August 2019

Dear Citizens:

I respectfully transmit the budget for the City of Rio Rancho for July 1, 2019 through June 30, 2020 (Fiscal Year 2020). It is an honor and privilege to be the Mayor of a City that is consistently recognized nationally as a best place to live.

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 additional funding from a variety of sources, 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 management practices in action is reflected in this budget by way of $1 million that has been made available to make further improvements to Southern Boulevard. This funding will be paired with nearly $800,000 in grant funding the City was able to obtain from the State of New Mexico. This money, in conjunction with anticipated funding from Sandoval County, will allow the City to improve Southern Boulevard all the way between Unser and Rainbow Boulevards.

This budget includes funding to provide all local government employees a 2.5 percent salary adjustment. Making an investment in compensation is not only necessary to stay competitive for the retention and hiring of qualified personnel, but also to account for increases in the cost of living.

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.
Once again Rio Rancho’s commitment to public safety is reflected in the budget via the prioritization of resources. The budget allocates approximately 50 percent of General Fund sources for police, fire, and emergency medical services. A portion of these funds are going toward the third and final year to implement a career progression plan for firefighters, and to account 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.

After three years of no adjustments to the water and sewer (wastewater) rates customers are assessed for services, this budget contains a 1.75 percent water rate only adjustment. This adjustment is equivalent to 68 cents per month on the average household, and was determined via a year-long analysis and needs assessment. The revenue generated from this adjustment will help fund improvements that ensure a reliable water delivery system and accounts for increases in materials and operating costs.

This budget projects to maintain a reserve, or rainy day/emergency fund, at a rate of 15 percent of expenditures. I call attention to this fact because having these reserves is not only a best practice, but also necessary due to the somewhat volatile nature of local government’s revenue sources. Also, as we all know, unexpected emergencies can be costly and maintaining healthy fund balances gives the City flexibility and capacity to address public service needs.

On behalf of the entire Governing Body and the employees of the City of Rio Rancho, I thank all residents and community stakeholders for supporting our great City. Despite historical challenges related to land planning and use, Rio Rancho is a community where people continue to seek to live because of its quality of life, safety, and school district. Also, Rio Rancho is a very desirable place to live and operate a business because of low taxes as compared to surrounding communities and cities of comparable size.

In closing, the Fiscal Year 2020 Budget helps Rio Rancho maintain its status as a best place to live while addressing key priorities such as public infrastructure and public safety.

Sincerely,

Greggory D. Hull
Mayor of Rio Rancho
August 14, 2019

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

RE: Final Budget for Fiscal Years 2020-2025

Dear Mayor Hull:

Presented is the final budget for fiscal year 2020 as approved by the Governing Body on July 24, 2019. The FY 2020 Adopted Budget is a balanced budget and furthers the strategic goals outlined in the City’s Strategic Plan. Based on this budget, we project a structurally balanced five-year General Fund financial plan which reflects the City’s continued efforts to achieve a sustainable long-term budget. Recurring revenues are projected to exceed recurring expenditures in each of the next five years and the ending fund balance is projected to meet or exceed the City’s 15% target for the same period.

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

Economic Outlook and Revenues

The US economy is overall solid. Gross Domestic Product (GDP) continues to grow, job growth continues to perform to trend, unemployment levels are low and consumer confidence is still elevated, although it is falling. However, a chief concern in the forecast period which runs through 2024, is the business cycle. In August, IHS Global Insight increased its probability for the pessimistic forecast scenario from a 25% probability to 35% stating “it is not matter of if the economy falters, but rather, it is matter of when.” The pessimistic scenario includes a three quarter recession. Other concerns are in the housing market, in particular slowing household formation, housing sales, and housing starts inadequate to meet the demand for housing on the low end of the housing market. The U.S.’s current international trade posture has generated concern in particular because of the trade war with China and Administration threats of closing the border with Mexico.

In the second quarter of 2019, GDP expanded to a 2.1% Seasonally Adjusted Annual Rate (SAAR), according to the most recent GDP data from the Bureau of Economic Analysis (BEA). Consumption spending added 2.85 percentage points to GDP growth. In contrast, residential fixed investment reduced GDP growth by 0.06 points. Similarly, nonresidential fixed investment reduced growth by 0.08 points. The government sector moved ahead modestly adding to growth with both federal (0.511%) and state
and local governments (0.35%). Net exports declined in the quarter by 0.64 points. Finally, private inventories brought GDP growth down by 0.86 points.

Based on June data, the US economy added 224,000 jobs. Bright spots in the job report include, professional and technical services (+51,000), healthcare (+35,000), transportation and warehousing (+24,000), and construction (+21,000 jobs) sectors. The seasonally adjusted unemployment rate registered 3.7% in June, marking the sixteenth consecutive month at or below 4.0%.

In 2018, New Mexico added 11,350 jobs (1.4%), by far the strongest growth since the Great Recession. Of those new jobs (6,100) were in Eddy and Lea Counties. Employment in all metro areas except Farmington grew at least 1%. From January through May 2019, statewide employment growth held steady, according to Bureau of Labor Statistics of the US Department of Labor Current Employment Statistics (CES) data (11,900 jobs or 1.4%). The FOR-UNM Forecasting Service at the University of New Mexico Bureau of Business and Economic Research (FOR-UNM) estimates that in the first half of 2019 mining added 2,850 jobs, construction 1,350, and transportation 900 jobs, with the majority of these jobs tied to the oil and gas industry. Leisure and hospitality added an estimated 1,800 jobs, the majority of which are in Albuquerque and Santa Fe. Professional and technical services, which has grown steadily for almost three years, added an estimated 1,375 jobs, also with most jobs located in the central corridor. With strong residential sales, financial activities expanded (425 jobs). Healthcare began its slow recovery in 2018 and added an estimated 1,450 jobs in the first half of 2019.

Through mid-2020, job growth will be strongest in the “Oil Patch” of Southeastern New Mexico, but State spending will result in a more balanced pattern of regional growth thereafter. Mining is forecast to add 2,050 jobs in the second half of 2019, slowing to 1,150 jobs in 2020 and 625 jobs thereafter. Transportation will add 725 jobs in late 2019, slowing to just 260 jobs in 2020, as pipelines come online in the Southeast. The State will invest nearly $1 billion in capital projects scheduled to break ground in FY 2020 and is expected to make similar investments in FY 2021. Combined with ongoing spending in the oil and gas sector, FOR-UNM anticipates 2,500 new construction jobs per year through mid-2021, slowing to 850 jobs thereafter. Other sectors anticipated to gain jobs are professional and technical services (1,250 jobs per year), and leisure and hospitality (1,600 jobs). The large healthcare industry is expanding, but with slow population growth and limited federal funding available, expansion will not be as fast as in the past, adding about 2,500 jobs per year. Finally, FOR-UNM anticipates payrolls of State and local governments to expand by an average of 1,100 jobs per year.

Employment data from the Quarterly Census of Employment and Wages (QCEW) for 2018 was released by the New Mexico Department of Workforce Solutions (NMDWS). In total, 4,143 jobs (1.1%) were added in the Albuquerque MSA in 2018. This is the sixth consecutive year of job additions in the Albuquerque MSA. Total employment levels in the MSA averaged 378,000 jobs per year which is slightly under the all-time high of 381,841 jobs reached in 2007. Fourteen private sector industries added jobs in 2018. The construction sector added the greatest number of any sector for the year at 832 jobs. Professional and technical services added 797 jobs, the healthcare sector added 647 jobs, and accommodation and food services has seen gains for more than seven straight years adding 572 jobs in 2018. After trending downward since the mid-1990’s the manufacturing sector added 472 jobs in 2018. Three sectors lost jobs. These are information, wholesale trade and administrative and waste services.

The non-seasonally adjusted unemployment rate has been on the decline since 2016 when the rate was 6.1%, then falling to 5.7% in 2017 and averaging 4.5% through May 2019. For the 2019 calendar year, FOR-UNM projects that the Albuquerque MSA will advance by 5,076 jobs (1.3%). Jobs gains in the MSA will be diffused with nearly every sector moving ahead. Leading the gains will be the healthcare
and social assistance sector (1,031 jobs), professional and technical services (934 jobs), the construction sector (786 jobs), and the accommodation and food services sector (722 jobs). The Albuquerque MSA non-seasonally adjusted unemployment rate is expected to remain around 4.7% for the next two years before ticking up to about 5.0% beginning in 2022.

In the long-term from 2020 to 2024, the Albuquerque MSA economy is forecast to add 17,106 jobs for an average annual growth (AAG) rate of 1.1%. Despite slow growth in 2017 and 2018, the healthcare and social assistance sector is expected to accelerate and add 6,235 jobs over the period. Accommodation and food services is expected to continue the trend since 2011 and add jobs over the forecast period (2,975 jobs). The professional and technical services sector, which relies in part on federal contracts and grants in New Mexico, should contribute over the period adding 2,809 jobs. The construction sector is forecast to expand adding 1,187 jobs. However, despite growth over the period, employment in this sector in 2024 will still fall short of the 2006 peak of 31,181 by nearly 4,500 jobs. Other sectors adding jobs are, administrative and waste services sector (1,104 jobs), transportation, warehousing and utilities (460 jobs), and the information sector (431 Jobs). Losing jobs are the manufacturing sector (-51 jobs) and retail trade (-6 jobs).

Personal income growth was very weak in 2017 (1.8%) but accelerated in 2018 (4.1%). Robust growth should continue averaging 4.7% in 2019, slow to 4.0% in 2020 (due to lower Federal transfer payments to the State), then increase to 4.7% in 2021.

Over the past year, recently located employers continued to grow and hire in the City of Rio Rancho. The City has expanded its efforts to create additional jobs and prosperity through entrepreneur and small business support programs and initiatives. The success of these efforts will lead to job creation and increased gross receipts tax revenue. Redevelopment has started in some key areas/buildings in the City and is expected to continue through 2019, bringing new entertainment, lifestyle amenities, and services to our residents. The Unser Gateway region continues to see commercial growth and investment with projects like Morningstar Senior Living and several others currently under construction.

In FY 2020, General Fund revenue is projected to increase 6.0% compared to the FY 2019 Adjusted Budget. This forecast was based on current economic data as well as the addition of two significant revenue sources. Effective January 2019, the City imposed an additional 1/8th of 1.0% increment of gross receipts tax (GRT). The new GRT, the Hold Harmless GRT (HHGRT), will be collected for a full 12 months in FY 2020 and is expected to result in $1,276,000 of new revenue. The second significant addition to revenue is a 1.0% increase to the Public Service Company of New Mexico (PNM) franchise fee, which is projected to bring in $817,000 of new revenue. It should be noted that a majority of the new PNM revenue going forward has already been accounted for when compensation adjustments were made for police, dispatch and fire and rescue personnel in FY 2019.

The City uses economic data to perform a regression analysis to forecast GRT. Using conservative forecasting, changes in the annual General Fund revenue range from 0.2% in FY 2021 to 4.6% in FY 2022. In addition to using data produced by the Bureau of Business and Economic Research (BBER), the five-year plan reflects GRT projections that contemplate the continued phase-out of the hold harmless distribution, which the State began in FY 2016.

In FY 2020, 30.0% of the hold harmless distribution will have been phased out. This percentage will increase incrementally by 6.0% annually until the hold harmless distribution has been eliminated in FY 2030. The adverse financial impact of the phase-out in FY 2020 will be approximately $1.4 million. By
FY 2023, the impact will reach approximately $2.8 million annually. By FY 2030, at full phase-out, the effect will be an estimated $7.0 million in lost GRT revenue to the City annually.

The FY 2020 Adopted Budget continues the City’s commitment to attracting new growth and investment into Rio Rancho by maintaining the $200,000 allocation to Sandoval Economic Alliance in order to continue to attract new retail and commercial interests.

Expenditure Highlights

For preparation of the FY 2020 Budget, City departments were instructed to keep their budgets at the same level as the FY 2019 Adopted Budget, except as necessary to address the highest priority needs. The FY 2019 Adopted Budget is considered the base year budget and any increase was evaluated and funded based on its contribution to the City’s Strategic Plan.

As reflected in the City’s adopted Strategic Plan, public safety continues to be a priority of the Adopted Budget, encompassing 49.8% of the General Fund expenditures (excluding transfers). For public safety, the FY 2020 Adopted Budget includes:

- Law Enforcement career progression and other compensation ($575,771), and payout of accumulated compensatory time balances ($301,977);
- Fire and Rescue career progression plan year three ($190,000) and payout of accumulated compensatory time balances ($166,423); and
- Dispatch employees’ career progression plan and other compensation ($189,194) and payout of accumulated compensatory time balances ($8,377).

The Adopted Budget continues the City’s Strategic Plan goals to maintain infrastructure throughout Rio Rancho. The budget includes funding for the following:

- Materials for the ongoing neighborhood streets improvement project - 10 miles per year divided between the six City Council Districts ($250,000);
- Pavement preservation work for Southern Blvd ($1,000,000);
- Pavement management system to evaluate and plan for road repair ($64,613);
- Permit monitoring for Los Milagros channel improvement ($23,686);
- Chessmen Road drainage improvements design and construction ($435,000); and
- Funding for a loader for the Streets and ROW Division ($200,000), and a total of four replacement vehicles for the Public Works Engineering Division and Parks Maintenance Division ($114,000).

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

- Loma Colorado Library lighting improvements to replace standard light bulbs for LEDs ($64,746 one-time), which is expected to save $16,580 in recurring operating costs;
- Aquatic Center facility improvements ($45,000 one-time) for slide railing replacement and diving board foundation repairs;
- Parks and facilities equipment replacement ($197,000 one-time);
- Payout of accumulated compensatory time balances to non-public safety employee groups ($46,385 one-time);
• Addition of a part-time position for the City Clerk’s Office and eliminating a temporary position at a net increase to the recurring cost of $12,911. Adding a permanent, part-time position will enhance the Clerk’s Office service level to businesses and customers as well as address increased workloads;
• Transfer of a full-time position from the City Attorney’s Office to the City Clerk’s Office to focus efforts on compliance with the Inspection of Public Records Act (IPRA) at a net increase to the recurring cost of $11,237; and
• Addition of a full-time position for the Financial Services Department to manage the City’s Special districts (PID’s and TIDD’s) with an increase to recurring costs of $72,666, offset by recurring District contributions of $60,000, resulting in a net increase to recurring costs to the City of $12,666.

Importantly, the Adopted Budget includes a 2.5% salary increases for all employee groups. For the Fire and Rescue Department, this is realized via the third year and final of implementing a career progression plan. Also included in the budget is a 5.0% increase in health insurance costs (to both the City and employees) and a 0.25% increase to the employer PERA contribution mandated by legislation passed in the 2019 legislative session. The recommendation for a salary increase for all employees is to account for cost of living increases, as well as to follow the recommendation of a Classification and Compensation Study performed in 2016. Annual salary adjustments help keep Rio Rancho’s pay competitive within the market and retain employees.

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

By year-end, anticipated revenues and the budgeted level of spending will create a reserve fund balance that exceeds 8.3% of expenditures, the level required by the State of New Mexico. The FY 2020 Adopted Budget anticipates total reserves of 15.0% of expenditures, which complies with the City’s policy target.

GENERAL FUND DETAILS

REVENUES: $63,050,240

In total, General Fund budgeted operational revenues for FY 2020 are projected to increase by $3,592,632 or 6.0% compared to FY 2019 adjusted budget revenues. The most significant changes include a full year of revenue from the 1/8th of 1.0% increment of HHGRT that became effective January 1, 2019 ($1,276,086), an increase to the PNM franchise fee ($817,000), additional property tax revenue ($1,201,384), and an increase to GRT revenue resulting from increased business activity ($669,860).

The City’s single most important revenue source is the gross receipts tax. In FY 2020, the GRT revenue estimate of $31,485,732 accounts for nearly 50.0% of the total General Fund operating revenues. In FY 2020, the recurring GRT revenue in the General Fund is projected to increase by approximately $1,515,616 or 5.1% from the FY 2019 Adjusted Budget levels (net of the reduction in the hold harmless distribution).

Property tax revenue, the second-largest revenue source, is projected to be $17,215,292. This is an estimated increase of 7.5%, or $1,201,384, from FY 2019 Adopted Budget levels. The property tax revenue forecast utilizes the yield control formula established by State statute. In addition, the FY 2020
revenue estimate incorporates housing permit data and known non-residential construction activity, as well as an inflation factor of 1.0%

**EXPENDITURES: $59,091,992**

Total General Fund expenditures are projected to increase by $3,235,690 or 5.5%. Most of this increase is related to additional personnel costs in public safety and materials and services for infrastructure activities.

**Personal Services: $45,880,385**

Personal Services expenditures account for 77.6% of the General Fund operating budget. This budget reflects an increase of $2,740,342 or 6.4%. This increase includes $575,771 for a law enforcement career progression plan and other compensation, $190,000 for the third and final year of the Fire and Rescue Department career progression plan, a 2.5% salary increase for all employee groups, a 5.0% health insurance increase, and a 0.25% of the PERA employer contribution mandated by legislation passed in the 2019 legislative session. The FY 2020 Adopted Budget also creates a part-time position for the City Clerk’s Office by upgrading an existing temporary position, a full-time position for the City Clerk’s Office to ensure compliance with the Inspection of Public Records Act (IPRA), and a full-time position for the Financial Services Department to manage the City’s special districts (PID’s and TIDD’s) the funding for which is almost completely offset by fees charged to the special districts for the services the City provides to them.

The City continues to plan for an increasing number of retirements. The FY 2020 Adopted Budget includes $442,503 to cover estimated cash payouts and terminal leave costs for eligible employees, based on recent trends. Salary savings continues to be factored into the budget based on the historical average vacancy rate for all City positions.

**Material and Services: $13,003,618**

The Adopted Budget reflects an increase of $474,940 or 3.8%. The majority of this increase is dedicated to the Public Works Department for the following activities:

- Ongoing neighborhood streets improvement project - 10 miles per year divided between the six City Council Districts ($250,000);
- Pavement management system to evaluate and plan for road repair ($64,613);
- Increase contract for median and shoulder maintenance ($19,404); and
- Permit monitoring for Los Milagros channel improvement ($23,686).

**Capital Outlay: $207,989**

The Adopted Budget includes a small General Fund investment in capital equipment. This funding provides for replacement of equipment for the Parks and Facilities Division $197,000, and from a developer contribution to the Fire Department to purchase an industrial gear washing machine. Many other important capital needs have been deferred until sufficient funding becomes available.

**TRANSFERS TO SPECIAL FUNDS: $7,944,700**

Transfers provide General Fund support to other funds for various activities, as indicated below:
Multi-Purpose Event Center Fund: $916,637
This transfer includes the operating subsidy provided by the General Fund for the Santa Ana Star Center.

Promotion and Marketing Fund: $46,826
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. There is a reduction in this transfer resulting from materials and services expenses related to economic development efforts shifting from this fund to the General Fund.

Infrastructure Fund: $3,103,262
The sources of revenue in this fund are grants for road construction and transfers from the General Fund for grant match requirements for road rehabilitation. The transfer of $3,103,262 is for (1) $1,000,000 for pavement preservation work (Southern Boulevard); (2) $435,000 for Chessman Road drainage improvement design and construction; and (3) $1,668,262 allocating this sources into the reserves for future road improvements. This allocation comes from the 70% of the positive FY 2019 revenue variance of $2,383,231.

Computer Replacement Fund: $1,324,741
This transfer is made for planned replacement of equipment ($112,500), and security initiatives ($88,576). In addition, $238,323 or 10% was allocated from the positive FY 2019 revenue variance of $2,383,231, and $920,342 from the FY 2019 positive expenditure variance will be transferred. These additional sources will be use to replace the City’s financial software. Currently reserves for this purpose are $2,275,153.

Local Government Correction Fund: $98,733
This transfer is made to subsidize the cost to house prisoners at the Sandoval County Detention Center not covered by the correctional fees levied through the Municipal Court. There is an increase in the correction fees from $35 to $50 allowing for a reduction to this annual transfer.

Regional Emergency Communication Center: $1,667,959
This transfer represents the City’s share of the costs of the Regional Emergency Communication Center.

Equipment Replacement Fund: $660,646
This transfer will complete funding to replace a loader for the Streets and ROW Division and four trucks (three for infrastructure related activities and one for the Parks, Recreation and Community Services Department). In addition, $476,646 or 20% was allocated from the positive FY 2019 revenue variance of $2,383,231. This additional source will be used for future equipment needs.

City Facilities Improvement Replacement Fund: $122,959
This transfer complete funding for improvements to various City facilities including (1) Aquatic Center railing replacement; (2) Aquatic Center diving board; (3) Replacement of Rainbow Park garage doors; and (4) lighting improvements to both libraries.

Transfer to Federal Grants Fund: $2,937
This transfer is to cover expenditures not reimbursed by the grantor.

ENDING FUND BALANCE: $8,834,444
The General Fund Reserved Ending Fund Balance is projected to be $4,924,333, which reflects the State's reserve requirement of 8.3% of General Fund expenditures. The Unreserved Ending Fund Balance, or the additional fund balance above the State minimum, is projected to be $3,910,111, for a total Ending Fund Balance of $8,834,444 or 15.0% of expenditures. This level of fund balance complies with the City's long-term policy target of 15.0%.

**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 is found in the Special Fund section of the Adopted 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. Projected expenditures for this event are budgeted at $8,000 less than FY 2019, with a corresponding increase in projected revenues of approximately $20,000. This fund also supports the Rio Rancho Dining Guide and 50% of the division manager salary and benefits.

**Local Government Correction Fund**
Fees are assessed for guilty pleas at the Municipal Court to defray the cost of housing convicted offenders at the Sandoval County Detention Center. Fee revenues and cash in the fund are budgeted at approximately $421,267. Expenditures from this fund pay for housing inmates, the total cost of which is projected to be $520,000. This activity requires a transfer from the General Fund of $98,733. Sandoval County has recently increased the daily rate charged for housing inmates from $70 to $95 per day. Staff requested an increase to the City's fee from $35 to $50 to help offset this additional cost increase. The transfer amount from the General Fund is based on prior year trends, and the proposed fee increase for housing inmates is reflected in the transfer amount.

**E-911 Grant Fund (255)**
Projected resources from a State grant for the Communication Center total $448,129. Funds will be used to purchase supplies and minor equipment in support of Communication Center activities.

**Law Enforcement Fund**
Projected resources from a State grant pursuant to the Law Enforcement Protection Fund Act total $102,600. Funds will be used to purchase supplies and minor equipment in support of law enforcement activities.

**Traffic Education and Enforcement Fund**
This fund includes fines and forfeiture revenues to be used for police traffic activities and to replace motorcycles. The FY 2020 Adopted Budget includes one motorcycle replacement costing $36,610.

**Police Miscellaneous Revenues Fund**
This fund includes revenues from automated traffic enforcement fees to be used to fund police vehicles. In FY 2020, it will fund seven police vehicles from fees that were collected during FY 2019. FY 2020 projected revenues of $325,000 reflect Police Department estimates for automated traffic enforcement (eight mobile speed monitoring units). All fees collected from the automated traffic enforcement program are used to fund new police vehicles.
Fire Protection Fund
Projected resources from a State grant pursuant to the Fire Protection Fund Act total $780,000. 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 Gross Receipts Tax revenues to be used for the acquisition, construction, operation, and maintenance of solid waste facilities or water/sewer systems and debt service on financing projects. Total collections for FY 2020 are projected to be $765,622.

Higher Education GRT Fund
This fund accounts for Municipal Higher Education Gross Receipts Tax revenues. This tax is restricted for the acquisition, construction, renovation or improvement of facilities of a four-year post-secondary public education institution located in the municipality and acquisition of or improvements to land for those facilities. It may also be used for debt service on revenue bonds issued for those purposes. The FY 2020 Adopted Budget projects $2,449,990 in revenues and anticipates an ending fund balance of $8,117,271.

Municipal Road Fund
This fund is supported by State-shared gasoline tax revenue which is estimated to be $715,000 in FY 2020. The fund provides for road maintenance materials and services and debt service for the 2019 Heavy Equipment Loan.

Infrastructure Fund
Sources of this fund are grants for road construction and transfers from the General Fund for grant match requirements for road rehabilitation. The transfer of $1,435,000 is for (1) Southern Boulevard pavement preservation work ($1,000,000); and (2) Chessman Road drainage improvement design and construction ($435,000). In addition, there are four federal grants and one state grant budgeted in this fund. These is $300,000 for Unser Boulevard ROW acquisition, $3,888,423 for Lincoln Avenue construction, $184,454 for Nicklaus Drive sidewalk construction, and $753,558 for Montoyas Arroyo bank stabilization at the Sports Complex. A state grant of $248,225 for Montoyas Arroyo bank stabilization at the Sport Complex is also budgeted. Finally, $1,668,262 is allocated and reserved for future road improvements. This allocation equals 70% of the positive FY 2019 revenue variance of $2,383,231.

Computer / Software Replacement Fund
Sources of this fund come from the General Fund to support technological initiatives. The transfer of $166,076 will be used (1) to replace computers and equipment that are on a five-year replacement schedule ($112,500); and (2) for technology security upgrades ($53,576). In addition, $238,323 or 10% is allocated from the positive FY 2019 revenue variance of $2,383,231, and $920,342 from the FY 2019 positive expenditure variance is being reserved to replace the City’s financial software. Currently reserves for this purpose are $2,275,153.

Equipment Replacement Fund
Available sources in this fund total $314,000 which includes a transfer from the General Fund of $184,000. Funding will be used for (1) replacement of a loader for the Streets and ROW Division ($200,000); and (2) four non-public safety vehicles ($114,000). In addition, $476,646 or 20% is allocated from the positive FY 2019 revenue variance of $2,383,231. This additional source will be used for future equipment needs.
City Facility Improvement/Replacement Fund
Available sources total $351,771, including roll forward cash of $62,500 from the sale of a portable structure located on property on Northern Boulevard, cell tower revenues of $166,312, and transfers from the General Fund of $122,959. Funds will be used for (1) Aquatic Center building maintenance ($43,500); (2) building improvements at Fire Station 1 for partial roof restoration ($73,500); (3) Loma Colorado Library LED lighting ($64,746); and (4) Rainbow Pool garage door replacement ($20,000). Amounts of $62,500 and $87,525 are reserved for the City Maintenance Yard and for Park ADA improvements, respectively.

State Appropriation Capital Fund (315)
Projected resources from a State appropriation grants of $1,677,000 for: (1) Streets and Rights of Way division equipment $642,000, and (2) parks projects $1,035,000.

Impact Fee – Road Fund
Based on 575 projected single-family starts in FY 2020, budgeted revenue is $326,665. Sources in this fund will be used for Lincoln Avenue construction ($662,633) as the federal grant match (see Infrastructure Fund information).

Impact Fee – Bikeway/Trails Fund
Based on 575 projected single-family starts in FY 2020, budgeted revenue is $7,634. Impact fee revenue will be used for future projects.

Impact Fee – Parks Fund
Based on 575 projected single-family starts in FY 2020, budgeted revenue is $70,341. Impact fee revenue and accumulated reserves will be used for Sports Complex North improvements totaling $67,356.

Impact Fee – Public Safety
Based on 575 projected single-family starts in FY 2020, budgeted revenue is $198,616. Impact fee revenue will be used for future projects.

Impact Fee – Drainage
Based on 575 projected single-family starts in FY 2020, budgeted revenue is $179,836. Impact fee revenue will be used for future drainage projects.

WATER AND WASTEWATER UTILITY DETAILS

The Water and Wastewater Utility Enterprise provides service to over 35,000 customers. Revenue to fund operations and capital investment is derived from the sale of water, wastewater, and recycled water services, impact fees, interest and other income. The FY 2020 Budget projection includes modest growth in the number of water and wastewater accounts of 1.7%. Calendar year 2018 consumption levels are utilized to project metered use and the City does not anticipate large fluctuations from this baseline demand during the planning period from FY 2020 through FY 2024.

The revenue projection also includes a 1.75% water rate increase beginning in FY 2020 through FY 2024 and no wastewater rate increase. The rate increase raises the average monthly water/wastewater bill by 68 cents (FY 2019 vs. FY 2020). By FY 2024, the proposed rate increase would add $3.61 per month to the average water/wastewater bill.
The water rate increase is the result of a comprehensive analysis and rate study completed in 2018, and pursuant to input given by Governing Body members in September 2018 which was to keep the proposed rate increase under 2.0%. The Governing Body adopted the rate increase at their regular scheduled meeting of May 22, 2019, and the new rates became effective July 1, 2019 (FY 2020). The prior utility rate increase occurred effective July 1, 2016 (FY 2017).

The 2018 Rate Study determined that a water rate increase of 1.75% beginning in FY 2020 through FY 2024 is needed for the following reasons:

- Maintain financial solvency, which impacts bond ratings and borrowing costs;
- Maintain adequate cash reserves;
- Fund improvements to the water and wastewater system in order to maintain reliable services; and
- Adequately account for increases in the cost of materials and services associated with operating a water and wastewater system

It should be noted that in order to keep the rate increase as minimal as possible for ratepayers, a 1.75% water rate increase does not provide sufficient revenue to be used to cash fund utility work associated with future General Obligation Road Bond projects, which was the case with 2016 and 2018 voter-approved bonds. In the future, if voters approve General Obligation Bonds for road improvement projects, roads with no utility needs will need to be selected, or bond proceeds will have to be utilized for both road and utility work, which will reduce the amount of improvements that can take place.

In FY 2020, the Utilities Department will continue to fund the replacement of failing polyethylene water service lines installed in the 1980s throughout the City. Replacing these service lines will reduce the number of leaks thus saving water resources and recurring maintenance expenses. The Utilities Department will also continue to make investments in well rehabilitation and re-drilling, and will complete several water main replacements concurrent with road work related to the voter-approved 2018 General Obligation Road Bond and New Mexico Department of Transportation projects.

**REVENUES: $51,825,416**

Total revenues in FY 2020 for the Utility Enterprise as a whole are projected to decrease by nearly $2 million, or -3.7% compared to the FY 2019 Adjusted Budget due to the following:

- Taken together, water and wastewater revenue related to volume and base charges is projected to increase $1.7 million, or 3.8% compared to the FY 2019 Adjusted Budget. The FY 2020 Adopted Budget incorporates a modest 1.7% growth rate for water and wastewater accounts consistent with recent past experience. The projection also includes a 1.75% water rate increase.
- Intergovernmental revenue is expected to decrease by $3.6 million. The FY 2019 Adjusted Budget includes several State and federal grant awards rolled forward from prior years. The FY 2020 Adopted Budget does not include any new grant sources.
EXPENDITURES: $54,788,556

Personal Services: $2,138,413

The Personal Services budget for the Utility Enterprise is projected to increase by $48,304, or 2.3% compared to the FY 2019 Adjusted Budget. The Personal Services budget includes a proposed salary increase of 2.5% and an increase to health insurance premiums of 5.0%. The Utility Enterprise will have 35.5 full-time equivalent employees in FY 2020.

Materials and Services: $24,217,190

The Materials and Services budget for the Utility Enterprise is projected to decrease by a net amount of $3.4 million, or 12.2% compared to the FY 2019 Adjusted Budget. The decrease is primarily due to one-time items and/or prior year rolls forward included in the FY 2019 Adjusted Budget that are either not included in the FY 2020 Budget, or included at lower expenditure levels. Among these items are: contract services for the Engineering Division for sanitary sewer geographical information system data collection activities; repair and maintenance for the Water Production Division for Well 2 repairs and arsenic treatment hatch repairs; barricade and heavy equipment rentals for the Transmission and Distribution Division used to repair water mains and service lines; meter installations and replacements for the Transmission and Distribution Division rolled forward from the prior year; several major repair projects to wastewater system infrastructure rolled forward from the prior year; and fleet maintenance services for the Wastewater Treatment Division for repairs to heavy equipment. Additionally, the FY 2019 Adjusted Budget included $303,452 in prior year roll forward funding for water service line replacement that is not included in the FY 2020 Recommended Budget allocation.

Capital Outlay: $13,319,722

Capital Outlay in the FY 2020 Adopted Budget includes water rights acquisition, new and replacement vehicles and equipment, and several infrastructure projects. A detailed list of items 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, and water and wastewater impact fees. Capital projects in the FY 2020 Budget include the following:

- Water capital projects, including Phase 2 Well 13 re-drill, Well 9 Tank replacement, pressure reducing valve replacement, well site security, and water main line replacements ($5,512,540);
- Water Impact Fees for Phase 2 Well 13 re-drill and Well 9 Tank replacement ($1,800,000);
- Purchase of water rights to satisfy Office of the State Engineer permit requirements ($790,720);
- Vehicles used for water operations, including a replacement pick-up truck, and replacement dump truck ($249,092);
- Utility equipment and a carport for the Water Production and Transmission and Distribution Divisions ($38,150); and
- Wastewater capital projects, including Wastewater Treatment Plant 2 (WWTP2) Ultraviolet Disinfection System improvements, solid handling rehabilitation at WWTP2, Willow Creek Road Sewer Line replacement, wastewater security, and SCADA improvements ($4,929,200).

It should be noted that the FY 2020 Adopted Budget allocates $919,441 to water projects from utility capital improvement funds that no longer must be held in reserve. Due to the City being owed approximately $6.2 million for years stemming from a 2007 reimbursable grant agreement with the U.S. Army Corps of Engineers, funding was set aside to try and account for this uncollected debt on the
City’s financial statements. Through the efforts of Mayor Hull, City staff, Congressional members and their staff, a lobbyist, and the support of the City Council, between 2016 to 2019 the approximately $6.2 million owed by the federal government to the City was recovered. As a result, this bad debt has been erased and the reserve account and associated funding is no longer needed, and can be put to use addressing capital needs.

**Debt Service:** $15,113,231

The Utility Funds transfer for FY 2020 debt service includes payments for senior and subordinate debt from the Utility Operating Fund and for water rights acquisition loans from the Water Rights Acquisition Fund.

- Utility Operating Fund for Senior Debt: $11,215,000
- Utility Operating Fund for Subordinate Debt: $1,723,156
- Water Rights Acquisition Loans: $2,175,075

**ENDING FUND BALANCE:** $22,302,319

The Utility Enterprise Fund’s ending fund balance consists of debt service reserves ($2,103,391), water and wastewater impact fees reserves ($2,313,428), operating reserve ($14,827,896), and a capital reserve ($3,057,604).

The operating reserve of $14.8 million exceeds the minimum 90 days’ cash target reserve, while the capital reserve of $3.1 million represents 1.0% of the total estimated value of capital assets. Both reserves were established pursuant to the financial planning benchmarks recommended in the 2018 Rate Study. The 90 days’ cash target reserve is an increase from the previous benchmark of 60 days’ established in the 2012 Rate Study. The operating reserve has been allowed to accumulate as part of the plan to cash finance a substantial portion of the Utility Infrastructure and Capital Improvement Plan.

Based on the estimated revenues and expenditures, the Utility Enterprise meets the minimum required debt service coverage ratio of 1.15 for parity bonds. The projected coverage ratio is 2.09 for senior debt and 1.81 for senior and subordinate debt combined.

**CONCLUSION**

In summary, the FY 2020 Adopted Budget maintains funding for all City services and provides capital funding for certain needs. There is a 2.5% salary increase for all employee groups and a 5.0% health insurance increase. Finally, the budget will maintain the City’s 15.0% General Fund reserve target.

The last six years have been financially challenging for the City. While the FY 2020 revenue picture is more positive than past years, the City must remain diligent and use its resources wisely. Continuing to allocate scarce resources efficiently and strategically will be key in order to provide the best level of services possible to citizens.

Sincerely,

David S. Campbell
City Manager
The Great Seal of the City of Rio Rancho, New Mexico

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