



City of Santa Fe, New Mexico

200 Lincoln Avenue, P.O. Box 909, Santa Fe, N.M. 87504-0909

David Coss, *Mayor*

Councilors:

Miguel M. Chavez, Mayor Pro Tem, Dist. 3

Patti J. Bushee, Dist. 1

Chris Calvert, Dist. 1

Karen Heldmeyer, Dist. 2

Rebecca Wurzbarger, Dist. 2

Carmichael A. Dominguez, Dist. 3

Matthew E. Ortiz, Dist. 4

Ronald S. Trujillo, Dist. 4

July 1, 2006

TO THE HONORABLE MAYOR, CITY COUNCIL, AND CITIZENS OF SANTA FE:

I am pleased to submit the Fiscal Year 2006/2007 Budget for the city of Santa Fe. This budget was based on improving assumptions of improving economic conditions and included limited one-time transfers into the general fund. Despite uncertainty regarding revenue trends, the budget maintains all basic services including the personnel, operating costs and equipment needs required to adequately support the current programs for public safety, recreational programs, and maintenance of infrastructure, community services, and administration. However, it should be noted that fleet and equipment replacement needs have been deferred for a number of years, particularly in general fund

The primary function of city government in Santa Fe is to provide quality customer service to its citizens in a multitude of diverse areas. The city recognizes that services should be provided as efficiently and economically as possible given available resources. In addition, the needs of the community continue to be addressed particularly as they affect children, senior citizens and lower income families. The limited availability of housing in price ranges that working families can afford is another important concern, as the median cost of a home in Santa Fe exceeds the national average.

In total, the city assists in funding health education and life skills training, self-help groups, a clinic for persons with HIV, adult day care, drug therapy, tutoring, dispute resolution, child care, therapy groups for children of substance abusing parents, as well as funding assistance for a youth shelter, rape crisis center, battered women's shelter, children counseling programs, mental health programs, hot meal program, rental and utility assistance and other counseling programs. The city also continues to fund a number of after school and summer youth recreational programs.

In the area of economic development, \$814,500 was budgeted for firms involved in local economic development. A 1% increment of the city's General Fund state-shared gross receipts tax is allocated to economic development. This amounts to \$385,165.

The city is continuing its programs to increase the availability of affordable housing with \$562,000 from the General Fund allocated to various housing services to assist families in buying homes.

City departments were required to review and evaluate the costs and the benefits of current programs, the effectiveness of their personnel utilization, and needs and requests from the community. Many difficult decisions were required of the City Manager and City Council in evaluating department requests and programs and in allocating available resources. We are proud of the efforts of all those involved in continuing to provide quality services to the citizens of Santa Fe while striving to become more efficient and effective.

“Committed to our community, and making a difference”

BUDGET OVERVIEW

The city's General Operating Fund pays for the cost of running the day-to-day business of the city. Revenues are derived primarily from local and state-shared taxes, fees and services, licenses and permits, and a variety of other revenues including grants, interest income, and inter-fund transfers. Services are provided by eight major city departments.

REVENUE

Revenue projections were formulated based on historical information and the professional judgment and analysis of the Finance Department staff. Economic information related to state-shared revenues was obtained from the New Mexico Department of Taxation and Revenue. Other economic and financial information is solicited from the New Mexico Department of Finance and Administration, Santa Fe County, the University of New Mexico Bureau of Business and Economic Research and various national, state and local publications and reports.

The General Operating Fund FY 06/07 *budgeted revenue* is based on total projected revenues of \$71,166,972. Compared to the *budgeted revenue* in FY 05/06 of \$67,837,272, the projected growth is 4.9%, an increase of \$3,329,567. Of this, \$2,720,921 is from the projected increase of gross receipts, including a projected increase for the annexation of the airport property. Compared to the *actual revenue* of \$70,418,633 received in FY 05/06, this is an increase of 1.1%.

The following assumptions materially affected the formulation of the General Operating revenue budget:

1. Gross receipts tax revenues had been budgeted at close to a 4.0% increase from the prior year budget. The city continues to experience improving monthly gross receipts tax revenues. The projection for FY 06/07 is 2.2% higher than the FY 05/06 actuals.

Historic records and trends for gross receipts are also reviewed, which are as follows:

Fiscal Year 01/02	+2.55%
Fiscal Year 02/03	+4.11%
Fiscal Year 03/04	+4.84%
Fiscal Year 04/05	+1.74%
Fiscal Year 05/06	+8.32%

Projections are set conservatively at a level below the gross receipts tax revenues realized at the time of budget preparation. The level of the previous fiscal year is also considered. Current growth trends reflect economic recovery. Considering Santa Fe's reliance on tourism, a highly discretionary economic segment, the relative strength of gross receipts tax revenue should be stable.

In January 2005, gross receipts tax was removed from food items and certain medical payments, however, the gross receipts tax was raised by a ½% increment which was to be used by the state to make these lost revenues to cities and counties. Until January 2006, there were problems with reporting the non-taxable items and the city of Santa Fe's distributions were significantly affected. Since January 2006, the trends have been consistent with economic trends.

2. The ¼% municipal gross receipts tax increment was approved beginning in 1994, to fund the transit system with 2/3 of the balance to go to the General Fund to make up a lost increment of gross receipts tax that the state retained and with 1/3 of the balance to fund Quality of Life programs and projects.

The ¼% municipal gross receipts tax increment allocation to transit increased slightly both dollar-wise and percentage-wise. Funding for the fixed route transit operations is \$3,884,830 (exclusive of encumbrances) plus a \$111,375 match for the federal grant, a match of \$7,700 for the Ridefinders Program and an allocation of \$596,829 for the Santa Fe Ride program for a total of \$4,600,734.

EXPENDITURES

In preparing this budget, there were a number of issues and concerns. Key goals were established, as follows:

1. Water issues remain as the City's top priority. This recommended budget includes the water operating budget for FY 06/07 with additional personnel needed primarily in anticipation of the future expansion of operations for the diversion project. A finance plan for future water projects has been adopted and is updated on a regular basis. A major component of the financing plan was the approval of a ¼% GRT increment by the voters in March 2005 which became effective in July 2005 (with cash receipts starting September 2005). Financing is being examined for potentially refinancing current acquisition bonds, additional financings through the city, state financings through the New Mexico Finance Authority (NMFA), and other grant funding.
2. Balance the General Fund matching recurring projected revenues and recurring expenditures, providing for adequate budget for current operations. For the most part, this was achieved. In light of the needs and requirements for various expenditures, this essentially brought operations to the level of the current base budget, with increases (pay packages) offset by reductions (positions). In order to have the reduced revenues cover current base, several one-time transfers to the General Fund were required.
3. Maintain cash reserves in the General Fund at 10% of expenditures.
4. Balance all other funds within realistically projected revenues (and cash balances if fiscally advisable) and match recurring revenues with recurring expenditures, maintaining current programs as much as possible. All funds are balanced budget-wise with revenues to expenditures/expenses and available cash balances with some limited fee increases and other premium increases. The Municipal Recreation Complex (MRC) will continue to require a significant subsidy of \$902,430 (from the 1/2% CIP GRT), and the Genoveva Chavez Community Center (GCCC) will require a subsidy of \$217,964 (from cash balances from the 1/16% GRT). The MRC deficit is largely due to debt service requirements (in contrast to the GCCC, which was funded through general city capital improvement bonds).
5. Maintain key programs, including transit, affordable housing and summer recreation programs, fund Children and Youth programs (3% of state shared gross receipts tax), Human Services programs (2% of state shared gross receipts tax), and economic development (1% of state shared gross receipts tax).
6. Maintain a level of capital outlay replacement in the base General Fund, which was not achieved due to the lack of revenue. It is acknowledged that the aging fleet and equipment inventory needs to be addressed in upcoming budget cycles, and that the city is paying a high cost to maintain the existing fleet and equipment inventory.

7. With the mayoral election in March 2006, a major reorganization was presented by the new mayor. It included new departments of administrative services and economic development and split the parks and recreation department between public works for park maintenance and community services for recreation. This budget reflects that reorganization, however, some details may still be subject to change. By virtue of taking 14 departments down to 11 departments, the intent was to create a flatter organization which will provide improved service and provide better accountability. The overall reorganization is cost neutral in that positions were moved around as needed and salaries netted out.
8. With the new mayor, an emphasis was put improving the city parks that have been damaged by the extended drought in the area. While most of park improvement funds are in the CIP budget, an additional seasonal crew was added from the Quality of Life fund in the amount of \$194,483.

A number of worthy programs could have been justifiably increased; however, funding was not available.

General Fund Programs

The General Fund is balanced; however, it continues to be stretched to maintain current programs and to support the pay plans. For a number of programs, funding has remained level for several years.

In order to balance the General Fund, \$3.3 million of base requests and \$5.5 million of expansion requests were not recommended for funding. Some cash balances were transferred to supplement available revenue, and risk funds were charged for pre-employment, police and fire physicals, employee assistance, and safety supplies in the amount of \$214,230. Significant one-time transfers to the General Fund from other funds were necessary to compensate for projected revenue shortfalls. In addition, some capital outlay, road maintenance and information technology upgrades and replacements were moved to the CIP funds. A vacancy credit of 3.4% was applied. Although these vacancies generally occur without significant impact, the vacancy period may need to be extended.

After discounting one-time, non-recurring expenditures and encumbrances of \$1,122,595 contained in the FY 05/06 budget, the FY 06/07 expenditure budget is approximately 5.7% greater than the Fiscal Year 05/05 appropriation. This resulted from the impact of the pay plans, employee medical insurance, utilities, fuels and liability insurance, as well as increased allocations for Children and Youth, Human Services, Economic Development, the HOME grant, and senior grants.

Employee Pay Plan

The budget incorporates the three union contracts negotiated during the past fiscal year as well as a 1.5 % July increase for non-union.

The American Federation of State, County and Municipal Employees (AFSCME) contract was approved with a 1.5% increase in July and a percentage increase (to be determined by Council) the first full pay period in February.

The Fire union contract was approved including a 1.5% increase in July and a 1.5% increase in January.

The Police union contract included increases for both sworn and non-sworn personnel. Effective in July, Non-sworn personnel receive a 1-step salary increase and sworn will receive 1.5% base rate adjustment. Both will receive a 1-step longevity increase. This is equivalent to a 2% increase for non-sworn and a 2.5% increase for sworn in July. The contract also approved a percentage increase (to be determined by Council) the first full pay period in February. This contract also contained increases in incentives given for K-9, SWAT, EOD, FTO, bilingual, as well as the four educational incentives. The FY 06-07 budget included a one time bonus of \$1,500 to be paid in July to bargaining unit employees.

The January increase for Fire was set in this year's contract and was not contingent on the status of the gross receipts tax. AFSCME and Police increases are dependant on the midyear status of gross receipts Tax and the percentage is to be determined at that time.

The city manager will be proposing an increase to the city property tax for public safety during the first quarter of FY 06/07. If approved, a portion of this will support recruitment, retention and compaction issues in the Police Department, and a portion will be used to increase staffing in the Fire Department.

Capital Outlay

There is no capital outlay in the general fund due to limited revenues. If FY 05/06 closeout and midyear FY 06/07 identifies increases in revenue, high priority capital outlay requirements for FY 06/07 will be funded.

For the Police Department, a total of \$410,217 is available in the 1/16% Police GRT fund for equipment and vehicle replacement.

Human Services Providers

For FY 06/07 the city of Santa Fe continued its commitment to support the various human services agencies by appropriating \$770,330 from the General Operating Fund, which represents a 2% allotment of the state-shared gross receipts tax revenue projection.

Children and Youth Activities

For FY 06/07, the City Council appropriated \$1,155,495 for the Children and Youth Activities Program, which represents the allotment of 3% of the state-shared gross receipts tax revenue projection (with some carryover from the prior year).

In other programs, the following appropriations were approved:

Santa Fe Trails Bus System

The City Council recommended funding in the amount of \$7,672,354 for the transit system, grant matching, Ridefinders, and Santa Fe Ride programs. This included a U.S. Department of Transportation grants providing \$900,859 for FY 06/07 transit operations. Funding is included for four buses in the amount of \$556,875.

Water Operations Enterprise Fund

Projects are in the planning phase to increase the water supply with funding requirements in excess of \$100 million over the next several years. A capital master plan and a related finance plan have been completed. A 1/4% gross receipts tax increment to be allocated to water projects became effective July 1, 2005, although additional rate increases will also be required to fully fund all the planned projects.

Wastewater Operations

A rate increase was approved in FY 03/04 to generate revenue to fund the \$16,000,000 sludge handling facility required by the state before 2007 as well as other projects. Revenues have not reached the forecast level primarily due to the fact that wastewater rates are based on water rates, and water consumption has been significantly decreased by water conservation surcharges. Funds are available for design of the sludge handling facility; however, financing will not be undertaken until all other wastewater funds available are expended and construction is underway and revenues are reviewed at that point. A transfer of \$976,000 to the subsidiary wastewater project fund is included in the budget. Additional rate increases may be required in FY 06/07 to support the financing that may be required based on a cost-of-service study.

Santa Fe Convention & Visitors Bureau (SFCVB)/Lodgers' Tax

The programs funded to some degree from Lodgers' Tax in FY 06/07 are the Convention and Visitors Bureau, transit routes in the downtown/museum areas, overtime for police, fire, and sanitation services for special events, and administration of the tax. The city's tourism advertising contract is budgeted at \$933,827. An additional

\$50,000 has been granted to support the Lensic, Santa Fe's Performing Arts Center in exchange for marketing support.

A new increment of the tax was enacted during the 2003/2004 state legislative session that allowed increasing the maximum tax rate from 6% to 7%. The additional increment, as well as two other increments, is dedicated to building and operating a new convention center. The additional bonding capacity from this additional increment will support the proposed \$48.4 million project with approximately \$10 million in cash available from Lodgers' Tax. Construction of the new facility is underway and is scheduled to be completed in July 2008.

Municipal Recreation Complex

The Municipal Recreation Complex (MRC), including 18-hole and 9-hole golf courses, playing fields and trails, was intended to be self-supporting through user fees to cover operations, maintenance and its associated debt service. The MRC, however, continues to experience shortfalls in revenues and annual subsidies have been required to provide funding to supplement the debt service for the playing fields.

The budgeted subsidy for MRC in FY 06/07 is \$902,430 for a total operating budget of \$2,510,590.

Genoveva Chavez Community Center

The Genoveva Chavez Community Center (GCCC), including an ice skating rink, swimming pool, exercise facilities, gymnasium, and racquet ball courts, was established in 2000 to be operated with user revenues and a 1/16% gross receipts tax increment to cover its operations and maintenance. An additional operating subsidy of \$363,369 from cash balances was required to balance revenue and expenditures for FY 06/07. Facility and interest revenues support 44.3% of the \$4,048,416 operating budget with the balance coming from the gross receipts increment allocated to the GCCC and the subsidy.

ECONOMIC FORECAST

U.S. Economy

Growth in the US economy slowed during the second quarter of 2006, as real GDP posted a 2.9% gain, down from 5.6% in the first quarter.

Oil prices have been well over \$70 per barrel, reflecting, among other things, the fighting in Lebanon and the shutdown of a major oil pipeline in Alaska. Higher energy prices have resulted in higher consumer inflation. Of particular concern has been the acceleration in core inflation (excluding food and energy). Core inflation increased 0.2% in July, following four months of 0.3% rises. Nevertheless, even with the lower July figure, the compound annual rate of growth for the last months was 3.2% and the July figure is up 2.7% over July a year ago. Concerns about the pick-up in core inflation were mentioned when the Federal Open Market Committee (FOMC) increased the target federal funds rate to 5.25% in June, but evidence of a slowing economy apparently persuaded the FOMC to pause before raising rates further when they met in August.

Personal income growth reached 6.4% in the second quarter, unchanged from the previous quarter. Disposable income increased 5.2%, while personal consumption expenditures advanced 6.7%, resulting in a further deterioration of the savings rate to 1.5%. Real disposable income grew by only 1.0%, down from 1.7% in the previous quarter. Corporate after-tax profits showed year-over-year growth of 19.5% in the second quarter, up from 17.6% in the first quarter but down considerably from the 33% growth of 2005 and the 27% growth the year before.

Slower GDP growth in the second quarter was not unexpected and is consistent with the performance of a variety of economic indicators. Many of the indicators continue to point toward an economic slowdown. There are also some troubling signs in terms of inflation.

New Mexico Economy

The pace of economic expansion in the New Mexico economy dipped slightly during the second quarter of 2006, as nonfarm employment growth slipped to 2.6% after having reached 2.8% during the first quarter of the year. Employment growth has held in the 2.6 to 2.8% range for the last four quarters, and appears to have found a comfortable level. In fact, we expect similar growth, or perhaps a little less, for the next couple of years. New Mexico personal income growth fell to only 5.0% during the first quarter of 2006, while the (seasonally adjusted) unemployment rate dropped to 4.4%, the lowest since at least 1978. The small increase in personal income notwithstanding, the New Mexico economy is currently on a solid footing.

The New Mexico economy added 21,166 (net) jobs from the second quarter of 2005 to the second quarter of 2006. More than half of the additional jobs came in just three sectors—construction, government, and health care/social assistance. New Mexico has ridden the crest of a construction wave for the last three years, during which time the sector has added more than 10,000 jobs, for an average annual increase of 6.6%. In the second quarter of 2006 the gain was 9.0%, 4,833 more jobs than a year ago. Housing construction was also quite strong during that period, and averaged more than 20% year-over-year increase from the fourth quarter of 2004 through the first quarter of 2006. The second quarter of 2006 brought different news, though—housing construction dropped more than 21%.

Health care & social assistance employment increased 4.0% (3,667 jobs). The government sector gained 3,367 jobs, a 1.7% increase. Local government employment posted a 2.0% gain. State government employment growth slipped to 0.9% in the second quarter from 1.3% during the first quarter. Federal government employment was up 2.3%, reflecting the addition of several hundred U.S. Forest Service jobs in Albuquerque.

The mining and natural resources sector maintained its path of robust growth, posting a 12.2% employment gain (2,000 jobs). Most of the increase came in oil and gas extraction and drilling (1,833 jobs, 14.9%). Employment in non-oil and gas mining was up 133 jobs (4.2%) compared to a year ago. Oil and gas production each slipped 3.4% in the first quarter of 2006.

The outlook for the New Mexico economy is generally good, with non-farm employment growth remaining near 2.5% through 2007. New Mexico personal income growth will reach 5.8% this year and 5.6% next year, while the unemployment rate holds at just over 4.5%.

Strength during this period will come from a number of sectors. Mining and construction will be particularly strong. Other sectors making significant contributions include manufacturing, health care & social assistance, information, business services, and educational services. Construction employment posted large gains in 2004 and 2005 on the strength of a strong housing sector and a number of large projects. The housing boom is now over, but other activity will keep construction employment growth robust in 2006 (8.3%) and 2007 (4.5%).

Santa Fe Economy

The Santa Fe metropolitan statistical area (MSA), as defined by Santa Fe and Los Alamos counties, is second in economic concentration to Albuquerque and third after Albuquerque and Las Cruces demographically in the state. New retail development continues in both the Albuquerque and Santa Fe MSAs.

Santa Fe's unemployment has been below the state average. For the summer of 2006, unemployment was forecasted to be 3.5%, compared to 4.4% statewide.

Personal income grew in Santa Fe at a 5.9% rate in 2005, compared to 6.8% statewide. Personal income in 2006 is expected to also grow 5.9% locally, .1% higher than the statewide forecasted increase. In 2007, the Santa Fe personal income is forecast to grow 4.7%; and statewide, 5.6%.

The economic forecast information on the U.S., New Mexico and Santa Fe economies were extracted from material in the University of New Mexico's "The FOR-UNM Bulletin: A Quarterly Economic Forecast of the New Mexico Economy".

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Dale Bull". The signature is fluid and cursive, with a long horizontal stroke at the end.