



Greggory D. Hull
Mayor

April 25, 2019

John Craig, Acting City Manager
City of Rio Rancho
3200 Civic Center Circle
Rio Rancho, NM 87144

RE: Mayor Hull's Comments to the City Manager's Recommended Fiscal Year 2020 Budget and Capital Program

Dear Mr. Craig:

In accordance with the City's Charter, I have reviewed your recommended budget, budget message, and capital program for Fiscal Year 2020, which begins on July 1, 2019.

Road Project Funding

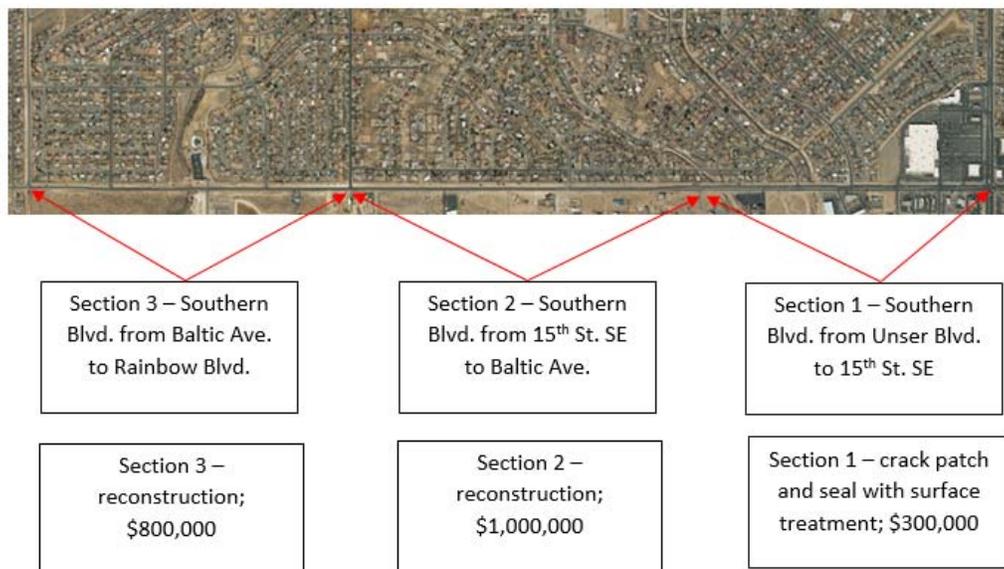
Over the past several years, unprecedented road improvement work has taken place throughout Rio Rancho. Addressing this City priority has come about through citizen investment in their community (e.g., voter-approved general obligation bonds backed by property taxes), City staff working hard to obtain federal funding, and the Governing Body, in conjunction with staff, managing available resources in such a manner in order to fund more projects.

An example of these budget management practices in action is reflected in your recommended budget by way of the \$1 million set aside for pavement preservation work, which is to be determined through additional discussion and input with the Governing Body. I would be remiss if I did not mention the fact that this \$1 million is in addition to other funding set aside in the recommended budget for annual maintenance, such as pothole repair and crack patching/sealing on neighborhood streets.

My recommendation on how to allocate the \$1 million for pavement presentation is to reconstruct a portion of Southern Boulevard west of Unser Boulevard, specifically 15th Street SE to Baltic Avenue, which has portions experiencing structural fatigue. This is evidenced by the fact that last year portions of the roadway began to break apart requiring City staff to perform emergency patching work.

Southern Boulevard from Unser Boulevard to Rainbow Boulevard has an average daily traffic count range of 7,300 to 21,700 vehicles according to the Mid-Region Council of Governments (2017 data). This portion of roadway, and associated improvement need, can be divided into three distinct sections: (1) Southern Boulevard from Unser Boulevard to 15th Street SE; (2) Southern Boulevard from 15th Street SE to Baltic Avenue; and (3) and Southern

Boulevard from Baltic Avenue to Rainbow Boulevard. Per City staff analysis and estimates, the recommended work type for Section 1 is crack patching/sealing with a surface treatment at a cost of \$300,000. Section 2 requires total reconstruction costing approximately \$1 million. Section 3 also requires reconstruction with a price tag of approximately \$800,000.



While I am recommending use of the \$1 million that will be available in next year’s budget to improve the middle portion (i.e., Section 2 -15th Street SE to Baltic Avenue) of Southern Boulevard from Unser Boulevard to Rainbow Boulevard, I also have suggestions for how to fund improvements to Sections 1 and 3. In regard to Section 1, I have initiated discussions with Sandoval County Commissioner Dave Heil regarding the County funding a substantial portion, if not all, of this section as part of the new County budget that goes into effect on July 1.

In relation to Section 3, my suggestion would be to use any leftover funding from the 2018 General Obligation Road Bond should the remaining, scheduled projects have actual costs below estimated costs. I would also suggest that if actual General Fund revenues are higher than projections at the end of the current fiscal year, and rollover to next year’s budget, that those funds be applied to Section 3 costs. Doing so would be in-line with the Governing Body’s adopted Resolution No. 94 – Enactment No. 18-088 (i.e., policy for funding increased paved roadway repair with unanticipated revenue).

Ultimately, I am advocating for available funding to be applied toward Southern Boulevard for a variety of reasons. We already know that Southern Boulevard all the way from N.M. 528 to Rainbow Boulevard needs improvement and widening. In fact, we started the process to address Southern Boulevard years ago, and this effort finally materialized this past year when reconstruction work on Southern Boulevard from N.M. 528 to Golf Course Road began. The cost for this phase was approximately \$15 million.

The next phase of improving Southern Boulevard, from Golf Course Road to Unser Boulevard, needs design work and a funding source. Rough, initial estimates anticipate a cost of more than \$25 million for this phase. Due to the cost factors, it will be several years, at a minimum, before the next phase of Southern Boulevard improvements are undertaken. As a

result, the third and final phase of Southern Boulevard improvements (from Unser Boulevard to Rainbow Boulevard), at the present time, is very likely more than a decade away, at best. Unfortunately, this section of Southern Boulevard will not last another decade; however, reconstruction of the existing roadway with no other improvements or enhancements such as widening can be done now for an amount the City can afford.

Economic Development

I concur with your recommendation to include \$200,000 in funding to continue supporting the Sandoval Economic Alliance. This private, not-for profit economic development entity was formed in 2014 predominately through the support of Rio Rancho municipal government and Sandoval County government, and with unprecedented community stakeholder collaboration.

Whether it is through citizen surveys, input from Governing Body members by way of the City's adopted Strategic Plan or other priority and goal-setting venues, economic development efforts are regularly identified to be of critical importance. One of the Mayor's Charter duties is specifically to "*provide leadership in the promotion and marketing of Rio Rancho to large and small businesses to achieve growth in products and services available to residents and growth in tax revenues.*" As such, I believe continued investment in the Sandoval Economic Alliance is the best course of action in order to reach the community's economic development objectives. Rio Rancho's support of the Sandoval Economic Alliance is of the utmost importance at the present time due to the fact that the organization is in the midst of recruiting and hiring a new President/CEO.

Should the City decide to reduce or cease its support for the Sandoval Economic Alliance, I believe this would have a chilling effect on Rio Rancho's ability to attract and secure new businesses and job creators. Furthermore, the City would face the reality of not having the benefit of all the work that the Sandoval Economic Alliance currently performs: marketing, lead generation and business recruiting; operating a business retention and expansion program; and regional collaboration in relation to business prospect development.

Lastly, it should never be forgotten that economic development is a highly competitive and difficult task. Years of effort and countless projects that don't quite materialize are the norm. Only through dedication and commitment to the task of economic development can Rio Rancho, or any community for that matter, have a reasonable chance to achieve a more diversified local economy, experience growth in business and job opportunities, expand the tax base to fund needed public services, and have more prosperity overall.

Employee Compensation

When recommended, I have consistently advocated for compensation adjustments for the hard-working City of Rio Rancho staff. I am in support of your proposal to increase pay for all employees by 2.5 percent. This recommendation is following past studies in relation to what the City needs to provide annually to all employees in order to stay competitive to retain and hire qualified personnel. Regular adjustments are also needed to account for increases in the cost of living. For example, this year employees will experience a 5 percent increase in healthcare costs.

Any time employee compensation is discussed, I believe it is necessary to remind community members that Rio Rancho local government has fewer employees than comparable New Mexico cities due to resource limitations. This means that Rio Rancho employees have higher demands placed on them by a community that adds new residents and needs each and every year. Also of note is that the recommended budget does not include any new positions, only an upgrade to a temporary position, which I support.

NUMBER OF EMPLOYEES PER 1,000 POPULATION			
Top Five Populated New Mexico Cities			
FY 18 Adopted Budgets			
City	Estimated Population	General Fund GRT *	FTE per 1,000
Rio Rancho	96,159	604	6.29
Albuquerque	558,545	4120	7.38
Las Cruces	101,712	1541	15.16
Santa Fe	83,776	720	8.59
Farmington	45,450	577	12.68

Source: U.S. Census Bureau, Community Facts, 2017 Population Estimate (as of July 1, 2017)

Table prepared by: The City of Rio Rancho Financial Services Department

*(000's)

Over the past several years, through the implementation of career progression plans, compensation adjustments for police officers, firefighters, and dispatch personnel has outpaced all other City employees. Going forward, I suggest that adjusting other employee groups' compensation and their market discrepancies take precedence with available funding.

Public Safety

Once again Rio Rancho's commitment to public safety is reflected in the budget via the prioritization of resources. Your recommended budget proposes to allocate 50 percent of General Fund sources for police, fire, and emergency medical services. A portion of this expense is going toward the third and final year to implement a career progression plan for firefighters, and accounts for the significant pay increase police and dispatch personnel received this spring. In total, the City will have invested well over \$2 million in additional compensation just for public safety personnel since Fiscal Year 2017. This allocation of resources for compensation is on top of more than \$4 million in recent capital investment for upgrading vital public safety response equipment.

Regarding your recommendation to increase the Corrections Fee from \$30 to \$45, I suggest raising the fee to \$50. This fee is assessed by the Municipal Judge to offset the cost of housing Rio Rancho local government prisoners at the Sandoval County Detention Center. As noted in your budget message, the County has been raising the daily prisoner cost they charge the City, which is now \$95 per day.

Because the current fee is not generating enough to account for increasing expenses, \$300,000 in General Fund money, revenue that could be used for other purposes such as road repair or installing new playground park equipment for children, is programmed in next year's budget. While I understand that raising the Corrections Fee may increase the difficulty in

collecting this fee from convicted/pleading guilty individuals, I believe trying to minimize the General Fund subsidizing for this issue is prudent.

Water Rate Increase & Putting to Use U.S. Army Corps. Debt Reserve Funding

After three years of no increase to the water and sewer (wastewater) rates customers are assessed for services, your budget recommendation for a 1.75 percent water rate only increase next year and in future years is not unexpected, is based on a 2018 comprehensive study of the water/sewer system, and is justified.

Undoubtedly, Rio Rancho and its water/sewer service has had a tumultuous history. The City system was originally built and then operated by private entities. Local government, through borrowing and at a great expense, acquired the system in the mid-1990s in order to have more oversight and control over a basic public service. Unfortunately, a variety of factors has resulted in Rio Rancho having a higher combined water/sewer rate as compared to other New Mexico communities. These factors, which are not going to change any time soon, if ever, include the quality of the initially installed system, Rio Rancho's non-linear and sporadic development patterns, federal government mandates, state government requirements to acquire agricultural water rights to offset ground pumping, and lack of alternative water sources.

These issues have been compounded by the fact that, over the years, the Governing Body has inconsistently adjusted rates in relation to costs and what is necessary to maintain a reliable water/sewer utility system in a growing community. Case in point is the fact that a previous 2012 comprehensive study of the City's water/sewer system determined that the rates in place at the time were not sufficient to meet operating expenses, sustain cash reserves, or address necessary system improvements. In fact, the City's Utility Bonds were downgraded due to financial concerns, which can raise borrowing costs. As a result, a schedule of needed catch-up rate increases (8.8 percent to 7.8 percent) were implemented from 2013 to 2016.

Fortunately, Rio Rancho's water/sewer system is in better shape than it once was and there has been a three year break in rate increases. However, costs to operate and maintain a utility system inevitably increase over time in different areas. For example, over the past three fiscal years where there has been no rate increase, the three-year average annual increase Rio Rancho experienced was 4.15 percent for personnel, 3.42 percent for insurance, and 19.23 percent for contractual services. Also, the U.S. government's tracking of water/sewer maintenance shows that associated rates, on average nationwide the past several years, should have increased between 3 percent to 4 percent annually to adjust for inflation and other cost increase factors. As such, just as other utility systems must do in order to keep up with costs and maintain services, customer rates must be adjusted from time to time in Rio Rancho. Not doing so would ultimately put Rio Rancho back in the same undesirable position it was in during the early 2010s and repeat history.

While no community member wants to pay more for water/sewer services, it cannot be emphasized enough that the proposed water rate increase that would go into effect on July 1, 2019 would impact the average residential customer 68 cents per month. Furthermore, this recommended budget is proposing to set water only rate increases for the next several years at 1.75 percent as well so that there is predictability and time to adjust. The alternative would be to kick the rate increase need down the road and then, at a breaking point, subject residents to an overnight increase topping more than 10 percent.

I want to commend City staff and Governing Body members for all of their efforts regarding this subject. Water/sewer rates have been reviewed and discussed for well over a year. The initial rate increase proposal that was discussed was around 8 percent in order to continue the cash funding of water/sewer projects associated with future General Obligation Road Bonds, should voters approve of such bond questions. Governing Body input to staff was to get the proposed rate increase down under 2 percent to minimize the impact on residents, and that is exactly what was done.

Regarding your recommendation to fund a portion of the water/sewer capital projects next fiscal year with freed up U.S. Army Corps., reserve money, I concur. When I took office, Rio Rancho was owed approximately \$6.2 million by the federal government stemming from a 2007 agreement related to building an arsenic treatment facility in order to meet federal mandates. Through years of hard work, we recovered this funding and canceled this bad and outstanding debt showing on the City's financial statements.

One of the many positives that came about by resolving this issue was the fact that a debt reserve account the City had been placing \$200,000 into regularly for years to account for this bad debt was no longer needed. As a result, more than \$1.2 million of water/sewer rate payer money could be put to use benefitting the community. Last year, approximately \$300,000 of this funding was utilized to help cash pay (not borrow with extra costs) for water line replacements associated with voter-approved 2018 General Obligation Road Bond projects (Rockaway Boulevard, Meadowlark Lane, Abrazo Road, Country Club Drive, and Sundt Road). This year, the recommended budget is calling for using the remaining \$900,000 to help pay a portion of the costs associated with re-drilling and equipping Well 13 located off Northern Boulevard. This well failed several years ago, and re-establishing and restoring its capacity to produce and distribute water for use in the City is vital.

Unreserved Ending Fund Balance

I am pleased to see that once again a recommendation is coming from the City Manager that maintains a reserve, or rainy day/emergency fund, at a rate of 15 percent of expenditures. It is also very encouraging to see this same reserve rate projected each year through Fiscal Year 2024.

While it is tempting to consider only maintaining the State requirement of 8.3 percent of expenditures in order to fund additional projects and needs, my lack of support for doing so remains resolute. The City's primary funding source, and 50 percent of the General Fund, is gross receipts tax. Gross receipts tax is simply too volatile to consider keeping only the minimum requirement. Furthermore, 15 percent is on the lower side of what communities in New Mexico keep on reserve. Some cities have reserves at a level surpassing 30 percent in relation to expenditures.

The bottom line is that the City should never be in the position that it cannot address a worst case scenario due to lack of planning and savings.

Conclusion

Earlier this year, Money Magazine recognized Rio Rancho as the best place to live in New Mexico. Rio Rancho is a community where people seek to live because of its quality of life, safety, and school district. Also, Rio Rancho is a very desirable place to live because of low taxes. The gross receipts tax rate is lower than many other New Mexico cities both smaller and larger than Rio Rancho, and the property tax rate is significantly lower than that of our neighbor, Albuquerque.

I believe your recommended budget for Fiscal Year 2020 helps Rio Rancho maintain its status as a best place to live while addressing key priorities such as maintaining public infrastructure. All of this is being done with revenues that pale in comparison to other communities.

Gross Receipt Taxes per Capita Comparisons

GRT PER CAPITA				
Top Five Populated New Mexico Cities				
FY 18 Adopted Budgets				
City	Estimated Population	General Fund GRT *	General Fund Total Revenue *	GRT Per Capita
Albuquerque	558,545	\$338,202	\$530,915	\$606
Las Cruces	101,712	93,464	122,761	919
Rio Rancho	96,159	29,182	57,488	303
Santa Fe	83,776	64,694	99,222	772
Farmington	45,450	39,592	59,429	871

* (000's)

Source: U.S. Census Bureau, Community Facts, 2016 Population Estimate (as July 1, 2016)

Table prepared by: The City of Rio Rancho Financial Services Department

My comments are one step in the process of developing a budget for Fiscal Year 2020. I look forward to working with you, City staff, and Governing Body members to finalize and adopt next year's budget.

Sincerely,



Greggory D. Hull
Mayor of Rio Rancho