



August 2018

Dear Citizens:

I respectfully transmit the budget for the City of Rio Rancho for July 1, 2018 through June 30, 2019 (Fiscal Year 2019). It is an honor and privilege to be the Mayor of a City that has been recognized nationally as a best place to live.

No increases to water/wastewater rates are once again incorporated into this year's budget. At the same time, existing resources continue to be used to systematically replace aging and leaking water lines. Public safety continues to be a top priority with more than 50 percent of the budget going to fund police, fire, and emergency medical services.

The Fiscal Year 2019 Budget is very much a reflection of State government actions over the past 15 years. As a result of exempting food and some medical services from gross receipts taxation, and then phasing out distributions to cities that were originally intended to hold them harmless from this lost revenue, Rio Rancho local government has been left with limited options. Either raise taxes using new rates created by State government (which has no voter approval component) to maintain public service levels or cut services (e.g., police, fire, parks, libraries, road maintenance, etc.). As part of this budget, the Governing Body implemented a portion (1/8th of 1%) of the new gross receipt taxes created by State government to offset lost revenue (more than \$1 million next year and growing in subsequent years) caused by State government. This translates to an additional 13 cents on a \$100 purchase. This tax will go into effect on January 1, 2019.

While I am not generally a proponent of raising taxes, the facts are these: (1) Rio Rancho has not raised gross receipts taxes since 2011; (2) Rio Rancho's tax rate will remain lower than Albuquerque; (3) Rio Rancho has delayed adjusting tax rates to make up for lost revenues caused by State government longer than many (37 local and county governments have already raised taxes); and (4) Rio Rancho will continue to be the leanest in terms of staff size and operations in comparison to similar-sized cities.

I want to again thank voters for their overwhelming support (78 percent) of the March 2018 Road General Obligation Bond question for \$10 million. A majority of the road work scheduled to take place in the Fiscal Year 2019 Budget stems from approval of this bond question.

Rio Rancho voters also deserve recognition and gratitude for their approval (73 percent) of a \$4.1 million Public Safety General Obligation Bond in March 2018. Using this funding source, the Fiscal Year 2019 Budget reflects acquisition and much needed replacement of approximately 50 Police Vehicles, one Fire Ladder Truck, one Fire Engine, one Fire Water/Pumper Truck, one Ambulance, and equipment.

Your Rio Rancho civil servants are the best and hardest working in the State, and in many cases have individual workloads that, in other places, are spread among more than one person. I make this statement in reference to all personnel – police, firefighters, EMTs, dispatchers, road workers, librarians, engineers, customer service representatives, clerical support, recreation specialists, land planners, accountants, IT professionals, and management. As an example, for every 1,000 residents in Rio Rancho, there are approximately six City employees serving needs. In both larger and smaller cities in New Mexico, you will find more than 10 employees per 1,000 residents.

Local government's most valuable resource - the providers of the public services we all rely on and that help form our quality of life - is its workforce. If we want to do all that we can to keep the current talented employees in place, we must pay a competitive wage in relation to the market, and this means regularly adjusting compensation rates for all employees. As such, a 1 percent increase for employee compensation is included in the Fiscal Year 2019 Budget for retention and cost of living purposes, as well as funding to implement year two of a Fire and Rescue Department Career Progression Plan.

The City estimates that General Fund reserves will exceed the State of New Mexico requirement of 1/12th (8.3 percent) of expenditures and end the year at 15 percent, which is also the City's policy target. It is also extremely positive that the City's current projections for Fiscal Years 2020-2023 are at the 15 percent threshold as well. Having these reserves is not only a best practice, but also necessary due to the somewhat volatile nature of the City's main revenue source, gross receipts tax. As we know, unexpected emergencies can be costly and maintaining healthy fund balances gives the City flexibility and capacity to address these situations.

On behalf of the entire Governing Body and the employees of the City of Rio Rancho, I thank all residents and community stakeholders for supporting our great City. Despite new and historical challenges, Rio Rancho remains the best and safest City in the State, and progress is being made. This is a product of the people that call Rio Rancho home that have chosen, for example, to make investments in their roads, water infrastructure, public safety, and quality of life amenities.

Sincerely,

A handwritten signature in dark ink, appearing to read "G. D. Hull", written in a cursive style.

Greggory D. Hull, Mayor



September 28, 2018

Keith J. Riesberg
City Manager

The Honorable Mayor Gregory D. Hull
City of Rio Rancho
3200 Civic Center Circle NE
Rio Rancho, New Mexico 87144-4501

Dear Mayor Hull:

Presented within this document is the final budget for fiscal year 2019 as approved by the Governing Body on July 25, 2018. The FY 2019 Final Budget is a balanced budget and furthers the strategic goals outlined in the City's Strategic Plan. Based on this budget, we project a balanced five-year General Fund financial plan. This reflects the City's continued efforts to achieve a sustainable long-term budget. Recurring revenues are projected to exceed recurring expenditures in each of the next five years and the ending fund balance is projected to meet or exceed the City's 15% target for the same period.

As noted in previous fiscal years, the City's revenue growth has not been sufficient to meet the City's funding demands. The FY 2019 Final Budget reflects a reduction of \$1.1 million in revenue due to the phasing out of the hold harmless distribution (compensation to make up for the lack of gross receipts tax applied to the sale of food and some medical services) from the State, now in its fourth year of a 15-year phase-out plan. Cumulatively the phase-out of the hold harmless distribution will have taken more than \$2.6 million from the City's General Fund through the end of FY 2019. As a result, departmental needs continue to exceed what can be addressed with current resources. This has required allocating the City's limited resources in the most efficient and strategic way possible. City employees continue to look for ways to limit expenditures and to achieve operational efficiencies where possible.

In order to accomplish operational efficiencies, the City has adopted the priority based budget approach. As part of this effort, the City has inventoried all of the services provided to the community and internally, allocated costs associated with providing those services, and ranked all services based on the 2017 Strategic Plan. By doing so, the City's scarce resources can be budgeted based on service priorities and their contribution toward accomplishing the strategic planning goals and strategies. The priority based budget approach ensures greater transparency and informed funding decisions.

Local Economy and Revenues

The US economy is improving and New Mexico's economy is following this trend due to a booming oil and gas industry. With unprecedented levels of investment in this sector it seems that the expansion will continue in the coming years. Albuquerque, the center of the New Mexico economy, is experiencing broad-based growth. Although New Mexico still has among

the highest unemployment rates in the nation, the latest data indicates solid job growth with an unemployment rate that has dipped below 5.0%.

New Mexico's economy still faces significant challenges. Cuts to federal Medicaid transfers has led to reductions in the healthcare industry and forced the State to cover \$80 million in lost payments. While the expansion of the oil and gas sector as well as increases in the mining and construction sectors is adding jobs, and the high-wage professional and technical services sector is expected to continue to expand, sustained employment growth in New Mexico is expected to rely the two largest sectors in the economy: the healthcare and leisure and hospitality sectors.

Housing markets are strong with 9,109 homes sold in the second quarter of 2018. This is up 50.4% from a year ago. The strength of sales across all regions of the state has pushed the median values up by 6.5%, exceeding \$200,000 for the first time. This uptick in sales has led to increases in homebuilding with 2,860 permits issued in the first half of 2018, a 22.1% increase from a year ago. The University of New Mexico, Bureau of Business and Economic Research (BBER) is forecasting a continued expansion of homebuilding in the second half of 2018 and in 2019.

Based on the latest BBER job forecast, the number of jobs statewide is expected to increase by 9,635 or 1.2% in 2018, and 10,250 jobs in 2019, however this growth is not expected to lead to substantially higher wages until 2019. In the final quarter of 2017 the state of New Mexico created 5,500 jobs, according to the Bureau of Labor Statistics (BLS) Quarterly Census of Employment and Wages (QCEW), this performance was the strongest since the third quarter of 2015. BBER estimates the state's employment will increase 1.1% for the first half of 2018. Employment growth has been strongest in non-metro areas, including the oil patch, as well as in Albuquerque.

The Albuquerque MSA marks the 21st consecutive quarter of positive job growth adding 3,188 jobs or 0.9%. Ten private sector industries added jobs in the calendar year 2017 including construction (8.8%), administrative and waste services (5.5%), and professional and technical services (3.5%) totaling 4,129 new jobs for these sectors. The other sectors with job gains were accommodation and food services, real estate rental and leasing, management of companies and enterprises, mining and agriculture, transportation, warehousing and utilities and other services.

Seven private sector industries lost jobs year-over-year in the fourth quarter; chief among these is the information sector. For the sixth consecutive quarter, the retail trade sector lost jobs in the Albuquerque MSA. This is consistent with the national trend of losing jobs in this sector as individuals increasingly shift their purchases online. The healthcare and social assistance sector marked the first losses for this sector since early 2001. Also losing jobs are educational services, wholesale trade, and arts, entertainment and recreation. Finally, the public sector also shed jobs in all levels. Local government declined by -0.8%, state government by -0.9%, and the federal government by -0.7%.

For calendar year 2018, BBER projects that the Albuquerque MSA will add 5,005 jobs, a 1.3% increase for the year. Fourteen private sector industries are projected to add jobs. Leading the gains will be construction (5.2%), professional and technical services (3.2%), accommodation

and food services (1.6%), healthcare and social assistance (1.1%), administrative and waste services (1.7%), and transportation, warehousing & utilities (3.0%). Information, which contracted in 2016 and 2017, should bounce back in 2018 increasing 4.1%

In the longer term from 2018 to 2023, BBER forecasts that Albuquerque MSA will add 25,833 jobs for an average annual growth rate of 1.4%, private and government sector.

Over the past year, recently located employers continued to grow and hire in the City of Rio Rancho. The City has expanded its efforts to create additional jobs and prosperity through entrepreneur and small business support programs and initiatives, which lead to future job creation and increased gross receipts tax revenue. Redevelopment has started in some key areas/buildings in the City and is expected to continue through 2018, bringing new entertainment, lifestyle amenities, and services to our residents. The Unser Gateway region continues to see commercial growth and investment with projects like Morningstar Senior Living and several others currently under construction.

Based on this economic outlook, FY 2019 General Fund revenue is expected to increase 2.4% compared to the FY 2018 adjusted budget. Future changes in annual General Fund revenue range from 4.3% in FY 2020 to 3.3% in FY 2023. The five-year plan reflects the continued phase-out of the hold harmless distribution, which the State began in FY 2016. In FY 2019, 24% of the hold harmless distribution will have been phased out. This percentage will increase incrementally by 6% annually until the hold harmless distribution is completely eliminated in FY 2030. The adverse financial impact of the phase-out in FY 2019 will be approximately \$1.1 million. By FY 2023, the impact will reach approximately \$2.8 million. By FY 2030, at full phase-out, the effect will be an estimated \$8.0 million loss in gross receipts tax revenue to the City.

State law allows municipalities to impose up to three additional 1/8th of one percent gross receipts tax increments (essentially 1/8th of one penny on each dollar of goods sold), the Hold Harmless Gross Receipts Tax (HHGRT), without voter approval to make up for the phase-out of hold harmless funds. Imposing the first 1/8th of one percent increment would generate approximately \$1.1 million each fiscal year. Because the annual amount of revenue lost due to the hold harmless distribution phase-out approximately equals the amount of revenue to be generated by the first 1/8th HHGRT increment, the FY 2019 budget includes adoption of the first 1/8th HHGRT increment. This new tax will take effect on January 1, 2019, generating an additional \$387,000 for the General Fund in FY 2019.

Absorbing the phase-out of the hold harmless distribution without generating offsetting revenues adversely impacts the City's ability to provide services to our citizens. At full phase-out of the hold harmless distribution, the revenues received by imposing the permitted three 1/8th HHGRT increments would generate an estimated \$5.8 million to offset the \$8.0 million taken away by the State. The City needs to be aware of this dynamic as it will impact the ability to meet future operational needs of the City.

The FY19 Budget continues the City's commitment to attracting new growth and investment into Rio Rancho. The proposed budget maintains the \$200,000 allocation to Sandoval Economic

Alliance and the funding of internal staff positions critical to advancing these efforts. However, it must be recognized that the City cannot grow at a sufficient rate to offset the loss of the hold harmless distribution revenue. For example, based on recent economic analysis information, it has been estimated that more than 85,000 square feet of new retail space locating to Rio Rancho in one year would be necessary to generate the associated gross receipts tax needed to offset the impact of the hold harmless distribution phase-out in FY19. Going forward, even more new retail space would be required annually to offset the annual hold harmless distribution phase-out impact with no reduction, even temporally, of existing space and businesses. As such, the City must begin implementing the available HHGRT increments or plan for curtailing services to our citizens.

Expenditure Highlights

Due to reductions in the gross receipts tax revenues during fiscal year 2018, City departments were instructed to reduce their budgets by 3% of their FY 2018 adopted levels, except as necessary to address the highest priority needs.

As reflected in the City's adopted Strategic Plan, public safety continues to be a priority of the budget, encompassing 49.8% of the General Fund expenditures (excluding transfers). The FY 2019 budget reflects the recent approval of the Public Safety General Obligation Bond, anticipating the acquisition of critical vehicles and equipment. Capital expenditures anticipated in the coming year include:

- Replacement of self-contained breathing apparatus for Fire Department personnel;
- New Communication Center software;
- More than 50 new police vehicles funded through a combination of general obligation bonds and automated traffic enforcement program revenues;
- An ambulance, a command vehicle, a ladder truck, an engine, and a pumper funded through a combination of general obligation bonds, State grants, and impact fee revenues.

The budget also provides initial funding for the Police Department to pursue the development of a Rio Rancho Police Academy. This endeavor – if successful and approved by the State – will allow Rio Rancho Police Cadets to attend a local academy as opposed to academies operated by the State, Bernalillo County or the City of Albuquerque.

The Budget continues the City's Strategic Plan goals to maintain infrastructure throughout Rio Rancho. The budget includes funding for the local street repair program (crack patching and sealing). Knowing the Governing Body's priority to address streets, equipment replacement and IT challenges, the submitted budget reinstates the funding cut from these funds during the FY 2018 midyear budget adjustments. These funds are critical to continuing the efforts of repairing local streets, replacing critical equipment for the Parks, Recreation and Community Services Department and implementing overdue IT initiatives. The budget also provides funding for the City's ongoing efforts to resolve ADA concerns throughout the City. This initiative is critical to ensure ongoing access to critical funding sources.

Projects and initiatives anticipated to be undertaken in the coming fiscal year include:

- Completing the IT assessment and initiating plans to replace the City's antiquated financial software. Funding has also been provided for critical system replacements in key areas of City operations;
- Funding to assess storm sewer systems to ensure compliance with federal EPA mandates;
- Funding for the update of the City's comprehensive land use plan. The current plan (Vision 2020 Integrated Comprehensive Plan) was adopted in 2010 and must be updated to reflect current trends affecting Rio Rancho's growth and future;
- Funding for construction of additional parking adjacent to A Park Above. This project will replace the on-street parking on A Park Above Court. In addition to park use necessitating the creation of additional parking, the planned expansion of Wastewater Treatment Plant #6 creates the need to restrict the on-street parking at this location.

Importantly, the FY 2019 Budget includes 1% salary increases for all employee groups and funding for year two of the Fire Department's career progression plan however, it does not have changes in health insurance costs for our employees.

It must be recognized that allocation of funding for employees represented by collective bargaining agreements requires the negotiation and agreement by the unions. This can result in raises being allocated differently than originally anticipated by the Governing Body.

By year-end, anticipated revenues and the budgeted level of spending will create a reserve fund balance that exceeds 8.3% of expenditures, the level required by the State of New Mexico. The FY 2019 Budget anticipates total reserves of 15% of expenditures.

GENERAL FUND DETAILS

REVENUES: \$58,087,738

The City's single most important revenue source is the gross receipts tax. In FY 2019, the gross receipts tax revenue estimate of \$28,899,786 accounts for nearly 50% of the total General Fund operating revenues; this projection includes implementation of the proposed 1/8th of 1% HHGRT. In FY 2019, the recurring gross receipts tax distribution to the General Fund is projected to increase by approximately \$698,882 or 2.0% from FY 2018 actual levels (net of the reduction in the hold harmless distribution); \$387,000 of this increase comes from the proposed additional 1/8th increment of gross receipts tax which will take effect on January 1, 2019.

Property tax revenue, the second-largest revenue source, is projected to be \$16,013,908. This is an estimated increase of 1.0%, or \$137,770, from FY 2018 actual levels. The property tax revenue forecast utilizes the yield control formula established by State statute. The FY 2019 revenue estimate incorporates housing permit data and known non-residential construction activity, as well as an inflation factor of 1.0%.

The FY19 Budget anticipates receiving one-time revenues from a special fund. This revenue comes from allocating past years rent and facility expenses to the Communication Center Fund.

These one-time revenues total \$430,200. In addition, there is a one-time transfer from the GO bond construction fund 331 (\$3,234,913). This transfer will reimburse the General Fund for project expenditures which were made prior to bond issuance in August, 2018 in order for the projects to move forward as quickly as possible.

In total, General Fund budgeted operational revenues for FY 2019 are projected to increase by \$690,074 or 1.0% compared to FY 2018 actual revenues.

EXPENDITURES: \$54,706,668

Total General Fund expenditures are projected to increase by \$958,339 or -1.8%. This increase resulted from increases in the Personal Services and Materials and Services portions of the budget as discussed below.

Personal Services: \$42,890,164

Personal Services expenditures account for 78% of the General Fund operating budget. The Budget includes a 1% salary increase for all employee groups and funding for year two of the Fire Department's career progression plan. The FY 2019 Budget does not create any new positions in the General Fund, or in any other fund.

The City continues to plan for an increasing number of retirements. The FY 2019 Budget includes \$392,411 to cover estimated cash payouts and terminal leave costs for eligible employees based on recent trends. Salary savings continue to be factored into the budget based on the historical average vacancy rate for all City positions.

Material and Services: \$11,619,182

The Budget reflects overall reductions or flat budgets in various spending areas including contracts, supplies, and conference, travel, and training. Overall, Materials and Services expenditures in FY 2019 are projected to increase by \$510,513 or 5.0%. Reductions in various cost center expenses are offset by adding funding for the following activities:

- Comprehensive Plan Development (\$140,000)
- Stormwater Management Plan (\$40,000)
- Contract services for maintenance of street medians (\$151,653)
- Median landscape materials (\$54,811)
- Development of standard specifications for structures (\$44,306)

Capital Outlay: \$197,322

The Budget includes a small General Fund investment in capital equipment (outside of the voter-approved Public Safety Bond). This funding provides for replacement of equipment for the Parks, Recreation and Community Services Department and the Fire and Rescue Department. Many other important capital needs have been deferred until sufficient funding becomes

available. Some of these capital needs and special projects may be funded from savings and excess revenues realized in FY 2018.

TRANSFERS TO SPECIAL FUNDS: \$5,476,587

Transfers provide General Fund support to other funds for various activities, as indicated below:

Multi-Purpose Event Center Fund: \$1,007,980

This transfer includes the operating subsidy provided by the General Fund for the Santa Ana Star Center.

Promotion and Marketing Fund: \$126,802

This transfer is made to provide funding for special events managed by the Convention and Visitors Bureau, including the City's annual Pork and Brew event. This fund also supports the business recruitment efforts of the Mayor and Economic Development & Business Relations Manager.

Infrastructure Fund: \$961,239

Sources of this fund are grants for road construction and transfers from the General Fund for grants matches required for road rehabilitation. The purpose of the transfer of \$961,239 is: (1) to restore funding cut by the FY 2018 midyear budget adjustments (\$191,866); (2) to fund a study of the direct outfalls to the Rio Grande River of the Rio Rancho storm sewer system (\$160,000); (3) to design and construct a shed structure to store the salt and cinder pile that is utilized during snow storm events (\$130,000), and (4) an additional \$479,373 will be transferred to this fund allocating this source into the reserves for future road improvement. This allocation comes from the positive FY 2018 revenue variance of \$684,819, 70% of which is distributed to this fund pursuant Resolution 50-2016.

Computer Replacement Fund: \$980,286

This transfer is made to set aside sources for planned replacement of equipment (\$160,710), to partially replenish reductions made to the fund by the FY 2018 midyear budget cut (\$251,094), and increase reserves to replace the financial software system which will improve operational efficiencies (\$100,000). In addition, \$68,482 or 10% was allocated from the positive FY 2018 revenue variance of \$684,819 and distributed pursuant resolution 50-2016, and \$400,000 of the FY 2018 positive expenditure variance, these additional sources will be use to replace the City's financial software.

Equipment Replacement Fund: \$136,964

This transfer is originated from the 20% of the positive FY 2018 revenue variance of \$684,816 pursuant resolution 50-2016; these sources will be reserved for further equipment needs.

Local Government Correction Fund: \$246,000

This transfer is made to pay for the City's cost to house prisoners at the Sandoval County Detention Center not covered by the correctional fees levied through the Municipal Court.

Regional Emergency Communication Center: \$1,770,367

This transfer represents the City's share of the costs of the Regional Emergency Communication Center.

Rio Vision Cable Fund: \$6,812

This transfer will subsidize activities of the fund due to a shortfall in available franchise fee revenues.

Recreation Development Fund: \$24,797

This transfer is to fund A Park Above parking lot improvements.

City Facilities Improvement Replacement Fund: \$180,903

This transfer is to fund City building safety enhancements (\$129,814) and to make repairs to the Loma Colorado Library roof.

Transfers to Other Funds: \$34,437

This transfer is for several funds: Library Fund 220, to offset expenditures that are not reimbursable by the grant (\$23,952); to balance and close the New Mexico Gang Task Force Fund 245 (\$593); a match required for the new VAWA grant (\$5,793); and to roll over grants match balances (\$4,099) for Crime Victims Assistance Fund 376.

ENDING FUND BALANCE: \$8,215,858

The General Fund Reserved Ending Fund Balance is projected to be \$4,558,889, which reflects the State's reserve requirement of 8.3% of General Fund expenditures. The Unreserved Ending Fund Balance, which represents additional fund balance above the State minimum, is projected to be \$3,656,969, for a total Ending Fund Balance of \$8,215,858 or 15% of expenditures.

SPECIAL FUNDS

Special funds are established to account for revenue sources that are restricted to specific functions or projects. A complete list of these activities can be found in the Special Funds section of the FY2019 Budget. Following is a list of significant special fund activities:

Promotions and Marketing Fund

This fund primarily supports the Pork and Brew community event scheduled around the Fourth of July weekend. Expenditures for this event are budgeted at \$139,000, with revenues projected at \$70,500 and a direct General Fund subsidy of \$68,500. This fund also supports the City's internal efforts for business recruitment and attraction.

Local Government Correction Fund

Fees are received for guilty pleas at the Municipal Court and are budgeted at approximately \$220,000. Expenditures from this fund pay for housing prisoners at the Sandoval County Detention Center, the total cost of which is projected to be \$498,572. This activity requires a transfer from the General Fund of \$246,000 and use of fund balance to cover the difference. Sandoval County has recently increased the daily charges for housing prisoners at their detention center. Staff will be exploring options for offsetting this additional expense.

Law Enforcement Fund

Projected resources from a State grant pursuant to the Law Enforcement Protection Fund Act total \$100,800. Funds will be used to purchase supplies and minor equipment in support of law enforcement activities.

Police Miscellaneous Revenues Fund

This fund includes revenues from automated traffic enforcement fees to be used to fund police vehicles. In FY 2019, it will fund four police vehicles from fees that collected during FY 2018. FY 2019 projected revenues of \$175,000 reflect Police Department estimates of the automated traffic enforcement contract (8 mobile speed monitoring units). All fees collected from the automated traffic enforcement program will be used to fund new police vehicles.

Fire Protection Fund

Projected resources from a State grant pursuant to the Fire Protection Fund Act total \$768,708. Funds will be used for materials and services in support of fire protection activities, debt service on the City's 2007 and 2010 fire apparatus loans, and debt service on the City's 2013 fire administration building loan.

Environmental GRT Fund

This fund accounts for the Municipal Environmental Gross Receipts Tax revenues to be used for the acquisition, construction, operation, and maintenance of solid waste facilities or water/sewer systems. The budget of \$663,924 funds special waste collections (\$11,800) related to the operation of the City-County Recycling Center, which will be scaled back starting in FY 2019 as a result of Waste Management addressing household hazardous waste as part of their new franchise agreement, debt service (\$339,697) for a 2010 loan agreement to fund sewer infrastructure, and capital maintenance to water wells (\$300,000). The position currently funded by this GRT increment will be transferred to the General Fund in the coming fiscal year.

Higher Education GRT Fund

This fund accounts for Municipal Higher Education Gross Receipts Tax revenues to be used for: (1) the acquisition, construction, renovation or improvement of facilities of a four-year post-secondary public education institution located in the municipality and acquisition of or improvements to land for those facilities; or (2) payment of Municipal Higher Education Facilities Gross Receipts Tax Revenue Bonds. The FY 2019 Budget projects \$2,339,086 in revenues and anticipates an ending fund balance of \$10,313,601. In FY 2019, it is likely that utilization of this fund related to the construction of a Campus Park, the extension of Broadmoor Boulevard, storm drainage improvements and other infrastructure improvements will be sought.

Municipal Road Fund

This fund is supported by State-shared gasoline tax revenue, estimated at \$740,000 in FY 2019. The fund provides for road maintenance materials and repairs.

Infrastructure Fund

Sources of this fund are grants for road construction and transfer from the General Fund for grants match requires for road rehabilitation. The purpose of this transfer of \$481,866 is: (1) to restore funding cut by the FY 2018 midyear budget adjustments (\$191,866); (2) to fund a study of the direct outfalls to the Rio Grande River of the Rio Rancho storm sewer system (\$160,000); (3) to design and construct a shed structure to store the salt and cinder pile that is utilized during snow storm events (\$130,000), and (4) to transfer an additional \$479,373 allocating this source into the reserves for future road improvement; this allocation comes from the positive FY 2018 revenue variance of \$684,819, 70% of which is distributed to this fund pursuant Resolution 50-2016.

Recreation Development Fund

This fund accounts for a \$24,797 transfer from the General Fund to construct an additional parking lot for A Park Above. Constructing additional parking will allow for parking restrictions on A Park Above Court. These restrictions are needed to accommodate the expanded operations at WWTP #6.

Computer / Software Replacement Fund

Sources of this fund come from the General Fund to support technological initiatives. The transfer of \$511,804 will be used to: (1) replace computers and equipment that are on a five-year replacement schedule (\$160,710); (2) transfer of \$100,000 to increase reserves to replace the City's financial system; (3) partially transfer back \$251,094 in funding cut by the FY 2018 midyear budget adjustments, which will also be set aside for the financial system replacement; and (4) in addition 10% of the positive FY 2018 revenue variance of \$684,819 or \$68,482 will be distributed pursuant Resolution 50-2016, as well as \$400,000 from the FY18 General Fund positive expenditure variance. These additional sources will also be set aside to replace the City's financial software.

Equipment Replacement Fund

The City is funding three non-public safety vehicles using reserves in this fund in the current budget. In addition, 20% of the positive FY 2018 revenue variance of \$684,816 or \$136,964 will be distributed pursuant Resolution 50-2016. These sources will be reserved for future capital needs.

City Facility Improvement/Replacement Fund

Available resources total \$374,303, including cell tower revenues. Funds will be used for park improvements and ADA compliance, replacement of the Loma Colorado Library roof, and to enhance safety via security cameras at different City facilities.

Impact Fee – Road Fund

Based on 506 projected single-family starts in FY 2019, budgeted revenue is \$347,679. A portion of this revenue will be used for right-of-way land acquisition for Phase II of the Unser Boulevard widening project (\$101,124), and the balance will be reserved for future projects.

Impact Fee – Bikeway/Trails Fund

Based on 506 projected single-family starts in FY 2019, budgeted revenue is \$6,114. Impact fee revenue will be used for future projects.

Impact Fee – Parks Fund

Based on 506 projected single-family starts in FY 2019, budgeted revenue is \$103,089. Impact fee revenue and accumulated reserves will be used for Sports Complex North improvements totaling \$99,996, and \$100,203 for additional parking for the A Park Above.

Impact Fee – Public Safety

Based on 506 projected single-family starts in FY 2019, budgeted revenue is \$163,556. Impact fee revenue will be used to fund an ambulance for \$150,000.

Impact Fee – Drainage

Based on 506 projected single-family starts in FY 2019, budgeted revenue is \$158,137. Impact fee revenue will be used for future drainage projects.

WATER AND WASTEWATER UTILITY DETAILS

The Water and Wastewater Utility Enterprise provides service to more than 34,000 customers. Revenue to fund operations and capital investment is derived from the sale of water, wastewater, and recycled water services, impact fees, interest and other income. There is no scheduled rate increase in FY 2019 and modest growth in the number of accounts has been included in the projection of water and wastewater revenue. Calendar year 2017 consumption levels are utilized for projected metered use and the City does not anticipate large fluctuations from this baseline demand during the planning period from FY 2019 through FY 2023. A study of Utility rates and cost of service analysis has been completed, the results of which was presented to a work session of the Governing Body in June 2018. The earliest new rates would become effective is July 1, 2019.

Additional revenue from five scheduled rate increases from FY 2013 through FY 2017 has benefited the Utility Enterprise in several ways:

- Improved the financial solvency of the enterprise by ensuring adequate resources to fund rising operating expenses and to maintain the system in good working condition.
- Revised Standard and Poor's bond rating outlook from 'AA- negative' to 'AA- stable' in April 2014 based on improved financial performance. The City has maintained the stable outlook through the most recent bond issuance in September 2015.

- Maintained debt coverage ratios, and established necessary levels of operating and capital reserves.
- Provided funding for several important system maintenance and capital investment projects that are critical to sustain reliable water service delivery and wastewater collection and treatment, including but not limited to leaking waterline replacement, well rehabilitation and repair, Well 13 re-drill, Wastewater Treatment Plant 1 replacement and decommissioning, and recycled water infrastructure.

In FY 2019, the Utility will continue to fund the replacement of failing polyethylene water service lines installed in the 1980's throughout the city. Replacing these services lines will reduce the number of leaks thus saving water resources and recurring maintenance expenses. The Utility will also continue to make investments in well rehabilitation, the Geographic Information System (GIS), and will replace several water mains concurrent with road work related to the 2018 General Obligation Road Bond.

REVENUES: \$51,310,777

Total revenues in FY 2019 for the Utility Enterprise as a whole are projected to decrease by \$1,675,838, or 3% compared to FY 2018 actual results due to the following:

- Taken together, water and wastewater revenue is conservatively projected to increase \$564,000, or 1.2% compared to FY 2018 actual. The FY 2019 Final Budget incorporates a modest 1.5% growth rate for water and wastewater accounts consistent with recent past experience. Water consumption on the whole is anticipated to remain at or slightly above the calendar year 2017 level of 3.1 billion gallons.
- Intergovernmental revenue is expected to decrease by \$1,663,035. FY 2018 actual results included several state and federal grant awards rolled forward from prior years. The FY 2019 Final Budget does not include any new grant sources.

EXPENDITURES: \$52,816,042

Personal Services: \$2,089,716

The Personal Services budget for the Utility Enterprise is projected to increase by \$40,035, or 2% compared to FYv2018 actual. The Personal Services budget does not include additional personnel, nor does it include health and dental insurance premiums increase, however it does reflect an across-the-broad 1.0% salary increase. The increase reflects the net result of vacancy savings achieved in FY 2018 and any salary and benefit changes made on an individual basis before the FY 2019 personal budget projection was prepared. The Utility Enterprise will maintain its current 36 full-time equivalent employees in FY 2019.

Materials and Services: \$23,658,698

The Materials and Services budget for the Utility Enterprise is projected to increase by a net amount of \$1.4 million, or 6.3% compared to FY 2018 actual. The increase from FY 2018 actual expenditure levels are listed below:

- SCADA professional services for continued upgrade of the SCADA system including a vulnerability assessment.
- SCADA repair and maintenance for recurring instrumentation maintenance, network maintenance, and hardware replacement.
- Water Production professional services for general hydrology, water system engineering services, ground water modeling, and design of well rehabilitation projects.
- Water Production repair and maintenance services for system repairs.
- Water Production program supplies for water treatment chemicals, arsenic media, and various field and water facility supplies.
- Recycled Water professional services and contract services for quarterly and annual permit maintenance, well performance evaluation and assistance, and laboratory testing services.
- Recycled Water repair and maintenance for corrective and preventative maintenance to recycled water infrastructure.
- Recycled Water program supplies for treatment chemicals, safety equipment, and herbicides and pesticides.

Capital Outlay: \$12,466,018

Capital Outlay includes new and replacement vehicles and equipment, and infrastructure projects. A detailed list of equipment and projects can be found in the Capital Outlay section of the budget document. Funding for capital projects is provided through a combination of utility net operating revenues, water rights acquisition fees, water and wastewater impact fees, and loan/bond proceeds. New capital appropriations in FY 2019 include the following:

- Utility equipment for Customer Service, Water Production, and Wastewater divisions of the Utility Enterprise (\$257,357).
- Vehicles used for water, wastewater, and recycled water operations, including two replacement pick-up trucks, a replacement hydro excavator, a replacement dump trailer, and new compact excavator, light duty pick-up truck, and maintenance trailers (\$663,569).
- Water capital projects, including Well 10 Surge Tank, Well 9 Water Tank land acquisition and hydrology, Pressure Reducing Valve replacement, Well Site Security, Monitoring Wells, and Water Main Line Replacements (\$7,221,557).
- Purchase of water rights to satisfy Office of the State Engineer permit requirements (\$1,529,919).
- Water Impact Fees for Well 13 Re-drill construction (\$400,000). Project-to-date budget includes an additional \$3.5 million in other sources for the project.

- Wastewater capital projects, including Wastewater Treatment Plant 2 Ultraviolet Disinfection System Improvements, Lift Station 14.2 Odor Control, Wastewater Security Improvements, SCADA Improvements, and Wastewater Line Replacement (\$2,393,616).

Debt Service: \$14,601,610

The Utility Funds transfer for FY 2019 debt service includes payments for senior and subordinate debt from the Utility Operating Fund and for water rights acquisition loans from the Water Rights Acquisition Fund.

- Utility Operating Fund for Senior Debt: \$11,433,677
- Utility Operating Fund for Subordinate Debt: \$1,722,780
- Water Rights Acquisition Loans: \$1,445,153

ENDING FUND BALANCE: \$24,974,234

The Utility Enterprise Fund’s ending fund balance consists of debt service reserves (\$3,690,878), the Army Corp of Engineers reserve for unreimbursed grant funds (\$919,441), water and wastewater impact fees reserves (\$3,729,020), an operating reserve (\$13,559,538), and a capital reserve (\$3,075,357).

The operating reserve of \$13.6 million exceeds the minimum 60 days’ cash target reserve, while the capital reserve represents 1.0% of the total estimated value of capital assets. Both reserves were established pursuant to the financial planning benchmarks recommended in the 2012 Rate Study. The operating reserve has been allowed to grow as part of the plan to cash finance a substantial portion of the Utility Infrastructure and Capital Improvement Plan over the next five years.

Based on the estimated revenues and expenditures, the Utility Enterprise meets the minimum required debt service coverage ratio of 1.15 for parity bonds, with a projected coverage ratio of 2.18 for senior debt and 1.89 for senior and subordinate debt combined.

CONCLUSION

In summary, the FY 2019 Final Budget maintains funding for all City services and provides capital funding for certain needs. A 1% salary increase for employees and funding for year two of the Fire Department’s career progression plan however, no new positions were added in FY 2019. Further, the FY 2019 Final Budget reinstates transfers for street maintenance projects, equipment replacement and IT needs which were cut midyear in FY 2018.

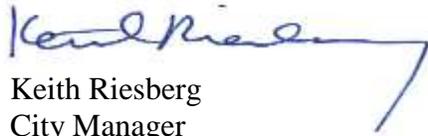
The FY 2019 Final Budget includes the implementation of the first 1/8th increment of HHGRT effective January 1, 2019 to offset some of the revenue lost (\$1.1 million in FY2019 alone) due to the phase-out of hold harmless distributions from the State. This HHGRT increment will

generate approximately \$387,000 in FY 2019. The real impact of implementing the 1/8th increment of HHGRT will be realized in FY 2020 when it is in place for a full year and estimated to generate \$1.1 million; however, the phase-out impact by FY 2020 will be \$1.4 million.

The passage of the two General Obligation Bond questions last March will provide financing for much needed road improvements and public safety vehicles, apparatus and equipment and is included in the Final Budget.

The last five years have been very financially challenging for the City. Management and staff will continue to work with the Governing Body over the coming years to continue to allocate scarce resources efficiently and strategically to provide the best level of services to our citizens possible.

Sincerely,

A handwritten signature in blue ink, appearing to read "Keith Riesberg", with a long horizontal stroke extending to the right.

Keith Riesberg
City Manager

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