



THE BUDGETING PROCESS

OVERVIEW

A budget can be defined as the written expression or estimate of an organization's income and expense and a plan of operations based on such an estimate. Based on a projection of financial resources, an annual budget is developed by evaluating the organization structure and its programmatic priorities in order to establish the goals and objectives for the upcoming year. The budget is a plan by which the Board of County Commissioners (BCC) sets financial policies and authorizes the allocation of resources and expenditures to accomplish the County's goals and objectives. The budget expressed in this document, along with budget resolutions and adjustments approved throughout the fiscal year, provide the basis for the control of expenditures.



Santa Fe County's annual budget is prepared in accordance with the requirements for New Mexico government entities and financial policies as established by State statute and the guidelines set forth by the New Mexico State Department of Finance and Administration (DFA), Local Government Division. It is an annual Fiscal Year (July 1 – June 30) budget wherein initial appropriations must be approved by the Board of Commissioners and the DFA. Budget adjustments within a fund, between cost centers, or between line items do not require BCC action but may be administratively approved.

ACCOUNTING BASIS FOR BUDGETING

Governmental financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting, wherein revenue is recognized in the year when it is earned and expenditures are recorded when the related liability is incurred. The budget also includes proceeds from long-term financing and capital grants. Revenue and expenditures include capital outlay and bond payments. Depreciation on property and equipment are excluded from the budget. Also, for budget comparisons, the actual amounts reported on the budgetary basis differ from the modified accrual basis for government fund types and accrual basis for the Enterprise Funds. Differences between the budgetary basis and GAAP include the following:

- a) The budget includes encumbrances as actual expense. GAAP does not include encumbrances as expenditures. Capitalized lease obligations are budgetary expenditures when paid, and
- b) The budget does not include certain liabilities, receivables and depreciation expense for enterprise funds. The GAAP basis financial statements do not include those transactions.



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SUMMARY OF BUDGETARY FINANCIAL POLICIES AND PROCESS

Santa Fe County Financial Policies are expressed in detail at the end of this section of the budget. Generally, the County's budgetary financial policy requires a balanced budget by fund. Further, it limits spending of a recurring nature to levels sustainable by recurring revenue, particularly in the General Fund, and the funding of capital equipment and one-time expenses through the use of positive cash balances and non-recurring revenues. Policies also prescribe fund cash balances (reserves) and debt limitations.

The County Finance Division maintains extensive revenue records to enable accurate budget forecasts of revenue. Property Tax revenue, being the principle source of general fund revenue, is projected using an analysis of property valuations formulas and historic trends analysis. Gross receipts tax budgets are determined from trend data and from an economic analysis of business activity underlying the receipt of these taxes. Property taxes and gross receipts taxes revenues are usually quite conservatively estimated in the budget.

Budgeted expenses are developed through a baseline approach, with zero-based detailed explanations required for contractual services and capital purchases and other line items with significant budgets. Additions above baseline are requested and approved as "building blocks" which define expanded or additional services. Capital equipment budgets are developed and managed as a General Fund capital package wherein funds are released to the purchasing organization as purchases are made for specific items detailed in the budget. Some larger organizations have their own Capital Package (e.g. Corrections and the Sheriff's Office) which must be detailed in the budget in a similar manner to the General Fund capital package. Requested staff additions are associated with building blocks and placed on a 'rolling list' to be proposed by the County Manager and approved by the Board of County Commissioners as General Fund revenue and expenditure demands on the general fund become clear during the fiscal year.

Revenue is recognized in the budget for Capital Outlay Gross Receipts taxes, and available funds from bond proceeds are budgeted. Whether or not there is a specific plan for expenditures against these revenues they will be generically budgeted. Specific projects and their budgets are usually defined during the course of the fiscal year.

Santa Fe County is committed to developing a sound financial plan for operations and capital improvements. As part of this commitment the County utilizes conservative growth forecasts, and,

- a) permits the County Manager and Departmental Directors to manage the operating budget with the Board of County Commissioners deciding allocations.
- b) appropriates the budget in accordance with County policy and New Mexico State Department of Finance and Administration guidelines.
- c) adjusts the budget through departmental budget amendments and a county-wide, mid-year budget review to reflect changes in the local economy (positive and negative), changes in service priorities, and receipt of unbudgeted revenue or revenue shortfalls as they may occur.
- d) organizes the budget so that revenues are related to expenditures as much as possible.
- e) provides department staff with immediate on-line access to current revenue and expenditure information to facilitate easy control of expenditures against appropriations.



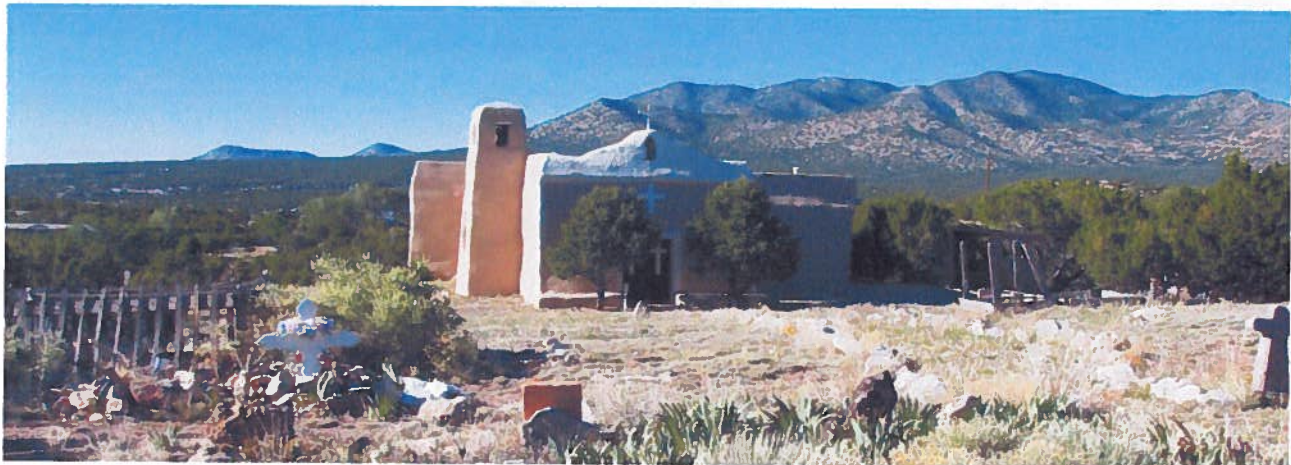


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A BALANCED BUDGET

The State of New Mexico requires a "balanced budget" for each fund, in that budgeted cash balances for each fund at the end of the fiscal year must not be less than zero or a reserve amount that meets statutory requirements. The statutory requirement for the General Fund is 25% of budgeted expense not including transfers out. For the Road Fund, it is one month, or 8.33% of budgeted expense. Also, a financial objective of the County is that each fund that is the direct source of operational expense should also have a reserve of one-month's budgeted expense. Such other funds would include the Indigent Fund, the EMS Health Fund, the Fire Operations Fund, the Housing Enterprise Fund and the Jail Operations Fund to name a few.

Santa Fe County imposes this balanced budget standard in conjunction with the standard that recurring expense in each fund be sourced with recurring revenue. Non-recurring expense is defined as one-time expenditures for capital items or for operational revenue not foreseen to be a part of the expense base in the following year's budget requirements. A non-recurring source is defined as budgeted cash or revenue to be realized in the current fiscal year. These two critical budgeting standards facilitate the ability of the County to fund non-grant organizations and programs, while minimizing the possibility of over-extending County resources in the future.



BASIS FOR DETERMINING REVENUE

The County Finance Division reviews revenues as part of the budget process. Principal sources for ongoing revenue for the County are property taxes, gross receipts (sales) taxes, fees and charges for services, intergovernmental grants and income from investments. Monthly receipts of revenue in all line items within each of these categories are recorded and utilized to forecast trends in revenue receipts.

- a) Property taxes which constitute 74% of General Fund revenue are estimated from calculations of existing and new valuations of residential and commercial property, the economic growth rate, as well as from trends derived from monthly receipt data. Property tax revenue budget estimates are quite conservative, as a budget shortfall in tax receipts can have a serious impact on County operations.
- b) Gross Receipts taxes are estimated from trend data and from economic analysis of the business activities in the areas of construction, wholesale, retail and service sectors. This methodology generally results in highly accurate gross receipts tax budgets which are monitored as tax revenues are received from month to month.



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- c) County fee schedules for services consist mainly of building and development impact fees, utilities fees such as for solid waste disposal, water and sewer services, document recording fees, fees arising from ambulance services and the maintenance of out-of-jurisdiction inmates in County corrections facilities. Impact fees are based on the operational and capital requirements which are the consequence of new development and increased population. Service fees are based on the cost of the delivery of services. Analysis of the impacts of new development and costs of services are jointly made by the service departments and Finance and new fee schedules are presented to the Board of County Commissioners as part of the budget approval and amendment process. Most fee schedules are established by County Ordinance although many are statutory. The budget for fee revenue is determined from the current fee schedule and an analysis of monthly revenue over the past three years.
- d) Budgeted investment income is the product of the analysis of invested monies and the economy supporting investment rates. Investment Income depends on the quantity of available money to be invested, the length of time an investment can be made and the interest rate at which money can be invested. A base investment income figure that can be considered as recurring is budgeted. Any additional actual income is considered to be non-recurring or the result of unusually high rates that cannot be depended upon to be maintained in an economic cycle. An analysis of these parameters is especially important in the markets of declining and then increasing interest rates experienced in the last five years.

CAPITAL SPENDING

Santa Fe County updates its Infrastructure Capital Improvements Plan (ICIP) on an annual basis, usually about 60 days after submission of the Fiscal Year Budget to the State. The ICIP is a five-year plan that is designed to show the status of existing capital projects as well as to identify new capital projects and their funding sources. Because of its long range focus, the ICIP allows management the opportunity to plan current and future capital needs and to communicate these needs to State Legislators who apportion State funds to counties and municipalities for capital projects. The Legislature meets in January-February each year and appropriates capital monies to New Mexico Counties. State appropriations have been reduced significantly since the economic downturn began and in fiscal year 2010 a number of grants for ICIP projects were rescinded by the State severely limiting the County's ongoing capital improvements and forcing a reprioritization of capital projects.

CASH CARRYOVER – LAPSED APPROPRIATIONS

All non-dedicated appropriations not spent or encumbered at the end of the fiscal year lapse into the fund cash balance applicable to the specific fund. Cash is carried over to a prior-year budget to cover dedicated or encumbered expenses. In cases of grants with unspent monies which, because of the difference in the fiscal years of the county (June 30 end) and the Federal Government (September 30 end), may be spent, thus current year carryover budgets may be created. In project budgets and bond proceed funds of a nature where proceeds may cover expense over several years, lapsed appropriations will be re-budgeted from cash in subsequent fiscal years. The re-budgeting of long-term projects prevents determination of the total appropriations by simply adding up annual budgets through the years of the projects. The necessity to include capital project budgets within the framework of an annual budget rather than in a separate multi-year capital budget is a shortcoming in the budget requirements prescribed by the State to the counties and municipalities. Historical analysis aided by multi-year worksheets must be maintained to determine total project budgets.



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PLANNING AND BUDGET DEVELOPMENT

VISION	STRATEGIC GOALS	FY 2011 COUNTY PRIORITIES	FY 2011 COUNTY SERVICES <i>Goals and Performance measures in Organization Budgets</i>
<p>Santa Fe County government strives to be a responsive, cutting-edge organization which has integrated the vision of its citizens, employees and elected officials. Santa Fe County is strongly committed to protecting and preserving our cultural traditions, pristine resources and diverse communities. Our administration is dedicated to the health, safety and welfare of the public we serve and to ensure the quality of life and preservation of resources for future generations. Citizen involvement is an essential and integral component to the success of Santa Fe government. Santa Fe County is committed to working collectively with constituents to solve problems confronting our communities as we progress in the twenty-first century.</p>	<p>Government is ethical and accountable; every element of government contributes effectively to meeting public needs.</p>	<p>Providing, upgrading and replacing County service infrastructure; construction of District Courthouse.</p>	<p>County Manager Board of County Comm. Finance Human Resources Legal County Clerk-Elections County Treasurer County Assessor Probate Judge Administrative Services</p>
	<p>Citizens are safe and secure, have trust and feel responsible for maintaining a safe environment.</p>	<p>Maintaining the Public Safety infrastructure, assuring adequate staffing in Fire, Sheriff, Emergency Communications and Corrections facilities.</p>	<p>County Sheriff Fire Department Regional Emergency Communications Ctr. Corrections-Adult & Youth Teen Court</p>
	<p>The County is adequately and efficiently served with well-planned, coordinated and maintained water, wastewater, and road and transportation systems.</p>	<p>Water availability is always a high-level concern. Two priorities address this: completion of the Buckman Direct Division Project and the purchase of water rights.</p>	<p>Utilities Water Wastewater Solid Waste Water Resources Buckman Direct Diversion Road Projects Road Maintenance</p>
	<p>The County's natural environment is protected; its mountains, rivers, arroyos, clean air and underground water supply. Growth is managed to protect the environment and the County's economic vitality.</p>	<p>Managing population, environment and commercial growth in the County. Sustainable Growth Management Plan for Galisteo Basin area, updating long-range plan, and Land Development Regulations. Managing oil and gas drilling issues.</p>	<p>Growth Management Land Use Planning Development Review Permits & Inspections Open Space & Trails Parks & Recreation GIS & Rural Addressing</p>
	<p>A vital, diverse and sustainable economy exists in which businesses and residents have opportunities for success.</p>	<p>Development of economic activity, development of the film industry in the County.</p>	<p>Economic Development Tourism/lodger's tax County Clerk-Recording</p>
	<p>People are well sheltered, safe, healthy, educated and participate in the County and economy.</p>		<p>Health Services DWI Programs Indigent Health Care Housing Authority Affordable Housing Youth Recreation Library Services Senior Programs</p>



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The County's Vision Statement and strategic goals are reflected in the Fiscal year 2011 County Priorities noted by the County Manager's Budget Message. These are all related to the objectives of the various county organizations and services shown in the Organization Budgets section of the Fiscal Year 2011 Budget document.

PLANNING AND BUDGET DEVELOPMENT

SANTA FE COUNTY LAND DEVELOPMENT CODE

Areas of concern in the Santa Fe County Land Development Code, adopted by the Board of County Commissioners in 1980 remain important and continue to support bond and gross receipts tax-funded road, open space and water capital projects in Fiscal Year 2011.

Land Use and Growth Management

Santa Fe County's land use and growth management policy is to promote development that avoids sprawl, protects open space and maintains the diverse character of the County through creative development design solutions. It is also desirable to ensure the availability and affordability of housing and economic opportunities within the County while preserving the traditional communities and their economic structures. Santa Fe County is in the process of completing its Sustainable Growth Management Plan. This document will serve as a guide to growth incorporating local community values, goals and strategies on how to best manage and sustainably utilize the County's limited natural, economic and cultural resources.

Natural Resources and Open Space

Santa Fe County's open space policy is to protect significant open space, ecologically sensitive, and cultural areas and the connections between them through creative design, voluntary dedication, incentives, purchases and regulations. Through a community and district planning process, residents and property owners will identify the sensitive and cultural areas, open spaces and connections that are important to be protected in Communities and Districts, while still allowing for the reasonable use of and enjoyment of property.

Environment

Santa Fe County's environmental policies are intended to protect the health and safety of people, the reasonable use and enjoyment of property and to maintain the natural beauty and fragile environment of areas of the County through regulations, education and code enforcement.

Water Availability and Conservation

Santa Fe County's water policy is to protect and extend the available water resources of the region by requiring water conservation, developing imported renewable water sources and supply systems and guiding growth through the planning process. The County conservatively manages the acquisition, distribution and use of the local groundwater resources based on detailed hydrologic studies of the County to ensure that water is available for present and future generations while working towards sustainable water usage.

Community Character and Design

Santa Fe County's design policy is to maintain the rural, unique and diverse character of the different geographic locations within the County. The County should ensure that communities develop in a manner consistent with their character or in a manner consistent with the standards developed through the community and district planning process in such a way that they incorporate mixed uses and rely on the locally accepted models for development patterns.

Housing

Santa Fe County's policy on housing is to provide diverse and affordable housing opportunities integrated within communities that meet the needs of all residents.

Utilities, Transportation and Public Services

Santa Fe County's policy is to assure that adequate utilities, transportation and public services are in place to serve existing community areas and that the location of existing and planned infrastructure guides the development of new communities.



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PLANNING AND BUDGET DEVELOPMENT

SHORT TERM PLANNING – DEVELOPING SERVICE PRIORITIES

Two months prior to the start of the formal budget process for the next fiscal year, the County Manager meets with the Board of County Commissioners, Department Directors and Elected Officials in a special extended meeting to determine issues facing the County and priorities for service and initiatives proposed by members of that meeting. These issues and service priorities are linked to budget requests and become part of the criteria for strengthening baseline budgets and funding new or expanded services expressed in the building block requests.

Just prior to the start of the formal budget process, a special Board of County Commissioners meeting is devoted to a review of County issues and priorities viewed by the Board. The issues and priorities defined in this meeting are also included in budget review considerations.

General short-term priorities developed through these planning processes for Fiscal Year 2011, which have an impact on revenue and budget planning are:

- a) Continue the construction of the new County Judicial Facility and further fund it through a \$30.0M GRT revenue bond included in this budget.
- b) Continue County and Regional planning of water projects, including the Buckman Direct Diversion Project. Further fund the Buckman project through a \$32.5M General Obligation Bond included in this budget, and fund the Buckman Direct Diversion operations through transfers from the General Fund.
- c) Implement cost cutting strategies intended to keep the budget baseline flat in order to offset anticipated reductions in Gross Receipts Tax revenue.
- d) Transfer the funding of Senior Services to the General Fund.
- e) Transition some direct health services to the regional hospital.
- f) Finalize the Sustainable Growth Management Plan.
- g) On-going support of the Corrections operations at both the Adult and Juvenile facilities.





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PLANNING AND BUDGET DEVELOPMENT

FISCAL YEAR 2011 BUDGET DIFFERENCES FROM THE PRIOR YEAR

Changes from the Fiscal Year 2010 Budget accounted for an increase of \$854.986 across all funds from Fiscal Year 2010 to Fiscal Year 2011. In general, operating expenses were reduced significantly during FY 2010 and reductions were not re-appropriated in FY 2011. Recurring General Fund expense will continue to be of budget concerns in future years.

- A) Major changes in the General Fund (101) are:
 - 1) Inclusion of the Senior Service Program in the General Fund Budget \$0.9M.
 - 2) Reduction of the Capital Package and set asides \$5.1M.
 - 3) Maintain a "Recession Contingency" set aside mid-year in FY2010 \$5.0M.
 - 4) The Buckman Direct Diversion operating budget was established and will be funded through a General Fund transfer to the Water/Wastewater Enterprise Fund for \$1.3M.
 - 5) An increase of \$2.8M in support of the Corrections Operations Fund.
 - 6) The General Fund budget for activities associated with the construction of the Judicial Court building decreased by \$0.6M.
- B) The Capital Outlay Fund (213) budget increased by \$2.6M. Debt service for two GRT bonds account for this increase. Without that debt service obligation, the budget in this fund would have decreased by \$0.4M across all project categories.
- C) A restructuring of the Health Services Division resulted in decreases in three of the Health Services Funds, the Indigent Primary Care Fund (220) decreased \$1.2M, the EMS Hospital Fund (232) decreased \$0.3M, and the EMS Health Care Fund (232) decreased \$0.05M. The Indigent Primary Care Fund increased by \$0.2M. The restructuring also led to the elimination of the Detox Program Fund (242) which was \$1.4M in FY 2010.
- D) The Fire Operations Fund (244) budget decreased by \$0.8M. This fund's primary source of revenue is a gross receipts tax for emergency medical services. Because of decreases in GRT revenue overall, this budget has been significantly impacted.
- E) The Regional Emergency Communications Center (RECC) Operations Fund (245) budget decreased \$0.3M. Since this Fund has no significant funding of its own, it is reliant upon transfers from other funds. In FY 2011 the EMS Health Care fund will transfer \$2.7M to the RECC. Funding for the RECC is of major concern due to its lack of permanent funding.
- F) The Corrections Operations Fund (247) budget decreased by \$5.0M. This is due to certain direct medical functions being transitioned to the regional hospital, a hiring freeze impacting numerous positions, and a consolidation of the administrative function to facilities owned by the County.
- G) The State Special Appropriations Fund decreased by \$6.0M across capital project categories of roads, utilities and open space. This is mainly due to a large number of special appropriations grants being reverted back to the State of New Mexico in FY 2010.
- H) The 2007 Series GOB Proceeds Fund decreased by \$1.0M as a result of construction delays in the project that should be resolved in FY 2011. Work on the project should resume in mid- to late FY 2011.
- I) Bond proceeds from the 2008 Series GOB for the construction of the Buckman Direct Diversion project were not budgeted in Amended Final FY 2011 budget but will be budgeted as needed via Board Resolution.
- J) Bond proceeds from the 2009 Series GOB were budgeted at \$5.5million across all project categories. This is a decrease of \$9.2M from the FY 2010 budget.
- K) Proceeds from the Series 2008 GRT bond were budgeted at the same in FY 2011 as were budgeted in FY 2010: \$4.4M for the Judicial Court Complex project.
- L) The issuance of the 2010 GOB Refunding Series resulted in a decrease of \$0.1M in the GOB Debt Service Fund (401) in FY 2011 but will save approximately \$1.0M in interest payments over the life of the bond.
- I) The issuance of the 2009 Series (\$12.0 million), 2010A Series (\$21.2 million) and 2010B Series (\$10.2 million) Capital Outlay GRT Revenue Bonds resulted in an increase to the Revenue Bond Debt Service fund of \$1.8 million.



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BASELINES AND BUDGET BUILDING BLOCKS

The budget methodology used in preparing the budget consists of the submission and review of baseline and building-block budgets. Baseline budgets include necessary expenses for established County services, programs and supporting organizations at existing levels of service. Each County organization submits a baseline budget request with a detailed explanation of expenses within each budget line item. Budgets are established at an organizational unit level (division or project within each department) and expenditure line items are summarized into category levels as follows:

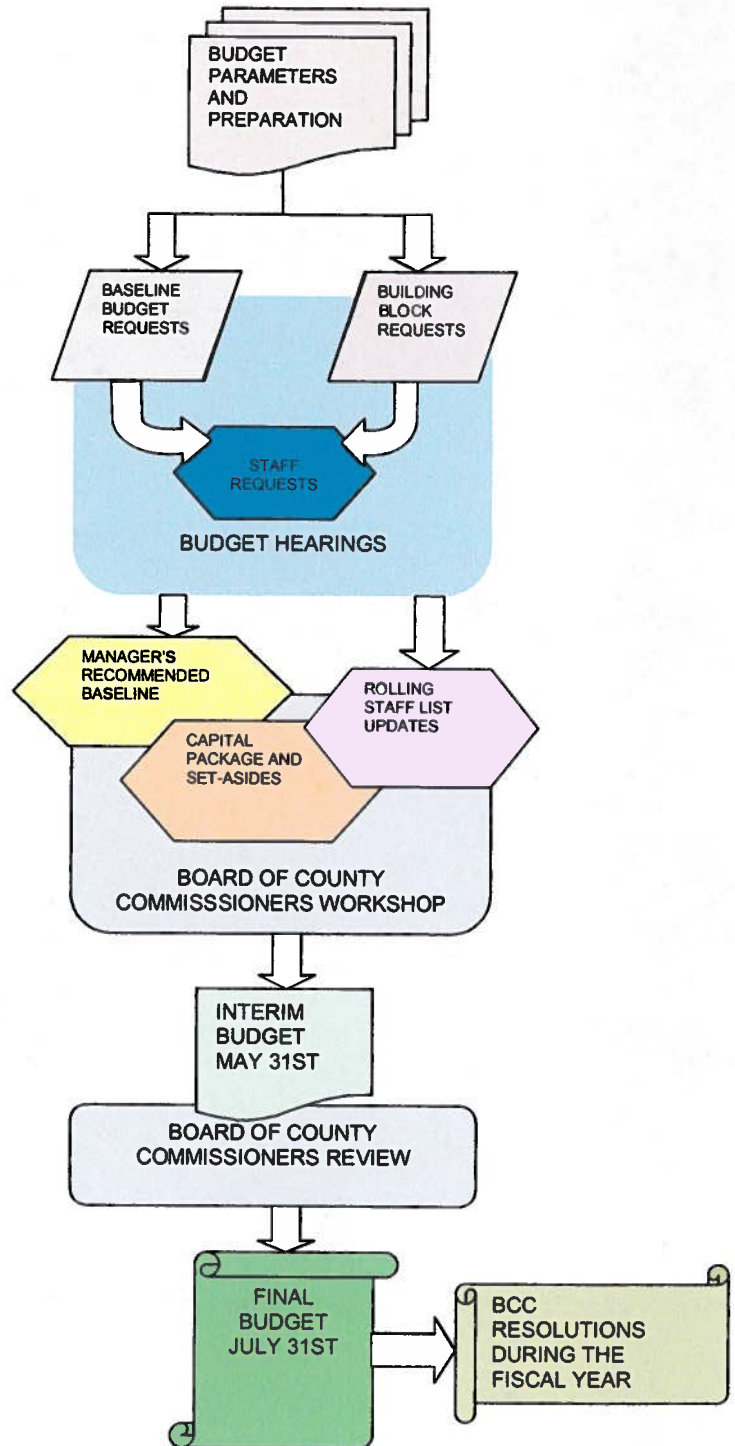
- ◆ Salary and Wages
- ◆ Employee Benefits
- ◆ Travel (also includes expense for gas and oil for all purposes)
- ◆ Maintenance
- ◆ Contractual Services
- ◆ Supplies (office, field, educational, employee uniforms, etc)
- ◆ Operating Costs (utilities, employee training, insurance, etc)
- ◆ Capital Purchases (equipment, vehicles, buildings, etc.)
- ◆ Debt Service and other Commitments

Baseline budget requests are examined in a zero-based perspective modified by expenditure history for certain expenses. Current budgeted employee salaries and benefits budgets are continually maintained. Each request must then compete with all other requested baseline amounts for funding.

Budget requests beyond the baseline for new or expanded services are submitted as "building blocks", each comprising a budget for a separate service package. Additional staff requests are tied to building blocks and are reviewed and prioritized according to the program objectives of the BCC and the County Manager. Building blocks are recommended for the fiscal year budget, on the basis of available funding according to their order of priority.

Subsequent to the BCC approval of the final budget, fund budgets may be changed in amount by fund transfers or newly recognized revenue or the receipt of grants and project appropriations. The BCC adjusts the budget through resolutions with State DFA approval.

In FY 2011 building blocks were not funded as the entire County Government was being asked to make reductions.





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THE ANNUAL BUDGET CALENDAR

- FEBRUARY:** The Finance Division develops and distributes budget request forms and instructions to department heads and elected officials. Training sessions are conducted to explain the preparation and computer data entry process.
- MARCH:** Department Directors and Elected Officials and their staffs complete a set of budget request forms for each cost center. Completed forms are submitted to the Finance Division according to the budget schedule. These include organizational description and objectives forms, line item justification forms, building block forms, request forms for additional personnel and detail forms for training, telecommunication and vehicle requirements. Budget staff input budget requests into the financial system.
- JANUARY – MARCH:** The Finance Division prepares revenue projections, analyzes department requests and prepares a budget request package for budget hearings.
- APRIL:** The County Manager, along with the Finance Director and the Budget Administrator, meets with each Department Director and Elected Official to review budget requests. The Board of County Commissioners is invited to the budget hearings and the hearings are open to the public. Required adjustments are made and the County Manager’s recommended budget is prepared for presentation to the Board of County Commissioners.
- MAY:** The Board of County Commissioners reviews the recommended budget package at a public hearing and makes any necessary adjustments. From these proceedings an Interim Budget is crafted, approved by Board Resolution and submitted to the State Department of Finance and Administration (DFA) by June 1.
- JUNE:** Any adjustments made by the DFA to the Interim Budget are then incorporated by the Finance Division into the Final Annual Budget which must be approved by Board Resolution. The Final Annual Budget is then and submitted to the DFA by July 31 for final certification. The Final Budget is the subject of this document.

