# City of Rio Rancho FY2011 Mid-year Budget Review January 26, 2011 Executive Summary

**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 its 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, Specials Funds, and Enterprise Funds sections contain detailed justification for each recommended change.

The Fiscal Year 2011 mid-year budget is set in the context of an ongoing State and regional economic recession. After reaching a peak unemployment rate of 8.8 percent earlier this year, unemployment rates remain elevated at 8.5 percent. The depressed housing market has also weighed heavily on the City's overall fiscal health, with housing permit applications in 2010 falling 34 percent below the 2009 level to 455. This marks the second year on record where housing permit applications have fallen below the 500 level. Foreclosure activity in Rio Rancho also remains high, with the monthly average foreclosure filing at approximately 163 filings compared with 120 in 2009. Overall, gross receipts taxes are about three percent below the previous fiscal year, year to date, with construction and retail activity dragging overall receipts lower.

Despite the ongoing weakness in the employment and housing markets, the New Mexico employment picture has continued to show modest improvements and a slow recovery is expected to begin by early 2011. The latest outlook from the Bureau of Business and Economic Research describes the overall economic outlook as "lukewarm". They anticipate employment to post small gains in the fourth quarter of 2010 after eight quarters of recession (negative job growth). They are calling for overall job growth of a mere 0.6 percent in 2011 and do not expect growth to exceed 1.5 percent in any one year over the next five years.

The Governing Body took aggressive measures with the Fiscal Year 2011 budget, which has placed the City's overall Fiscal Year 2011 budget in fairly decent shape. The changes in the mid-year budget primarily deal with a hand full of revenue estimate adjustments that, for the most part, offset each other. Additionally, the practice of holding open all non-critical positions that become vacant throughout the year has helped to offset some unanticipated expenditures, such as utility cost increases.

There are a total of nine positions (8.5 FTE) that are being held vacant since the beginning of the fiscal year. The value of the vacant positions is approximately \$210,976. We will continue to monitor additional positions as they are vacated.

**General Fund Revenues:** In total, I am recommending a net revenue budget increase of \$1,135,664. This change incorporates adjustments to several revenues.

Gross Receipts Tax Revenue: The most significant revenue change is an increase of \$1,188,998 in Gross Receipts Tax (GRT) revenue. While the overall estimate for GRT is on track, the City received a reimbursement from the State Taxation and Revenue Department (TRD) for an amended tax return that was made in error, according to TRD staff. Aside from this one-time reimbursement, overall, weakness in the housing market has been offset by a few large commercial projects, namely, the two \$80 million hospitals under construction.

**Red Light Camera Revenue:** A delay in the start of the Red Light Camera program has caused an estimated \$525,000 shortfall in this revenue estimate.

**Property Tax Revenue**: An increase of \$203,303 in Property Tax revenue is based on the property tax certificate received from Sandoval County in September.

Ambulance Service Revenue: The total revenue estimate has been reduced by \$183,940 based on year to date activity. While service calls have been higher, customers and insurance companies are slower to pay and the overall collection rate has decreased due to the ongoing economic recession.

Court Fine Revenue: Based on year to date citation activity, the revenue for court fines has been reduced by \$166,880. According to the Police Department, traffic citations are down due to increased calls in other areas.

### **General Fund Expenditures:**

Personal Services: Approximately 77 positions were frozen prior to the beginning of the fiscal year. As noted above, an additional nine are being held vacant. For the remainder of the fiscal year, I will determine if additional vacant positions are to be filled as employees vacate positions.

Materials & Services: Departments reduced materials and services budgets significantly during the FY11 budget process. In this mid-year process Departments were asked to hold the line on the reductions already made.

#### General Fund Transfer to Other Funds:

- Increase transfer to Promotions Fund: City funding of \$79,613 required to allow current year expenditures for the Pork & Brew event which will take place this year on July 4, 2011.
- Increase transfer to Infrastructure Rehabilitation Fund for \$49,009 as a result of Governing Body members transferring discretionary funds to help employees with hospital co-pays under previous health plan. This is the unspent balance.
- Increase transfer to Fire Fund for \$38,125 for repayment of unallowable expenditures in prior grant year. To offset this transfer gasoline expenditure (which is an allowable expenditure) was moved from the General Fund to the Fire Fund.

 Decrease transfer to 2005 GRT Bond Construction Fund by \$11,253 due to arbitrage costs that were less than anticipated.

General Fund Ending Fund Balance (EFB): New Mexico law requires that a municipality hold a minimum fund balance equal to  $1/12^{th}$  or 8.33 percent of the operating budget. This required balanced is classified as "Reserved" EFB. The City is maintaining the required minimum and I recommend \$301,729 be maintained in the "Unreserved" balance to deal with unanticipated expenditures in the remainder of FY11 and continued revenue weakness expected in Fiscal Year 2012.

## Special Funds. The following list of funds include the most significant adjustments:

<u>Recreation Activities Fund (#206)</u>: Increase revenue, adjust expenditures, and reduce the ending fund balance to fund park improvements at Cabezon Park, Haynes Park and Sport Complex by \$80,000.

<u>Promotions Fund (#224):</u> Increase revenues and expenditures by \$95,863 to fund the Pork and Brew Program.

<u>Fire Fund (#250)</u>: Increase transfer from the General Fund to replenish this fund due to the City expending grant funds on unauthorized items by \$38,125. In order to compensate this transfer the gasoline expenses are being moved to this fund by the same amount.

<u>Municipal Road Fund (#270)</u>: Reduce the ending fund balance to offset the reduction of the revenue projection and increase supplies and minor furniture and equipment by \$30,750.

<u>Infrastructure Rehabilitation Fund (#307)</u>: There is a balance of \$49,009 in surplus funds related to the Employee Program to assist with hospital co-payments. This balance will be transferred back to the Governing Body discretionary funds.

2005 GRT Bond Construction Fund (#327): Decrease transfer from the General Fund by \$11,253 as the arbitrage cost was less than anticipated.

2009 GO Bond Construction Fund (#329): Increase transfer from Utilities Funds by \$629,071 to reimburse GO fund for utility related expenditures.

<u>Impact Fee Road Fund (#351)</u>: Increase revenues by \$250,370 due to increased commercial activity and increase Wells Springs Avenue Project by \$238,859.

<u>Impact Fee Bikeways/Trails Fund (#352)</u>: Increase revenues by \$12,144 due to increased commercial activity and increase Bosque Trail project by \$11,790.

Impact Fee Parks and Drainage Funds (#353 and #355): Decrease impact fee revenues and projects due to continued economic conditions affecting construction activity.

Impact Fee Public Safety Fund (#354): Increase revenues by \$383,365 due to increased commercial activity and increase expenditures to fund police patrol units by \$140,000.

## WATER AND WASTEWATER UTILITY

**Utility Fund Revenues:** I am recommending a decrease in interest revenue of \$19,000. This decrease is due to continued low interest rates.

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

- increase of \$25,000 for fleet maintenance
- increase PILOT (Payment In Lieu of Taxes) \$26,929 to recognize additional income derived from water and wastewater rate increase
- transfer \$66,583 to Debt Service to payoff a New Mexico Finance Authority loan used for engineering and construction of reuse monitoring wells
- transfer \$608,777 from the Water Capital Fund to repay the 2009 General Obligation Bond Fund for construction of water utility infrastructure improvements during road rehabilitation projects
- decrease water impact fee revenues (Fund 545) by \$106,529 based on development activity for the first five months of the fiscal year
- increase state grant/loan revenue and capital projects \$1,950,000 to recognize funds received from the New Mexico Finance Authority for the construction of an advanced water treatment facility for direction injection demonstration.
- decrease wastewater impact fee revenues (Fund 555) by \$118,312 based on development activity for the first five months of the fiscal year
- transfer \$20,294 from the 2008 Utility Bond Construction Fund to repay the 2009 General Obligation Bond Fund for construction of water utility infrastructure improvements during road rehabilitation projects.

Utility Fund Ending Fund Balance (EFB): The City's Utility has an "Unreserved" balance of \$495,773 to deal with the unanticipated expenditures that can occur with the operation of a Water and Wastewater Utility.

In summary, the local recession continues to weigh heavily on the City's fiscal situation. The recovery that was anticipated in the middle of 2010 has been pushed almost a year. Additionally, this recovery, defined by net job growth, is expected to be modest and slow moving. As such, the City will continue to have to face difficult budget decisions in the upcoming Fiscal Year 2012 budget process. I am confident that the decisions made in this Fiscal Year 2011 budget and those that will be made for the Fiscal Year 2012 budget will allow the City to emerge from this recession in a much stronger fiscal position so that it can continue addressing the ongoing critical needs of our growing community.

James C. Jimenez, City Manager