERENCES

General Fund – the increase in the general fund revenue from 2004 to 2005 is attributed to an increase in Oil & Gas Production taxes collected.

*Road Fund – the decrease in road fund revenue from 2004 to 2005 is attributed to receipt of two Payments in Lieu of Taxes distributions in fiscal year 2004.

Environmental Services – The gross receipts revenue has turned around over the past year showing an increase from 2004 to 2005. 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 2004 to 2005. 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)

Fund	2003	2004	2005
Property Taxes	\$ 4,595	\$ 4,803	\$ 5,235
Oil and Gas Production	6,590	7,515	9,853
Oil and Gas Equipment	1,281	1,068	1,565
Interest on Investments	311	235	472
PILT	1,790	1,841	1,884
Indigent GRT	1,486	1,635	1,571
Environmental GRT	559	642	727
Fire Excise GRT	626	793	1,372

**EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

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

2003 2004 2005

\$18,790 \$21,337 \$21,851

**MAJOR EXPENDITURE FUNDS
(Reflected in thousands of dollars)**

Fund	<u>2003</u>	<u>2004</u>	<u>2005</u>
General Fund	\$ 8,774	\$ 9,661	\$ 3,125
Road Fund	2,424	3,222	3,125
Environmental Services	649	594	1,180
Indigent Fund	1,290	1,665	2,464
Fire Excise Fund	573	344	614
Capital Improvements Fund	777	286	281

EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS

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

2004-2005 Expenditures

\$26,620,579

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%

**EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

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 2004/2005 general fund budget of approximately \$18,216,201. 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 \$xx.x 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

**EDDY COUNTY
MANAGEMENT DISCUSSION AND ANALYSIS**

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
MANAGEMENT DISCUSSION AND ANALYSIS**

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.