

City of Rio Rancho FY2014 Mid-year Budget Review Executive Summary

ECONOMIC OVERVIEW

The mid-year budget review provides the City with an opportunity to adjust the fiscal year budget for changes in projected revenue and expenditure levels that may have occurred since initial adoption. Those changes are contained in this document which is divided into five sections: Executive Summary, Summary Information, General Fund, Special Funds, and Enterprise Funds. The General Fund, Special Funds, and Enterprise Funds sections contain detailed justification for each recommended change.

The Fiscal Year 2014 mid-year budget has relatively insignificant adjustments, reflecting an economy that is continuing to struggle through a recovery that is not as strong as most had hoped it would be. While the U.S. housing recovery seems to be building momentum, overall economic activity, including manufacturing and job growth have continued to show persistent weakness.

Labor markets still continue to underachieve, undercutting the hopes that jobs would begin to be added at a more rapid pace. The national and regional unemployment rates continue to inch down, with the New Mexico unemployment rate falling from a high of 8.0 percent in 2010 to 6.4 percent currently. Similarly, the Albuquerque metro area unemployment rate has fallen to 6.3 percent from 6.5 percent a year earlier. However, until this point, all declines in New Mexico's unemployment rate were associated with reductions in labor force participation.

The housing market continues to show signs of improvement. According to the US Census Bureau estimates, new home sales through November are up 16.6 percent compared to one year ago and the median new home price in November was \$270,900; the average sales price was \$340,300. The seasonally adjusted estimate of new houses for sale at the end of November was 167,000. This represents a supply of 4.3 months at the current sales rate. Similar to the national outlook, the housing sector represents the brightest spot in recent economic data in Rio Rancho. There were 479 housing permits, year to date through December, which, while still below the long-term historical average, is 15 percent higher compared to the same period in 2012. Foreclosures have fallen from the peak seen in 2009 and are 12 percent lower year to date versus 2012. This improvement in the housing market has translated to moderate increases in the estimated construction-related revenues for the City.

GENERAL FUND

General Fund Revenues: In total, I am recommending a net revenue decrease of \$241,021, a 0.5 percent decrease incorporating adjustments to the following revenues:

Property Tax Revenue: An increase of \$235,494 or 1.8 percent in Property Tax Revenue is recommended based on the property tax certificate received from the Sandoval County in September.

Gross Receipts Taxes Revenue: An increase of \$76,067 or 0.3 percent in Gross Receipts Tax (GRT) Revenue is based on the actual debt service requirements being less for the police vehicles and fire truck loans.

Franchise Fees: A decrease of \$248,428 is proposed. The largest portion of the proposed change is PNM electric franchise fees with a decrease of \$138,372 resulting from overestimating the impact of electric franchise fees as the past summer weather impacted the collections.

Licenses and Permits Revenue: A net decrease of \$31,000 is being recommended. The largest portion is related to paving cuts which is based upon the year to date variances and trend analysis.

Grant Revenue: An increase of \$20,191 in Grant Revenue is recommended, including \$11,324 in Workforce Investment Act funds from Workforce Solutions for customized employee training, \$665 in additional Emergency Management Program funds, and \$8,202 for public safety for funds received for federally funded overtime expenditures.

State Shared Tax Revenue: An increase of \$3,000 in Auto License Revenue is recommended based on the year to date variances and trend analysis.

General Government Revenue: A net decrease of \$14,254 in General Government Revenues is recommended, which includes decreases in various construction-related fees.

Public Safety: A net decrease in \$156,037 or 6.1 percent in Public Safety Revenues is recommended, including a decrease for Red Light Camera Revenue (\$210,837) attributed to a backlog of citations reviewed (2,174 citations dated back to November) year to date and new City personnel reviewing citations with a reduced amount of knowledge; small increases in other public safety revenues to include animal control, code enforcement, and ambulance fees.

Culture and Recreation Revenues: An adjustment of \$18,400, or 1.9 percent in Culture and Recreation Revenues resulting from higher year to date user fee revenues across various programs.

Fines and Forfeiture Revenue: A net decrease of \$115,000 or 8.0 percent in Fines and Forfeiture Revenue is recommended stemming primarily from a year to date decrease in various court related fines and pass through revenues. Citation activity and arrests are higher year to date; however, more citizens are being sentenced to community service than paying fines.

Miscellaneous Revenue: A total net decrease of \$29,454 or 3.5 percent is being recommended. Of this amount \$110,546 stems from various small miscellaneous revenue increases and decreases. \$140,000 of the total Miscellaneous Revenue is primarily due to a reduction in a one-time revenue estimate that the City for the purpose of the sale of land and the HP employment agreement. The outcomes of these transactions have yet to be finalized and are recommended for removal from the budget.

General Fund Expenditures: In total, I am recommending a net expenditure increase of \$50,311, a 0.1 percent increase incorporating adjustments to the following expenditures:

Personal Services: The net increase to the General Fund Personal Services budget is \$182,560, or 0.4 percent which is primarily associated with a new activity change for a Deputy Director position to the Human Resources Department. This request will bring the staff level up to an adequate functioning level that will improve accuracy, efficiencies, and service and will provide opportunities to improve processes and better serve City employees. Also, an increase in unemployment insurance (\$82,533) is due to an increase in unemployment adjusted claims being collected from the 3rd quarter of 2010 and fiscal year 2011 and 2012.

Materials & Services: The net decrease of \$130,180 includes various increases and decreases. Some of the significant changes are:

- A net increase to various utility expenditures for city facilities totaling \$33,834. An increase in the water/sewer expenditures make up the single largest increase (\$51,335) due to drier than normal conditions and the increased water rates. Insurance is the second largest increase (\$33,367) based on year to date activity. Electric expenditures (-\$76,186) also make up a significant portion, while other utility expenditures (\$25,318) make up the rest of the overall increase.
- An increase in the Parks, Recreation, and Community Services (\$53,000) for the preparation of a federally mandated ADA Transition Plan.
- An increase in the Streets and Right of Way contract services, and fleet maintenance, and lease and rentals (\$83,000) for the purpose of soil stabilization testing, repair and maintenance to a front end loader, and the lease of a road grader until the new grader is purchased.

General Fund Transfer to Other Funds: Total transfers out net to \$257,093 which includes \$328,078 to the Computer/Software Fund. This increase is due to significant cost savings in telephone maintenance and telephone lease equipment contracts that were re-negotiated. These savings will enable the City to upgrade a variety of computer and software equipment for the entire City. \$72,280 of savings comes from the Pork n Brew event and an unfilled vacancy in the Promotions and Marketing Fund. The remaining transfer of \$1,295 is a prior year correction of revenue received for the Gang Task Force Fund.

General Fund Ending Fund Balance: Total Ending Fund Balance is decreasing by \$529,275 from the adjusted budget which reduces the overall reserve level to 13.4

percent, and 1.6 percent below the City's Reserve Policy (15 percent). The City is still above the minimum 8.3 percent reserve required by the State.

SPECIAL FUNDS

The following list of funds includes the most significant adjustments:

Recreation Activities Fund (#206): Decrease in revenues by \$19,281 due to lower than anticipated softball tournament revenue. Decrease expenditures on various items including softball tournament expenditures and the cost of the Sabana Grande sign was lower than anticipated. The Fund has an increase in capital park improvements, which include the Little League Rio Rancho Sports Complex improvements and the Star Heights Playground. The decrease in the unreserved ending fund balance in the amount of \$16,575 is being requested to fund a portion of the increased expenditures. The remainder of the expenditure adjustments is being funded with the increased revenues.

Workers Compensation Fund (#212): Increase in expenditures is due to the prior year workers compensation audit by the New Mexico Self Insurers Fund (NMSIF), which was \$24,972 more than anticipated.

Rio Metro Fund (#213): Gasoline expenditures are being increased by \$10,508, which is being offset by revenue that is reimbursed by the Mid-Region Council of Governments (MRCOG).

Library Bond Fund (#220): Increase in revenue in the amount of \$10,279 from the State of New Mexico for the recognition of the FY14 State Aid Grant. The changes in expenditures are to reflect the expenditures related to the State Aid Grant that needs to be expended prior to June 30, 2014.

Promotion and Marketing Fund (#224): Decrease in transfers from the General Fund to account for savings from the FY13 Pork and Brew event (\$29,619), salary savings from a vacant position (\$17,661), and an expenditure reduction for the FY14 Pork and Brew event (\$25,000). Related expenditures to the Pork and Brew event and the reduction of the ending fund balance offset the revenue decrease.

Fire Protection Fund (#250): Decrease in total revenues by \$16,436, primarily due to actual revenue received for state grants. Correction to various expenditures shows increases and decreases to reflect the decrease in revenue.

Federal Grants Fund (#259): Increase and decrease in revenues net to \$9,557 based on the final "TraCS" grant award and a new grant award from the US Marshal Service. Various expenditures associated with the project are offset by the additional revenue at the same amount.

Environmental Gross Receipts Tax (GRT) Fund (#260): Increase in expenditures in the amount of \$16,695 related to the new Affordable Care Act and PERA benefit

requirements. These related expenditures are match requirements for the New Mexico Clean and Beautiful grant funds related to solid waste program staff.

Municipal Road Fund (#270): Increase in revenue net amount of \$634,000 primarily related to the acceptance of the New Mexico Finance Authority (NMFA) loan proceeds (\$684,000) for the purchase of Public Works Heavy Equipment and a decrease in municipal gasoline tax based on year to date variance and trend analysis. Various expenditures associated with the fund are offset by the additional revenue at the same amount.

Recreation Development Fund (#310): Increase in revenues to reflect the acceptance of a state appropriation grant award in the amount of \$482,926 for the purpose of the “A Park Above” project. Expenditures associated with the project are offset by the additional revenue at the same amount.

Computer Software Replacement Fund (#311): Increase in transfers in the amount of \$328,078 from the General Fund, due to cost savings associated with telephone maintenance and telephone lease equipment. These savings will help enhance new computer and software technology and will serve to augment capabilities of the City’s new email system. Expenditures associated with this transfer are offset by the additional revenue at the same amount.

Equipment Replacement Fund (#312): Increase in revenue in the amount of \$1,346,284 to reflect the acceptance of NMFA loan proceeds for the Fire Truck and Police Vehicles Loans. Expenditures related to the two loans are recognized, as well as, a decrease in capital expenditures based off actual amount required to purchase an ambulance.

City Facility Improvement Fund (#313): Increase capital projects, related to the replacement of 2 HVAC units at the Motor Vehicle Department building. The HVAC currently in use is outdated and experiences continuous disruption in service. The Ending Fund Balance will be reduced by \$10,757.

State Appropriation Capital Fund (#315): A net increase in revenue in the amount of \$581,945 is primarily due to the acceptance of two grants from Aging and Long-term Services Department for Meadowlark Senior Center building code compliance and parking lot renovations and the purchase and installation of meal equipment. Various expenditures associated with the grant are offset by the additional revenue at the same amount.

Summary of Impact Fee Funds: All Impact Fee Funds display an increase in assessments based on a change in the estimate for single family permits from 375 to 500. This increase in revenue is being allocated to the Ending Fund Balance and Administrative Costs. Listed below are the various fund adjustments:

- Road Impact Fee Fund (#351): An increase of \$47,051.
- Bikeway and Trail Impact Fee Fund (#252): An increase of \$1,679.

- Parks Impact Fee Fund (#353): An increase of \$21,995.
- Public Safety Impact Fee Fund (#354): An increase of \$29,624.
- Drainage Impact Fee Fund (#355): An increase of \$61,358.

Public Safety (PS) Vehicle Loan Fund (#428): A net decrease of \$72,351 in Gross Receipts Tax (GRT) Revenue is based on the actual debt service requirements being less for the police vehicles and fire truck loans.

Health Self Insurance Fund (#750): An increase in expenditures in the amount of \$66,000 for administrative fees, the Stop/Loss Premium, and claims is based off the year to date average. The reserve fund balance is being reduced from the associated change.

WATER AND WASTEWATER UTILITY

Utility Fund Revenues: I am recommending a net decrease of \$720,000. Water Revenue Commercial and Commercial Irrigation both show a correction in the projection as the numbers were transposed. Also, there is a decrease in Water Revenue Industrial of \$1,400,000 due to a large reduction in consumption from the prior year for this class and an increase in Water Revenue City Irrigation of \$680,000 to reflect a correction from the original forecast.

Utility Fund Expenditures: The significant recommendations for expenditures are focused on the following:

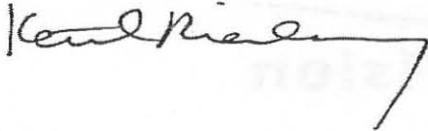
- Increase transfer to Water Capital (Fund 540) \$2,438,060 for the construction of an additional tank in Enchanted Hills West. An additional tank is needed at this site in order to drain and properly repair the present water tank. These tanks service the northwest section of the City.
- Contract Services increased \$150,000 for contracting an independent consultant to evaluate, bid, and review the Water and Wastewater operations contract. This cost estimate is based on the City's past experience with engineering proposals.
- A decrease in electric services of \$320,350 is based on year to date variance and trend analysis.
- An increase in Water Rights Acquisition fees of \$420,000 are based on year to date variances and the associated expenditures related to this fee are used to purchase water rights to satisfy the Office of the State Engineer permit requirements.
- All Impact Fee Funds display an increase in assessments based on a change in the estimate for single family permits from 375 to 500. This increase in revenue is being allocated to the Ending Fund Balance and Administrative Costs. Listed below are the various enterprise fund adjustments:
 - Water Impact Fee Fund (#545): An increase of \$133,839.
 - Wastewater Impact Fee Fund (#555): An increase of \$15,801.

Utility Fund Ending Fund Balance (EFB): The City's Utility has an "Unreserved" balance of \$8,525,494 to deal with the unanticipated expenditures that can occur with the operation of a Water and Wastewater Utility and to maintain debt service coverage.

Additionally, as part of our FY14 work plan, staff is working on a Utility Fund analysis, including liquidity analysis relative to the RedOak study and the bond rating agency targets, debt coverage ratio analysis, and to update the 5-year planning as part of the annual budget. Benefits of this type of ongoing annual long-term planning and monitoring is that it helps answer funding questions, helps to monitor how the City is doing relative to the study recommendations, and the rating agencies also look favorably at this type of self-monitoring and reporting.

In summary, signs of economic recovery can be seen in the City's mid-year budget, though areas of weakness are also still impacting the City's finances. The City will continue to maintain a sustainable budget by focusing on the long-term outlook. We will do this by continuing to implement cost savings measures and focusing on increasing revenues through retail recruitment, economic base job recruitment, shop local initiatives, and enhanced revenue collections.

Thank you.

A handwritten signature in black ink, appearing to read "Keith Riesberg". The signature is written in a cursive style and is positioned above the printed name.

Keith J. Riesberg, City Manager

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