



August 1, 2013

Dear Citizens:

I respectfully transmit the budget for the City of Rio Rancho for the fiscal year July 1, 2013 through June 30, 2014. I write this letter with cautious optimism about the future of our community and our city government, as we finally move beyond the economic recession.

Employment levels in the metro area have stabilized and are now growing. The national, regional, and local housing markets have also stabilized and are showing signs of renewed strength. Over the last year, the city was selected by Stolar Research Corporation as the location for their new operations facility. The company was looking to expand and will be bringing a minimum of 25 jobs with an average salary of \$60,000. Other expansions have been announced, including Alliance Data, which notified the city that it is working toward a total Rio Rancho workforce of 700 from 250 currently. Lastly, Presbyterian announced its plans for a \$4.4 million clinic in the Enchanted Hills neighborhood that will provide 40 new jobs. The city continues to work with Intel to ensure that the New Mexico plant is selected for major expansion. Business is important to us, because businesses provide jobs and help us to grow and diversify our economy.

In the Fiscal Year 2014 Budget, city departments have come together to continue to operate as efficiently as possible and do more with less. As such, the budget includes additional funding for critical areas such as public safety, roads, and city employee compensation. I am proud to say that the city is strategically allocating limited resources for two new police officers and 22 new police vehicles, two new firefighters and a fire engine, among other public safety items. The budget also includes funding for the city's Geographic Information System (GIS), funds for pavement preservation, and funding for high priority streets and right of way heavy vehicles.

Over the next year, the city will be focused on determining appropriate levels of public safety

staffing. The budget includes \$90,000 for a police and a fire staffing study that will provide an objective analysis and assist with long-term planning to meet the future needs of the city. We estimate that the General Fund reserve fund balance will meet the 1/12th (approximately 8.33 percent) of expenditures, as required by the State of New Mexico, and provide a total ending fund balance of 15.0 percent, achieving the city's policy target. Having these reserves is not only a best practice, but is critical due to the somewhat volatile nature of the city's main revenue, the Gross Receipts Tax. As we know, unexpected emergencies or major changes in legislation (such as the hold harmless phase out beginning in two years) can be costly, and maintaining healthy fund balances gives the city flexibility and capacity to address these situations. Additionally, many funding needs cannot be met with current resources. As such, the city will need to remain vigilant with respect to maintaining city revenue levels and continue to evaluate policies that reduce or forgo those revenues, such as the impact fee moratorium.

In summary, the past five years have been fiscally challenging. However, this year, I believe that we are in a position to invest more in our most important assets, our employees, as well as our quality of life and other important areas of need such as our roads and the equipment needed to provide quality services to the public. By doing this, the city will be able to continue to address the strategic priorities of our community over the long term. I want to acknowledge all city staff for their tireless efforts to bring the best public services possible to the community residents. On behalf of the Rio Rancho Governing Body and the employees of the City of Rio Rancho, I thank all of the residents and community stakeholders for their support of our great city.

Sincerely,

A handwritten signature in cursive script that reads "Thomas E. Swisstack".

Thomas E. Swisstack, Mayor



August 12, 2013

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

Dear Mayor:

In compliance with the City Charter and applicable state statute, I am submitting the City Budget Adopted for Fiscal Year 2014 (FY14).

The Adopted FY14 Budget is a balanced budget and reflects the City's Strategic Goals related to Developing new and well-maintained infrastructure; Attracting and creating well-planned, stable, high quality development; Ensuring fiscal health is strong; Providing public safety services to ensure the safety and health of the community; Delivering quality government services; and Providing quality of life services to meet community needs. Based on the Adopted Budget, the City continues to project a balanced five year General Fund financial plan. In addition to a balanced budget, two additional milestones are expected to occur in Fiscal Year 2014, namely, recurring revenues are expected to exceed recurring expenditures and the ending fund balance is expected to achieve the City's 15 percent policy target. These major accomplishments reflect the City's continued efforts and commitment to achieving a sustainable long-term budget, as well as an improving economy.

The FY14 Adopted Budget reflects a local economy that is expected to slowly improve, digging itself out of negative job growth that has plagued the metro area over the last five years. Various signs suggest that the economy is continuing to recover, including a steadily declining unemployment rate, improving housing market indicators, and overall lower foreclosure activity in the area compared to recent years.

Unfortunately, the growth in revenues has not been strong enough to meet all of the funding needs of the City, including maintenance on roads, public safety staffing needs, and information technology upgrades. Accordingly, there continues to be more needs than can be addressed with current resources. This has meant tough budget decisions and allocating the limited resources in the most efficient and strategic way possible. City employees have continued to look for ways to reduce expenditures, including filling most positions at minimum salary levels, limiting travel and training, and refunding existing debt at lower interest rates. The City will save

approximately \$749,000 in FY14 through various Gross Receipts Tax, Joint Utility, and General Obligation bond refunding transactions, with higher annual savings in future years. Of this amount, \$535,000 in annual savings will be saved by the General Fund.

## **Local Economy and Revenues**

After five consecutive years of negative employment growth in the Albuquerque Metro Area, the Bureau of Business and Economic Research is forecasting positive job growth in 2013, albeit at a modest pace of 0.7 percent. Sectors leading the job growth include the healthcare and social assistance sector due to the Medicaid expansion signed by the Governor, the construction sector, as the housing market recovers, and the administrative services sector, as employers turn to temporary workers to fill vacancies. In 2012, the Albuquerque Metro area housing market showed signs of improvement, in line with the national trend. Rio Rancho 2012 housing permits, while still below long-term historical averages, increased 38 percent from 2011 and are 60 percent higher calendar year to date in 2013. Additionally, foreclosures have fallen from the peak seen in 2009 and were 18.5 percent lower in 2012 compared to 2011.

Labor markets continue to improve, albeit very slowly. The national and regional unemployment rates continue to inch down, with the metro area unemployment rate falling from a high of 8.3 percent in 2010 to 7.0 percent currently. The Bureau of Business and Economic Research expects employment growth to be slow in the metro area over the next five years, with employment expected grow 0.7 percent in 2013, and range between 0.7 percent and 1.6 percent over the five year period. Personal income growth is expected to range between 2.2 percent to 5.1 percent over the same period.

As a result of the economic outlook, General Fund revenue, as detailed below, is expected to grow 3.8 percent and grow between 1.9 to 4.9 percent through FY18.

## **Expenditure Highlights**

Overall, City Departments were instructed to keep their budgets at the Fiscal Year 2013 levels, except as necessary to address the highest priority needs. Based on the expenditure reductions and still modest revenue growth, the Adopted Budget includes additional funding for critical areas such as Public Safety, Roads, and City employee compensation. With respect to Public Safety, major budget items include loan funding for 20 new police vehicles with a 5-year plan to purchase a total of 96 vehicles. The budget also includes funding for one fire engine, two new police officers (with vehicles), two new firefighters, a new full-time records technician for the Police Department, a stryker gurney, and a cardiac defibrillator. With respect to Public Works activities, the budget includes funding for year two of five of the Citywide Graphical Information System (GIS) implementation, including a new GIS Database Administrator. It also includes \$200,000 for pavement preservation, loan funding for multiple high priority streets and right of way heavy vehicles, including an engineering bucket truck, a water truck, a crew truck, and a road grader, as well as a new full-time custodian position.

The Adopted Budget also incorporates \$650,000 to fund the recommendations of the

compensation study recently completed. In order for the City to maintain a consistently high level of service to its residents, particularly at minimum staffing levels, the City must assure that it can retain and attract quality, experienced and hard-working employees. This budget also includes \$90,000 to conduct both a police and a fire staffing study. These studies provide the City with an objective analysis of how we are currently using our resources and will provide a staffing plan to meet the needs of the City in future years. The studies will help demonstrate to the citizens how public safety needs should be addressed and where resources should be applied.

The Adopted Budget does not include any tax or fee increases. I note that the Budget does reflect revenue from the addition of two new mobile speed monitoring units.

### **General Fund**

#### **REVENUES: \$53,053,327**

Total General Fund budgeted revenues for FY14 (excluding transfers in from other funds) are projected to increase by 3.8 percent or \$1,965,715 compared to FY13 budgeted revenues. This increase is primarily attributed to increases in gross receipts tax revenues, property tax revenues, construction-related revenues, franchise fees, and public safety revenues. The beginning fund balance was \$9,285,164.

The City's single most important revenue source is the gross receipts tax (GRT). The GRT revenue estimate of \$24,841,348 (including recurring and non-recurring estimates) accounts for 47 percent of the total FY14 General Fund operating revenues. The GRT net distribution to the General Fund is projected to increase 2.4 percent from FY13, based on the May Bureau of Business and Economic Research forecast showing that the economy may have weathered the storm from the higher payroll taxes and federal budget cuts. In particular, recent strength in Metro Area residential permits is boosting BBER's construction outlook and consequently contributing to the stronger GRT revenue outlook. Lastly, annual budgetary savings associated with two GRT bond refunding transactions support the General Fund GRT revenue forecast.

Property tax revenue, the second-largest revenue source, is estimated to increase 3.2 percent from FY13 levels, with an estimated increase of \$414,332. The property tax revenue forecast utilizes the Yield Control Formula established by State Statute. The FY14 revenue estimate incorporates housing permits and known non-residential construction activity to establish the construction growth factor. The estimate assumes an inflation factor of two percent (based on Bureau of Economic Analysis data) for a total growth factor of 3.3 percent. This total growth factor is applied to the previous year tax effort (current taxes imposed).

Franchise fees, the third largest revenue source, are projected to increase by 7.4 percent or by \$266,631 over the current year. The majority of the anticipated increase relates to electricity revenue projections. Other major changes to revenue estimates include an increase in construction-related revenue, reflecting continued recovery in the housing construction sector and public safety revenues, based on year to date trends.

**TRANSFERS INTO GENERAL FUND: \$3,883**

Transfers from special funds to the General Fund support operating activities. The \$3,883 is made up of a \$2,500 transfer from a special fund to correct an accounting error, a \$300 annual transfer representing administrative fees related to donations from builders to the Rio Rancho Economic Development Fund, and other smaller transfers related to closed project balances.

**EXPENDITURES: \$ 52,764,110**

The Adopted Budget includes a decrease in General Fund expenditures of 1.1 percent.

**Personal Services: \$ 41,134,195**

Personal Services expenditures account for 78 percent of the General Fund operating budget. In the Adopted Budget, Personal Services expenditures increase 2.0 percent or approximately \$1 million. The increase reflects the addition of several new positions, including two police officers, two firefighters, a Police Department Records Technician, GIS Database Administrator, and a custodian. Additionally, as noted above, the Adopted Budget includes \$650,000 to fund the compensation study, which resulted in certain positions receiving a salary increase and other positions receiving no salary increase. Significant personnel savings continue to be factored into the budget based on the average vacancy rate for all City positions.

The City will continue to plan for an increasing number of retirees. The FY14 Adopted Budget includes an amount to cover the estimated cash payout or the cost of terminal leave for approximately 28 employees, based on the recent trends. However, this number is difficult to estimate due to service credits earned in other participating organizations.

**Material and Services: \$ 11,564,412**

Materials and Service expenditures decrease by \$1,216,149 or 9.5 percent compared to the FY13 budgeted expenditures. Of this amount, \$1,097,052 is due to a change in the budgeting for the Santa Ana Star Center General Fund subsidy, which will now be reflected as a transfer to the Multi-Purpose Event Center fund and budgeted within that fund. The Adopted Budget also continues to reflect overall reductions in various spending areas, including contracts, supplies, and conference, travel and training.

**Capital Outlay: \$65,503**

General Fund Capital Outlay includes funding for equipment associated with a pavement preservation project (\$30,000), transmission maintenance equipment (\$5,900), a Public Works printer (\$2,603), and a Cardiac Monitor/Defibrillator (\$27,000).

**TRANSFERS TO SPECIAL FUNDS: \$1,669,856**

Transfers provide General Fund dollars to special funds to support various activities such as:

Multi-Purpose Event Center Fund: \$1,097,052

This transfer includes the operating and capital subsidy provided by the General Fund for operating the city's event center, including \$100,000 for rigging safety lines.

Promotion and Marketing Fund: \$195,397

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.

Computer Replacement Fund: \$112,860

This transfer is made to fund the purchase of city-wide computers based on a prioritized need as determined by the Information Technology Department and to fund GIS computers.

Equipment Replacement Fund: \$145,226

This transfer will provide funding for two new police officer vehicles and to replenish a destroyed vehicle (\$112,726) and to fund a Code Enforcement Truck (\$14,500) and an Animal Control box (\$18,000).

Local Government Correction Fund: \$109,797

This transfer is made to pay for the City's cost of prisoners at the County detention center that are not covered by the correctional fees through the Court.

Conventions and Visitors Bureau: \$5,127

This transfer is made to fund the compensation study for employees in this fund.

Crime Victims Assistance Grant: \$4,397

This transfer is made to provide the required City matching funds for this grant.

**ENDING FUND BALANCE: \$7,908,408**

The Reserved General Fund Ending Fund Balance is \$4,397,009, which reflects the state reserve requirement of 8.3 percent of General Fund expenditures. The Unreserved Ending Fund Balance, or the additional fund balance above the State minimum, is \$3,511,398, for a total Ending Fund Balance of \$7,908,408 or 15.0 percent of expenditures. The Adopted Budget reflects an Ending Fund Balance that achieves the City's fifteen percent policy target, which is the first time this target has been met since 2007. By definition, the Ending Fund Balance builds up in good economic times, is drawn down in bad economic times.

**SPECIAL FUNDS:**

Special funds are established to account for revenue sources that fund particular functions or projects. A complete list of all special fund activities can be found in the Special Fund section. Following is a list of special funds that include significant activities:

### Recreation Activities Fund

This self-funding program provides for adult softball, adult recreation programs, classes, and van trips supported by revenues of \$307,549. The expenditures in this fund supports adult sports and produces sufficient revenues to fund two employees minimizing the General Fund subsidy to Adult Sports.

### Workers Compensation Fund

This fund is to account for revenues from other funds to fund workers compensation insurance and claims administered by the New Mexico Self Insurance Fund. The FY14 budgeted expenditures increased by \$302,410 due to an increase in outstanding claims and an increase in anticipated claims in FY14. The City continues to make safety training and awareness an important aspect of day to day operations in order to minimize injuries.

### Promotions and Marketing Fund

The sources for the FY14 revenue for this fund come from event income as well as the General Fund. Most of the Materials and Services budget is for the Pork and Brew community event scheduled this year during the Fourth of July weekend. Event expenditures decreased in FY13 by \$48,329 and actual revenues increase by \$22,041, resulting in a lower cost for the City compared to prior years. The final numbers are not yet available.

### Rio Vision Fund

The Rio Vision fund accounts for 40 percent of the total cable franchise fees received to operate and promote a government and education television channel. Funding for public access is funded through this fund. Franchise fee revenues have steadily decreased in this fund due to the increasing growth in satellite and dish competition. The projected reserves continue to decline and are at their lowest level, at \$727. In FY15, the City will need to reevaluate the service level, revenues and expenditures in this fund to maintain a balanced budget.

### Local Government Correction Fund

Correction fees are received for guilty pleas budgeted at approximately \$260,000. Expenditures from this fund are paid for prisoner care provided by Sandoval County, the cost of which increased over the last year. A transfer from the General Fund of \$109,797 is required to subsidize increasing prisoner costs of \$380,000.

### Fire Protection Fund

Revenues received from the state grant are pursuant to the Fire Protection Fund Law. The grant amount for FY14 is estimated to be \$649,308. Expenditures include fire station operating costs, fire apparatus and equipment, and a loan repayment.

### Summer Lunch Program

The U.S. Department of Agriculture's Summer Food Service Program administered by the New Mexico Children Youth and Families Department provides free, nutritious meals and snacks to help children in low-income areas get the nutrition they need throughout the summer months when they are out of school. The FY14 summer lunch grant is estimated at \$135,000.

#### Environmental GRT Fund

This fund accounts for gross receipts tax revenues restricted for the acquisition, construction, operation, and maintenance of solid waste facilities or water/sewer systems. The budget of \$651,590 is for special waste collection, loan payment, and water well repairs.

#### Higher Education GRT Revenue Fund

This fund accounts for municipal gross receipt tax revenues to be used for the acquisition, construction, renovation or improvement of a four-year post-secondary public education institution located in the municipality. Reserves of the fund are growing and are projected to be \$4,161,184 in FY14. On August 20, 2013, the Rio Rancho citizens will vote on whether to reduce this tax increment by one half from 0.25% to 0.125%.

#### Municipal Road Fund

This fund is supported by budgeted State gasoline tax revenue, estimated at \$594,000 in FY14. Actual revenue in FY13 increased compared to FY12 by \$90,696, which staff believes is attributed to a growing number of gas stations in Rio Rancho. The fund provides for road maintenance supplies and repairs. Projected expenditures in FY14 are \$605,000, which is \$108,574 more than actual expenditures in FY13. In addition, FY14 debt service is budgeted at \$123,005 for a NMFA loan to purchase heavy equipment needed to maintain City roads.

#### Computer / Software Replacement Fund

The available resources total \$112,860. \$100,000 will be used to purchase and update computers throughout the City and \$12,860 will be used to purchase GIS computers.

#### Equipment Replacement Fund

The available resources total \$157,245, which will be used to replenish the contingency for destroyed vehicles, a fund reserve of \$41,581, and to purchase two police patrol vehicle as part of the equipment needed for the two new police officers approved for FY14. A code enforcement truck and animal control box totaling \$115,664 will also be purchased.

#### City Facility Improvement\Replacement Fund

The available resources total \$90,522 and will be used for funding of an Animal Control natural gas line extension (\$41,100), which is expected to save around \$15,000 per year in propane for heating purposes in the animal shelters. Additionally, funding for the following Quantum Building projects is as follows: Vehicle storage fencing (\$9,950) and motor vehicle facility surveillance security cameras (\$15,000).

#### Impact Fee - Road Fund

Based on 400 projected single-family housing starts in FY14, budgeted revenue is \$53,856. Impact fee revenue will be used as a match for federal funds for the construction of Saratoga Road sidewalks.

#### Impact Fee - Parks Fund

Based on 400 projected single-family housing starts in FY14, budgeted revenue is \$25,177. Impact fee revenue will be used to make improvements to the Sports Complex Addition. An

amount of \$190,836 from the cash ending fund balance is programmed to be used to construct A Park Above.

#### Impact Fee - Public Safety

Based on 400 projected single-family housing starts in FY14, budgeted revenue is \$50,884. An amount of \$25,422 has been allocated to partially fund a Replacement Fire Engine.

#### Impact Fee - Drainage

Based on 400 projected single-family housing starts in FY14, budgeted revenue is \$44,680. Projects budgeted include Industrial Park East Drainage at NM 528. An amount of \$55,000 from the cash ending fund balance will also be used for City Center Drainage design.

### **Water and Wastewater Utility**

The Water and Wastewater Utility provides service to approximately 31,300 customers. Revenue to fund operations is derived from the sale of water and wastewater services. An increase of 7.8 percent will be effective July 1, 2013 and has been included in the projection of water and wastewater revenue. This increase is the second year of a five year rate increase passed by the Governing Body in January, 2013 based on recommendations from a rate study performed by Red Oak in 2011. The additional funding provided by the scheduled increases will not only fund increasing operational expenses but will also provide funding for capital expenditures needed to service the Utility's current customers and increase fund balances and debt coverage ratios, making the Utility a more financially solvent enterprise.

In FY14, the Utility will also begin a program to replace service lines throughout the City. The polyethylene service lines that were installed in the 1980's have been failing. Replacing these services lines will reduce the number of leaks thus saving water resources and recurring maintenance expenses. The Water and Wastewater Utility is continuing to assist with funding for the second year of a five year plan to expand and improve the Citywide GIS system. When the five year plan has been fully implemented the GIS system will provide support for economic development, lead to improvements in the quality of services provided to customers, and provide greater effectiveness in locating infrastructure for repair and maintenance, among other benefits.

#### **UTILITY REVENUES: \$40,595,509**

Revenues in FY14 are derived from water and wastewater sales, interest income and impact fees. An 11.9 percent or \$5,487,631 decrease in the total revenues is anticipated due to the revenue projections discussed below:

- The major contributing factor to the decline in total revenues in the Utility funds is a decline in State appropriations and grants, which decreased by \$9,700,270 from FY13. The total amount budgeted in FY13 included a roll forward of grant awards from and the Army Corps of Engineers for arsenic removal and the State of New Mexico for water and effluent infrastructure, while the final FY 14 budget does not.

- Offsetting this decline is an increase of 10.5 percent or \$4,238,852 anticipated in water and wastewater revenue as a result of the 7.8 percent increase in water and wastewater rates, as well as increases in the Utility customer base.
- Water and wastewater impact fees are projected to be \$151,581 in Fiscal Year 2014. The projection reflects a full year of the Impact Fee Moratorium effective September 22, 2012 through September 22, 2014. Under the moratorium, impact fees payable for residential construction are 50% of the amount(s) otherwise applicable, and for non-residential construction, impact fees payable are 0% of the amount(s) otherwise applicable.

**UTILITY PERSONAL SERVICES: \$1,850,571**

The Personal Services budget for the Utility increased by 2.6 percent or \$46,701. The major changes relate to funding half of the new GIS Database Administrator position and an increase to fund the Utility Fund portion of the compensation study. The Utility funds 33 full time employees.

**UTILITY MATERIALS & SERVICES: \$21,108,700**

The Materials and Services budget increased 3.2 percent or \$656,847 compared to FY13. This is primarily due to the service line replacement program, which represents \$419,000 of the increase. Additionally, a new accounting policy moved the expenditures of water meters for new meter installations and water meters used in the conversion from manual read to automatic read meters to Materials and Services from Capital Outlay.

**UTILITY CAPITAL OUTLAY: \$3,559,748**

Capital Outlay in the Utilities Fund contains items such as equipment and capital projects. A detailed list of equipment can be found in the Capital Outlay section of the budget document. Funding for capital projects is provided through a combination of Utility operational revenues, impact fees, grants, loan/bond proceeds, and Environmental Gross Receipts Tax revenue. In 2014 and 2015, the City will issue approximately \$40 million in Utility revenue bonds to fund various capital projects, including the drilling of a well, new pressure reducing valves, renovation of water storage tanks, water main replacement, retrofit of WWTP #1, Splitter Box and Lift Station 10 Relocation, Septic Dump Station, Sewer line Replacement, WWTP #2 warehouse and office improvements, Broadmoor/Chessman sewer line, and Industrial Park sewer line. Other capital projects being funded in FY14 include:

- Repair/rebuild infrastructure at the Wastewater Treatment plants is funded in the operations fund (\$903,779).
- Vehicles (\$802,903) used for water and wastewater operations are funded in the Utilities Vehicle Replacement fund.

- Funding in the Water Capital Fund (\$354,375) will be used for the repair and maintenance of the Utilities' wells. Maintenance of the wells is essential to ensure the delivery of water to Utilities customers.
- Funds to purchase water rights (\$2,929,000) are provided in the Water Rights Fund. To satisfy the Office of the State Engineer permit requirements, the City must acquire 728 acre feet of water rights in five-year accounting periods.
- Membrane filters (\$100,000) to be used at WWTP #5 (Mariposa) and WWTP #6 (Cabezon) will be funded in the Wastewater Capital Fund. Funds will be set aside each year to ensure sufficient funds are available for membrane filter replacement.

**UTILITY FUND ENDING FUND BALANCE:**

The Utility Operating Fund unreserved ending fund balance is \$11,051,856. Based on the estimated revenues, expenditures, and ending fund balance in FY14, the Utility meets the required debt service coverage ratio of 1.15 for parity bonds. In FY14, the debt coverage ratio for parity bonds is projected to be 1.42 and the debt coverage for all debt service is 1.23.

**Conclusion**

In summary, the Adopted Budget maintains funding for all city services, allocates new funding for critical capital needs, including public safety vehicles, road maintenance, and information technology needs, and addresses a long-standing employee compensation issue. The last four years have been some of the most fiscally challenging. While the economy is improving, City revenue growth is modest, leaving many areas still in need of additional funding. Based on the revenue outlook, City Administration will need to continue to work closely with the Governing Body over the coming years to allocate City resources efficiently and strategically.

Sincerely,



Keith Riesberg

City Manager

City of Rio Rancho  
Governing Body



From the left to right: District 1 Councilor Chuck Wilkins, District 2 Councilor Patricia A. Thomas, District 3 Councilor Tamara L. Gutierrez, Mayor Thomas E. Swisstack, District 4 Councilor Mark Scott, District 5 Councilor Timothy C. Crum, and District 6 Councilor Lonnie Clayton.

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