August 2017

Dear Citizens:

I respectfully transmit the budget for the City of Rio Rancho for the fiscal year July 1, 2017 through June 30, 2018. It is an honor and privilege to be the Mayor of a City that has been recognized nationally as one of America’s best places to live, and one where residents continually indicate they have a high quality of life.

This budget contains no tax increases and water/wastewater rates remain unchanged. With available resources, important expenditures are being made for such items as public safety equipment and vehicles and park maintenance equipment.

Roads continue to be a top priority for residents and therefore its local government. As a result, this budget helps support the reconstruction of Southern Boulevard, Phase 1 from N.M. 528 to Golf Course Road, which is slated to being early in calendar year 2018. In addition, funding is provided to continue a tripling of output, as compared to previous years, in relation to roadway crack patching and sealing work citywide.

This fiscal year budget marks the start of a new five-year schedule for Impact Fees (a one-time payment used to help account for the infrastructure costs and demands created by new development). The fees for commercial/office/industrial projects have been substantially decreased as compared to the last schedule. In the coming years, this is intended to help increase new development activity in Rio Rancho by way of being more competitive with the adjacent City of Albuquerque market and its fee amounts.

In regards to water and wastewater infrastructure, this budget ensures that $1 million is allocated to continue efforts to replace aging and leaking water service lines. At the same time funding is being allocated for critical projects such as water tank and well improvements, revenue from the rates customers pay is also being set aside to allow for the cash-funding of necessary projects such as wastewater treatment plant and sewer main improvements in Fiscal Years 2019-2022. By adhering to this strategy, millions in interest payments and other borrowing costs will be saved.
The local housing market continues to be strong. This helps support economic development efforts to attract job creators and additional retailers and restaurants. In calendar year 2016, 568 new home permits were issued for construction. This figure reflects the best year since 2009.

Rio Rancho local government is providing public services with far less staff than other municipalities in the State. For every 10,000 residents in Rio Rancho, there are approximately 75 City employees serving needs. In both larger and smaller cities in New Mexico, you will find well over 100 employees per 10,000 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. As such, modest increases for employee compensation are included in this budget for retention and cost of living purposes as well as funding to implement year two of a Police 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 2019-2022 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.

I would be remiss if I did not highlight the City’s new Strategic Plan (2017-2022) that was a priority in last year’s budget. This plan will play a vital role in future decision-making related to allocating resources. Goals include: (1) a diverse and robust local economy that is stable and facilitates community prosperity; (2) ensuring that public safety service levels are maintained and that safety awareness is fostered; (3) efficient, maintained and planned public infrastructure to meet current and future needs; (4) creating opportunities to improve one’s well-being, environment, and make connections with their community; and (5) highly motivated and performing City employees delivering programs and services that are relevant and provide value to the public as well as promoting engaged citizens.

On behalf of the entire Rio Rancho Governing Body and the employees of the City of Rio Rancho, I thank all of the residents and community stakeholders for supporting our great City.

Sincerely,

Greggory D. Hull, Mayor
August, 2017

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

Dear Mayor Hull:

In compliance with the City Charter and applicable state statutes, I am submitting to you the Adopted City Budget for Fiscal Year 2018 (FY2018).

The Budget for FY2018 is a balanced budget and reflects the City’s strategic goals. Moreover, based on the Budget, we continue to project a balanced five-year General Fund financial plan. This reflects the City’s continued efforts to achieve a sustainable long-term budget. In that regard, 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 percent target for the next five fiscal years.

The FY2018 Budget reflects a local economy that is slowly improving. 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, revenue growth has not been strong enough to meet all of the City’s funding needs. In addition, the FY2018 budget reflects a reduction of $820,000 from the phasing out of the Gross Receipts Tax (GRT) hold harmless distribution from the State, now in its third year of a 15-year phase out plan. Departmental needs continue to be more than 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.

Local Economy and Revenues
According to the Bureau of Labor and Statistics (BLS) which distributes the Quarterly Census of Employment and Wages (QCEW), New Mexico lost 2,500 jobs in the final quarter of 2016, the first loss in six years. In addition, the average employment in 2016 for the state was just 0.1 percent higher, or 556 jobs, than in 2015. New Mexico experienced its weakest year-over-year employment performance since the end of the recession in 2011. However, in June 2017, the seasonally adjusted unemployment rate was 4.4 percent, up a tenth of a point from a month earlier.
Despite the State’s job loss, the Albuquerque MSA (Metropolitan Statistical Area), saw a 0.8 percent growth in employment during the last quarter of 2016, marking the seventeenth consecutive quarter of positive job growth in the region. The healthcare and social assistance sector represented the largest growth, at 3.7 percent, despite the rate of Medicaid transfer payments to the state slowing over the last several quarters. Leading job losses was the manufacturing sector. This sector has trended downward for some time. According to the New Mexico Department of Workforce Solutions, the Albuquerque non-seasonally adjusted unemployment rate averaged 6.1 percent in 2016 and throughout the first five calendar months of 2017.

Using the July IHS Global Insight’s forecast, employment in the Albuquerque MSA is expected to grow, albeit slowly, by 1.1 percent. Nearly every private sector industry is expected to add jobs to the area, with healthcare and social assistance, again, showing the most growth despite uncertainty related to the Affordable Care Act (ACA). The unemployment rate is expected to decline slightly to 6.0 percent in 2017, and even further to 5.1 percent in 2018.

Total housing starts in the metropolitan Albuquerque area declined ever so slightly from a total of 1,599 in Fiscal Year 2016 to 1,593 in Fiscal Year 2017, while the second quarter of calendar year 2017 marks the first time since 2010 that starts have declined from the 1st quarter to the 2nd. According to Metrostudy, possible reasons contributing to the decline include the recent closeout of several high volume projects yet to be replaced by new developments, and the lack of finished lots in the right location for homes at the right price. Weakened demand does not appear to be a factor given the strong existing home market that continues to improve at a steady pace even at a time when job growth is flat and unemployment remains above the national average. Housing starts are expected to growth at a modest and steady pace over the next three years.

In the past year the City of Rio Rancho saw positive indicators for the local economy. PCM occupied the remaining space at the Hewlett-Packard building. Safelite has completed its renovation of the former Sprint building and announced its plans to have more than 900 employees in place before the end of the year. Both of these employers had very positive experiences with the quality of the labor market.

Based on this economic outlook, FY2018 General Fund revenue is expected to increase 1.4 percent compared to the FY2017 adjusted budget. Future changes in annual General Fund revenue range from 4.2 percent in FY2019 to 3.6 percent in FY2022. The five-year plan reflects legislative changes to the GRT hold harmless distribution, which the State began to phase out in FY2016. In FY2018, 18 percent of the hold harmless distribution will have been phased out. This percentage will increase incrementally by 6 percent annually until the hold harmless distribution is completely eliminated in FY2030. The adverse financial impact of the phase-out in FY2018 will be approximately $820,000. By FY2022, the impact will reach approximately $2.5 million. By FY2030, and at full phase-out, the effect will be an estimated $9.0 million loss in GRT revenue to the City.

State law allows municipalities to impose additional GRT increments to make up for the phase-out of hold harmless funds. Imposing an additional 1/8th percent GRT increment would generate approximately $1.1 million in FY2018, while imposing the maximum 3/8ths percent would generate about $5.8 million by FY2030. Should the City choose to impose all 3 1/8th
increments of Hold Harmless GRT, the negative impact would be somewhat mitigated, but there would still be a significant gap, approximately $3.2 million, between what could be earned ($5.8M) and what will be lost ($9.0M). Absorbing the phase-out of hold harmless revenue without generating offsetting revenue will adversely affect the City’s ability to provide services to its citizens. This negative impact will become more pronounced with each year of the hold harmless phase-out. Although not reflected in the proposed budget, imposing one or more of the available Hold Harmless GRT increments is a policy decision that the Governing Body may need to consider in the coming year.

During the 2017 legislative session a proposal was introduced to substantially revise the State’s GRT. Although this proposal was not approved during the regular session or the recent special session, it is anticipated to be discussed during the 2018 legislative session. The State’s actions on the GRT “reset” has the potential to dramatically affect Rio Rancho’s budget. This introduces a level of uncertainty to the City’s future budgets and must be monitored. My office has been monitoring this legislation very closely and have worked to ensure our concerns are known.

Expenditure Highlights
Overall, City departments were instructed to keep their budgets at FY2017 levels, except as necessary to address the highest priority needs. Because of conservative management of expenditures generally, the Budget includes increases for employee compensation, year two of the Police career progression plan and other critical projects such as development of a comprehensive plan.

For Public Safety, major items include the following:
- Replacement of seven (19) self-contained breathing apparatus for Fire personnel,
- Communication towers upgrade,
- Ten (10) new police vehicles funded through a combination of impact fees and automated, traffic enforcement program revenues, and
- Final Phase of a video surveillance system upgrade at the police headquarters building.

For Public Works, the Budget includes funding for the following:
- Materials for paved roadways (crack patching and sealing).
- Resources for dust suppression and median maintenance,
- Vehicle lift equipment for the fleet maintenance facility,
- Year six of the Citywide Geographical Information System (GIS) program, and
- Continued funding for the City’s ADA transition plan.

For Parks and Recreation, the Budget includes funding for the following equipment:
- Tractor with loader and back hoe attachment
- Front deck mower,
- 72” deck mark mower,
- Hydro bunker rake, and
- Batwing mower with a canopy.

In addition, the Budget includes funding to repave the Sabana Grande Recreation Center east parking lot, with the western portion of this parking lot being paved with federal Community
Development Block Grant funding. The budget replaces an X-ray machine for Municipal Court, the cost of which is anticipated to be reimbursed by the Administrative Office of the Court.

The Budget provides a 2.4 percent across-the-board salary increase for all employee groups. This increase is intended to address increases in the cost of living as well as follow the recommendation of a 2013 classification and compensation study to move employees up in their salary ranges. As was noted during the study update, the City is not keeping pace with the labor market when granting annual raises of 1.5% and needs to work towards granting raises equal to the cost of living. This will enable the City to better compete for, and retain, qualified employees in all departments which has been a challenge in the current labor market.

The budget recommendation includes a 10 percent increase in healthcare costs. This increase is a result of higher than average utilization and validates the approach taken in previous years to incorporate smaller increases in the City’s healthcare costs. Had we not implemented smaller increases in previous years, this year’s increase would have been much larger.

By year-end, anticipated revenues and the budgeted level of spending will create a reserve fund balance that exceeds 8.3 percent of expenditures, the level required by the State of New Mexico. The FY2018 Budget anticipates total reserves of 15 percent of expenditures, which is in compliance with the City’s policy target.

**GENERAL FUND DETAILS**

**REVENUES: $57,488,065**
The City’s single most important revenue source is the GRT. In FY2017, the GRT revenue estimate of $29,182,413 accounted for nearly 51 percent of the total General Fund operating revenues. In FY2018, the recurring GRT distribution to the General Fund is projected to increase by approximately $550,000 or 1.9 percent from FY2017 levels (net of the reduction in the hold harmless distribution).

Property tax revenue, the second-largest revenue source, is projected to be $15,538,345. This is an estimated increase of 1.6 percent, or $155,998, from FY2017 actual levels. The property tax revenue forecast utilizes the yield control formula established by state statute. The FY2018 revenue estimate incorporates housing permit data and known non-residential construction activity, as well as an inflation factor of 1.0 percent.

Franchise taxes, the third largest revenue source, are projected to increase slightly by $83,978 or 2.6 percent, from $3,264,641 in FY2017 to $3,348,619.

In total, General Fund budgeted revenues for FY2018 are projected to increase by $890,585 or 1.6 percent compared to FY2017 adopted budgeted revenues.

**EXPENDITURES: $54,736,348**
Total General Fund expenditures are projected to increase by $342,769 or 0.6 percent. However, with limited new resources the administration was unable to fund many important departmental
needs. As a result, many of those needs were postponed but will still need to be addressed in the near future.

**Personal Services: $42,570,261**

Personal Services expenditures account for 78 percent of the General Fund operating budget. The Budget includes a 2.4 percent salary increase for all employees at a cost of $827,900. The FY2018 Budget does not create any additional positions in the General Fund, however some existing positions are being allocated to the General Fund from various other funds. As a result, the cost of personnel in the General Fund will increase by $267,209. Personnel costs reflected below include salary and benefits:

- The closure of the DWI Seizure Fund 244 in FY2018 necessitates the following positions be moved to the General Fund:
  - Paralegal to the City Attorney’s Office ($69,114)
  - Police Officer and Public Safety Aid, remaining 50 percent of each position ($61,317)
- Funding for the Economic Development and Business Relations position, 50 percent from Promotion and Marketing Fund 224, and 50 percent from the Convention and Visitor Bureau Fund 225 to the General Fund ($107,249)
- Allocate 20 percent of the Assistant City Manager to the Convention and Visitor Bureau Fund 225, from the General Fund (-$23,527)
- Transfer Line Locator position from Utilities Fund 501 Engineering to General Fund Public Works Engineering ($53,056); this position will not perform work allocable to the Utilities Fund.

The City continues to plan for an increasing number of retirements. The FY2018 Budget includes $451,776 to cover estimated cash payouts and terminal leave costs for eligible employees, based on recent trends. Finally, salary savings continue to be factored into the budget based on the historical average vacancy rate for all City positions.

**Material and Services: $11,891,591**

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 FY2018 are projected to increase by $236,896 or 2.0 percent. Reductions in various cost center expenses are offset by adding funding for the following activities:

- Municipal elections ($140,000)
- Comprehensive Plan Development ($100,000)
- Citizen survey ($30,000)
- Additional funds for contract services for maintenance of street medians ($56,353)
- Dust suppression initiatives for dirt roads ($50,000)
- Median landscape materials ($69,228)
- Pavement management system ($62,851)

**Capital Outlay: $274,496**

The Budget includes a small General Fund investment in capital equipment. This funding provides for replacement of equipment for Parks and Recreation, Public Works, Police and Fire for the items mentioned on pages 2 and 3. 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 FY2017.

**TRANSFERS TO SPECIAL FUNDS: $4,773,060**
Transfers provide General Fund support to other funds for various activities, as indicated below:

**Multi-Purpose Event Center Fund: $994,984**
This transfer includes the operating and cash flow subsidy provided by the General Fund for operating the Santa Ana Star Center.

**Promotion and Marketing Fund: $20,174**
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 transfer amount decreased by $117,430 from FY 2017 due to reallocation of 50 percent of the Economic Development and Business Relations position to the General Fund and the use of cash which has accumulated in the Fund.

**Computer Replacement Fund: $662,294**
This transfer is made to set aside sources for technology contingencies and to fund new technological initiatives which improve operational efficiencies. Increased funds will be set aside for technological initiatives based on 10 percent of a positive revenue variance in the General Fund in Fiscal Year 2017

**Local Government Correction Fund: $180,787**
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: $1,784,745**
This transfer represents the City’s share of the costs of the Regional Emergency Communication Center.

**Rio Vision Cable Fund: $2,722**
This transfer will subsidize activities of the fund due to a shortfall in available franchise fee revenues.

**Equipment Replacement Fund: $443,396**
This transfer will fund replacement of eight (8) vehicles that have met or exceeded their useful life among various departments; vehicle model years range from 1995 to 2003. Additional funds for equipment replacement based on 20 percent of a positive revenue variance in the General Fund in Fiscal Year 2017

**City Facilities Improvement Replacement Fund: $20,628**
This transfer will fund re-plastering of the Rainbow swimming pool.
**Infrastructure Fund: $641,886**
This funding will be set aside for road maintenance based on the 70 percent of a positive revenue variance in the General Fund.

**ENDING FUND BALANCE: $8,209,450**

The General Fund Reserved Ending Fund Balance is projected to be $4,561,362, which reflects the State’s 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 projected to be $3,648,088, for a total Ending Fund Balance of $8,209,450 or 15 percent of expenditures. This level of fund balance is in line with the City’s long-term policy target of 15 percent.

**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 Fund section of the 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 $114,000 and a direct General Fund subsidy of $25,000. Transfers to this fund are reduced to $20,174 in the Budget due to reallocation of 50 percent of the Economic Development and Business Relation position from this Fund to 100 percent General Fund.

**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 at $420,000. This activity requires a transfer from the General Fund of $180,787 and use of fund balance to cover the difference.

**Law Enforcement Fund**

Projected resources from a state grant pursuant to the Law Enforcement Protection Fund Act total $108,000. 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. Revenue collected during the second half of FY2016 and a full year of collections from FY2017 will be utilized, along with impact fee sources, to purchase ten police vehicles. FY2018 projected revenues of $175,000 reflect Police Department estimates of the new automated traffic enforcement contract. All fees collected from the automated traffic enforcement program will be used to fund police vehicles.
**Fire Protection Fund**
Projected resources from a state grant pursuant to the Fire Protection Fund Act total $700,000. 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 GRT revenues to be used for the acquisition, construction, operation, and maintenance of solid waste facilities or water/sewer systems. The budget of $862,112 funds special waste collections, a loan payment, and capital maintenance to water wells.

**Higher Education GRT Fund**
This fund accounts for Municipal Higher Education GRT revenues to be used for the acquisition, construction, renovation or improvement of facilities of a four-year post-secondary public education institution. The FY2018 Budget projects $2,400,410 in revenues and allocates $400,000 for implementing the City Center Campus plans which will allow for the continued development of the recently updated plans connecting City Center to the UNM facilities. The Budget anticipates an ending fund balance of $7,476,079.

**Municipal Road Fund**
This fund is supported by state-shared gasoline tax revenue, estimated at $680,000 in FY2018. The fund provides for road maintenance materials and repairs.

**Computer / Software Replacement Fund**
Using reserves in this fund the Governing Body approved $50,000 to fund a study to evaluate the city’s technological needs to improve efficiencies across to all city business.

**Equipment Replacement Fund**
With a $443,396 transfer from General Fund, the City will be able to replace eight vehicles that have exceeded normal service life. These vehicles are distributed among various departments, five for Parks and Recreation, two for Public Works and one for Development Services. Planned vehicle replacements are prioritized by age and mileage.

**City Facility Improvement/Replacement Fund**
Available resources total $227,773, including cell tower revenues. Funds will be used for park improvements and ADA compliance, maintenance at various city facilities, and re-plastering the Rainbow pool.

**Impact Fee - Road Fund**
Based on 570 projected single-family starts in FY2018, budgeted revenue is $392,114. Impact fee revenue will be used for future projects. Revenue and reserves totaling $700,000 will be programmed for the Southern Boulevard reconstruction.
Impact Fee – Bikeway/Trails Fund
Based on 570 projected single-family starts in FY2018, budgeted revenue is $8,292. Impact fee revenue will be used for Bosque Trail improvements.

Impact Fee - Parks Fund
Based on 570 projected single-family starts in FY2018, budgeted revenue is $143,420. Impact fee revenue and reserves will be used for Sports Complex North improvements totaling $120,000 and Big Brothers and Big Sisters Park in North Hills for $48,000.

Impact Fee - Public Safety
Based on 570 projected single-family starts in FY2018, budgeted revenue is $187,885. Impact fee revenue will be used to fund police vehicles for $72,000.

Impact Fee - Drainage
Based on 570 projected single-family starts in FY2018, budgeted revenue is $178,164. Impact fee revenue will be used to fund Northern Boulevard drainage improvements $136,303.

WATER AND WASTEWATER UTILITY DETAILS

The Water and Wastewater Utility provides service to more than 33,000 customers. Revenue to fund operations and capital investment is derived from the sale of water and wastewater services, impact fees, interest and other income. Impact fee revenue estimates reflect existing rates. There is no scheduled water and wastewater rate increase in FY2018 and modest growth in the number of accounts has been included in the projection of water and wastewater revenue. Calendar year 2016 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 FY2018 through FY2022.

Additional revenue from five scheduled rate increases from FY2013 through FY2017 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 well rehabilitation and repair, Well 13 re-drill, Wastewater Treatment Plant 1 rebuild, and the Recycled Water tank projects.

In FY2018, 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 Supervisory Control and Data Acquisition (SCADA) System.

**REVENUES: $49,145,523**

Total revenues in FY2018 for the Utility Enterprise as a whole are projected to decrease by $4,604,146, or 8.57 percent compared to the FY2017 Revised Budget due to the following:

- Taken together, water and wastewater revenue is projected to increase $3.3 million, or 8 percent compared to the FY2017 Revised Budget. The FY2018 Budget incorporates a 1.5 percent growth rate for water accounts and a 1 percent growth rate in wastewater accounts consistent with recent past experience. Further, water consumption on the whole increased in calendar year 2016 by 2 percent resulting in a stronger revenue projection than in FY2017.
- Intergovernmental revenue is expected to decrease by $7,938,707. The FY2017 Revised Budget includes several state and federal grant awards rolled forward from prior years. The FY2018 Budget does not include any new grant sources.

**EXPENDITURES: $46,128,205**

**Personal Services: $2,068,416**

The Personal Services budget for the Utility Enterprise is projected to decrease by $20,069, or 1 percent compared to the FY2017 Budget. The Personal Services budget reflects the same 2.4 percent salary increase and 10 percent increase in health insurance premiums as the General Fund. The FY2018 Budget also includes the addition of a Utilities Services Specialist to assist with daily customer requests in person and on the phone thus reducing customer wait times. With the additional employee, the Utility Enterprise will have 35.5 full-time equivalent employees. The year over year decrease is the net of the changes outlined above as well as the return to twenty-six pay periods in FY2018.

**Materials and Services: $23,992,776**

The Materials and Services budget for the Utility Enterprise is projected to decrease by a net amount of $2,811,125, or 10.5 percent compared to the FY2017 Revised Budget. The decrease is primarily due to one-time items and/or prior year roll forwards included in the FY2017 Revised Budget that are either not included in the FY2018 Budget, or included at lower expenditure levels. Among these items are: contract services for Administration for the Recycled Water Master Plan; contract services in Accounting for the Utility Rate Study; contract services and repair and maintenance for Water Production; contract services for Wastewater for the Wastewater Master Plan; and repair and maintenance for Wastewater. Additionally, the FY2017 Revised Budget included utility funds and state capital outlay appropriations for water service line replacement in the amount of $1.7 million while the FY2018 Budget allocates $1 million for this purpose.

**Capital Outlay: $5,854,228**

Capital Outlay includes new and replacement 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. Capital projects being funded in FY2018 include the following:

• Vehicles used for water and wastewater operations, including eight replacement pick-up trucks, a replacement backhoe, a new compact utility tractor, and a new dump trailer ($376,000).
• Water capital projects, including Tank 12 Renovations, Well 9 Variable Frequency Drive (VFD) pumps, Pressure Reducing Valves (PRVs), and Zaragoza Road water line replacement ($2,675,000).
• Purchase of water rights to satisfy Office of the State Engineer permit requirements ($1,341,525).
• Water Impact Fees for Well 13 Re-drill construction ($500,000). Project-to-date budget includes an additional $2.97 million in other sources for the project.
• Wastewater capital projects, including Lift Station 21 and 22 Variable Frequency Drive (VFD) pumps ($150,000), Gray Hawk Wastewater Collection System Upgrades ($300,000), Wastewater Security Improvements ($172,000), and WWTP#1 Rebuild ($224,504).

Debt Service: $14,212,785
The Utility Funds transfer for FY2018 debt service includes payments for senior and subordinate debt from the Utility Operating Fund and for water rights acquisition loan from the Water Rights Acquisition Fund.
• Utility Operating Fund for Senior Debt: $11,270,901
• Utility Operating Fund for Subordinate Debt: $1,499,380
• Water Rights Acquisition Loans: $1,442,504

ENDING FUND BALANCE: $23,480,231
The Utility Enterprise Fund’s Ending Fund Balance consists of debt service reserves ($3,292,960), the Army Corp of Engineers reserve for unreimbursed grant funds ($1,200,000), water and wastewater impact fees reserves ($3,151,049), an operating reserve ($12,743,683), and a capital reserve ($3,092,539).

The operating reserve of $12.7 million exceeds the minimum 60 days cash target reserve, while the capital reserve represents 1.0 percent 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 specific projects. It is expected to decline to $4.72 million by FY2022 as a result of more than $28.5 million in cash financing for capital projects from FY2019 through FY2022. Projects include but are not limited to water storage tank renovations, new Well 9 water storage tank, water main replacements, vehicle and equipment replacement, Wastewater Treatment Plant 2 improvements, sewer main replacements, and Lift Station 2 relocation.

Based on the estimated revenues and expenditures, the Utility meets the minimum required debt service coverage ratio of 1.15 for parity bonds, with a projected coverage ratio of 1.98 for senior debt and 1.78 for senior and subordinate debt combined.
CONCLUSION

In summary, the FY2018 Budget maintains funding for all City services, begins to allocate new funding for critical capital needs, and provides for a 2.4 percent salary increase for all employee groups. The last five years have been some of the most fiscally challenging the City has experienced. As revenues improve in future years, additional projects and priorities can be built back into the five-year plan.

As reflected in the transfers from the General Fund in the future years, the City’s financial situation is improving. The passage of a General Obligation Bond question in 2016 provided a critical source of revenue to improve roads in our community. Continuing a conservative bonding cycle should be considered in the City’s short- and long-range planning as a mechanism for financing needed roadway improvements. As such, and based on recent discussions with the Governing Body, staff will prepare a $10 million General Obligation Bond question for March 2018 ballot placement that would be dedicated for roads. If approved by voters, this amount would leave the existing property tax mill rate unchanged.

Although the FY2018 budget continues making incremental progress in addressing the City’s needs, the current revenues are not keeping pace with the capital needs of our vehicles and apparatus across all departments – particularly our public safety departments. Because of this and in conjunction with Governing Body input, staff is developing a $4 million General Obligation Bond question for inclusion on the March 2018 ballot. If approved, it is estimated that the property taxes for a $100,000 home would increase by $25 and funding for critical first responder vehicles, equipment and facility improvements would be realized.

I will continue to work with the Governing Body over the coming years to allocate City resources efficiently and strategically to provide the best level of services to our citizens possible.

Sincerely,

Keith Riesberg
City Manager