

**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, 2006. 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 2006 by \$80,841,809 (net assets) for an increase of 24.0% over 2006. Of this amount, \$6,600,707 is restricted for specific purposes. As required by GASB 34, net assets also reflect \$50,621,235 that is invested in capital assets net of related debt.
- In contrast to the government-wide statements, the fund statements report a combined fund balance at year end of \$32,606,399.
- Eddy County has no General Obligation Bond indebtedness.
- Oil & Gas production and equipment taxes were up 9.2% at \$12,505,236 for 2006.
- Payment In Lieu of Taxes for federal lands payment was up 1.9% at \$1,918,813 for 2006.
- Gross Receipts Taxes were up 41.4% at \$9,324,877 for 2006.
- Overall expenditures decreased 3.6%.
- Overall fund balance showed a 35.7% increase for 2006.

Of the County's total assets of \$85,420,847, the largest components are: (1) cash and investments of \$29,308,679 or 34.3%, and (2) capital assets net of accumulated depreciation of \$50,945,509 or 59.6%.

The County's net assets for fiscal year ended June 30, 2005 and 2006 are summarized as follows:

Governmental Activities		
	2005	2006
Current and other assets	\$ 25,150,547	\$ 34,475,338
Capital assets (net of depreciation)	<u>43,658,370</u>	<u>50,945,509</u>
Total assets	68,808,917	85,420,847
Current liabilities	862,520	1,791,748
Long-term liabilities	<u>2,776,762</u>	<u>2,787,290</u>
Total liabilities	3,639,282	4,579,038
Net assets:		
Invested in capital assets, net of related debt	43,297,430	50,621,235
Restricted	5,525,235	6,600,707
Unrestricted	<u>16,346,970</u>	<u>23,619,867</u>
Total net assets	\$ <u>65,169,635</u>	\$ <u>80,841,809</u>

**EDDY COUNTY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

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

Fund	2004	2005	2006
General Fund	\$ 18,371	\$ 23,742	\$ 26,230
Environmental Services	748	861	1,463
Indigent Fund	1,644	1,600	2,792
Fire Excise Fund	793	1,372	2,495
Capital Improvements Fund	1,180	1,018	935

**EXPLANATION OF MAJOR REVENUE FUND DIFFERENCES**

General Fund – the increase in the general fund revenue from 2005 to 2006 is attributed to an increase in Gross receipts taxes collected.

Environmental Services – The gross receipts revenue has turned around over the past year showing an increase from 2005 to 2006. 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 2005 to 2006. 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)

	2004	2005	2006
Property Taxes	\$ 4,803	\$ 5,235	\$ 6,365
Oil and Gas Production	7,515	9,853	10,790
Oil and Gas Equipment	1,068	1,565	1,715
Interest on Investments	235	472	939
PILT	1,841	1,884	1,919
Indigent GRT	1,635	1,571	2,692
Environmental GRT	642	727	1,392
Fire Excise GRT	793	1,372	2,495

**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 increase 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 increase in revenue from investments is attributed to the increase in interest rates. 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.

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**

2004    2005    2006  
 \$21,337 \$21,851 \$29,309

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

Fund	2004	2005	2006
General Fund	\$ 12,883	\$ 21,069	\$ 19,482
Environmental Services	594	1,180	700
Indigent Fund	1,665	2,464	2,158
Fire Excise Fund	344	614	2,387
Capital Improvements Fund	286	281	362

**GENERAL FUND BUDGET VARIANCES**

The General Fund budgetary report shows the following significant variances between the final budget and the actual amounts:

There was a positive variance of approximately \$5.4 million in taxes revenues due primarily to increased oil and gas activity, and an increase in the gross receipts tax.

There is a negative variance of \$9.2 million for interfund transfers due to the fact that the transfers out were not entered into the fund budget for the year.

**EDDY COUNTY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

**CAPITAL ASSETS ACTIVITY**

A summary of capital assets and changes occurring during the year ended June 30, 2006 follows. Land is not subject to depreciation.

	Balance (As Adjusted) See Note 13 June 30, 2005	Additions	Retirements	Balance June 30, 2006
Capital assets not being depreciated:				
Land	\$ 3,475,618	\$ 42,396	\$ -	\$ 3,518,014
Construction in progress	<u>156,402</u>	<u>847,074</u>	<u>156,402</u>	<u>847,074</u>
Total capital assets not being depreciated	<u>3,632,020</u>	<u>889,470</u>	<u>156,402</u>	<u>4,365,088</u>
Capital assets being depreciated:				
Landfill	686,696	-	-	686,696
Buildings and building improvements	23,001,589	1,249,326	-	24,250,915
Infrastructure	26,286,056	882,816	147,252	27,021,620
Equipment & furnishings	<u>18,305,691</u>	<u>2,636,281</u>	<u>332,707</u>	<u>20,609,265</u>
Total capital assets being depreciated	<u>68,280,032</u>	<u>4,768,423</u>	<u>479,959</u>	<u>72,568,496</u>
Less accumulated depreciation for:				
Buildings and building improvements	6,072,081	676,780	-	6,748,861
Infrastructure	7,451,316	1,075,643	50,066	8,476,893
Equipment & furnishings	<u>9,294,629</u>	<u>1,649,870</u>	<u>182,178</u>	<u>10,762,321</u>
Total accumulated depreciation	<u>22,818,026</u>	<u>3,402,293</u>	<u>232,244</u>	<u>25,988,075</u>
Total capital assets being depreciated, net	<u>45,462,006</u>	<u>1,366,130</u>	<u>247,715</u>	<u>46,580,421</u>
Governmental activities capital assets, net	<u>\$ 49,094,026</u>	<u>\$ 2,255,600</u>	<u>\$ 404,117</u>	<u>\$ 50,945,509</u>

The major activities in capital assets for the year were construction of new fire stations, purchase of fire trucks, and improvements to the roads infrastructure system.

**EDDY COUNTY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

**EDDY COUNTY DEMOGRAPHICS**

Census Population

1900 - 963 / 1990 - 48,646 / 2000 - 51,658/ 2005 – 51,437 (estimated)

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

\$28,102,994

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 \$10.8 million this year, Gross Receipts taxes, which generate about \$6.4 million, and Payment In Lieu of Taxes (PILT) from the federal government which generated just over \$1.9 million. We also receive gasoline taxes, motor vehicle taxes, state fire funds along with various grants and reimbursements.

Eddy County ran a 2005/2006 general fund budget of approximately \$19,352,904. 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 \$29.4 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.

**EDDY COUNTY  
MANAGEMENT DISCUSSION AND ANALYSIS**

**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.

The 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.

**EDDY COUNTY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

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 1/8<sup>th</sup> % 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.