



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 not included in the budget, but will appear in the Comprehensive Annual Financial Report (CAFR). 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:

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

Up until fiscal year 2012 budgeted expenses have been developed through a baseline approach, with zero-based detailed explanations required for contractual services and capital purchases and other line items with

significant budgets. Any programming changes or additional staff positions are submitted in the form of a "building block" to be prioritized and funded as revenues permit. Significant "building blocks" have not been funded since FY 2009, prior to the onset of the "great recession." Capital equipment budgets are developed and managed as a capital package within the requesting funds wherein funds are released to the purchasing organization as purchases are made for specific items detailed in the budget. 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 revenue and expenditure demands on the general fund, or other supporting funds, 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,

- » permits the County Manager and Departmental Directors to manage the operating budget with the Board of County Commissioners deciding allocations.
- » appropriates the budget in accordance with County policy and New Mexico State Department of Finance and Administration guidelines.



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- » 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.
- » organizes the budget so that revenues are related to expenditures as much as possible.
- » provides department staff with immediate on-line access to current revenue and expenditure information to facilitate easy control of expenditures against appropriations.

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 reserve 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 like the statutory requirement for the Road Fund. Such other funds would include the Indigent Services 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 other one-time revenue such as bond proceeds, most grants and reimbursements. 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, Joint Powers Agreements, 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.

- » Property taxes which constitute 76% 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 would have a serious impact on various County operations, many of which are required by Statute.



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- » 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.
- » 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.
- » 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.



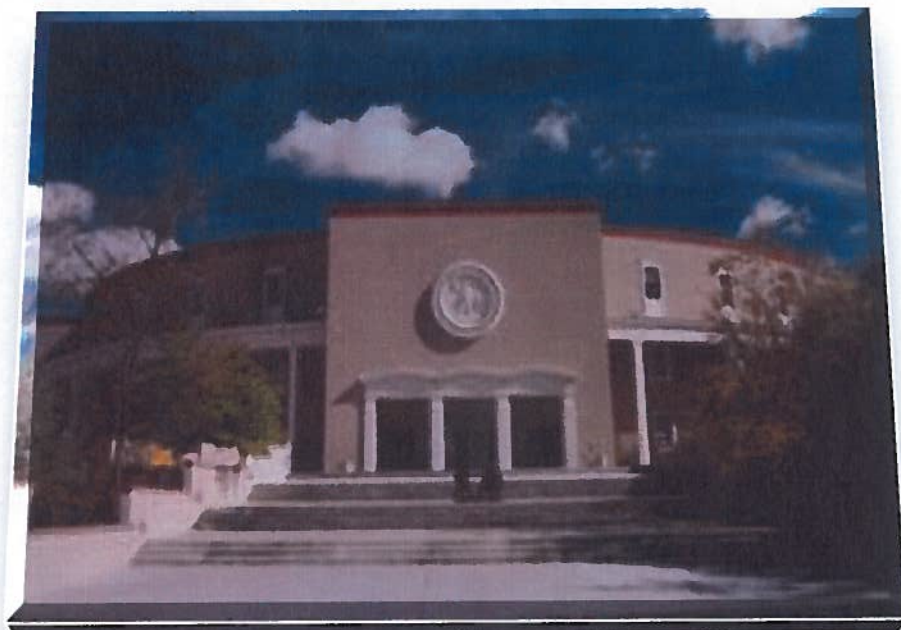


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CAPITAL SPENDING

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. An extensive public input process is conducted in the late summer to assist in prioritizing capital projects within each Commission district and those that are of Countywide benefit. 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 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 2012 COUNTY PRIORITIES	FY 2012 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>The County has a well maintained and adequate road system for an ever-growing population.</p>	<p>Improving established roads and constructing new roads to satisfy the growing demands on the County's road system.</p>	<p>Public Works Road Projects Road Maintenance</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. Developing and implementing a results accountable/ performance based budgeting process for future fiscal years.</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 and wastewater systems</p>	<p>Water availability is always a high-level concern. With the new Buckman Direct Diversion the expansion of the Water utility can be realized. Also, expansion of the wastewater system is being undertaken and additional Solid Waste Transfer stations are under construction.</p>	<p>Utilities Water Wastewater Solid Waste Water Resources Buckman Direct Diversion</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 Code will be developed to go hand-in-hand with the Sustainable Growth Management Plan passed in FY 2011. Also, 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 Regional Planning Authority 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>Successful transition of Senior Services programs from the City of Santa Fe. Expansion of the Affordable Housing programs, Foreclosure Prevention Programs.</p>	<p>Health Services DWI Programs Indigent Health Care Housing Authority Affordable Housing Youth Recreation Library Services Senior Programs</p>

The County's Vision Statement and strategic goals are reflected in the Fiscal year 2012 County Priorities noted by the Budget Message and Executive Summary of this document. These are all related to the objectives of the various county organizations and services in the Organization Budgets section of the Fiscal Year 2012 Budget document.



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PLANNING AND BUDGET DEVELOPMENT

SANTA FE COUNTY SUSTAINABLE GROWTH MANAGEMENT PLAN

Areas of concern in the Santa Fe County Sustainable Growth Management Plan (SGMP), adopted by the Board of County Commissioners in fiscal year 2011 remain important and are being codified in the Sustainable Growth Management Code during FY 2012. The Plan outlines the philosophy and methodology to be used when issuing permits for development throughout the County. It will serve as a guide to growth incorporating local community values, goals and strategies on how to best manage and sustainably utilize limited natural, economic and cultural resources. This is intended to guard against "sprawl" in development as well as to ensure mechanisms for funding infrastructure needs to developing areas. Specifically in the SGMP are the following:



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.

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



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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.

Public Safety

Santa Fe County's policy is to develop and maintain a level of public safety coverage consistent with the amount of development being permitted in the County. This includes fire and emergency medical personnel, fire stations and law enforcement (including dispatch services).

PLANNING AND BUDGET DEVELOPMENT

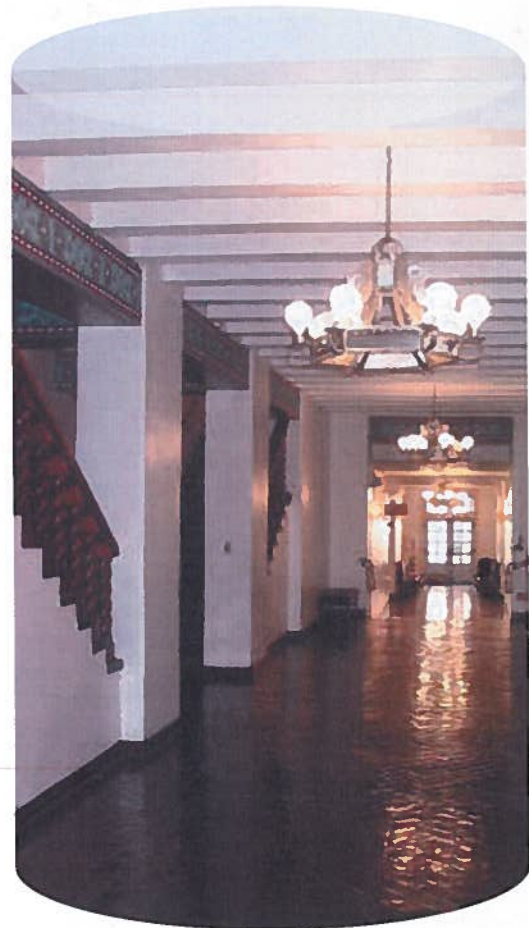
SHORT TERM PLANNING – DEVELOPING SERVICE PRIORITIES

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 extended meetings and budget study session(s) 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. In the fiscal year 2012 budget process, the results of the citizen survey conducted in the summer of 2010 were utilized to ensure priority areas received appropriate resources as identified by citizens.

Just prior to the start of the formal budget process, a special Board of County Commissioners meeting is conducted to review County issues and priorities identified 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 2012, which have an impact on revenue and budget planning are:

- » Continue the construction of the new County Judicial Facility utilizing the 1/16th increment GRT, and proceeds from bonds issued in FY 2008 included in this budget.





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- » Continue planning of water projects to expand the water utility and fund the Buckman Direct Diversion operations through from cash reserves set aside for this purpose and recurring revenue from the Water Enterprise Fund.
- » Transfer staff resources to the Road Fund and preserve other resources in the Fund to allow for greater level of road maintenance and improvement projects per citizen priorities.
- » Reduce commitment to Sole Community Provider program.
- » Develop the Sustainable Growth Management Code.
- » Reduce General Fund support of the Corrections Operations by additional cost cutting and significantly increasing the Care of Prisoners revenue.
- » Developed an asset replacement and renewal schedule and funded a significant level of asset renewal and replacement.

PLANNING AND BUDGET DEVELOPMENT

FISCAL YEAR 2012 BUDGET DIFFERENCES FROM THE PRIOR YEAR

Changes from the Fiscal Year 2011 Budget accounted for a decrease across all funds from Fiscal Year 2011 to Fiscal Year 2012. Recurring expenses from FY 2011 to FY 2012 increased by \$1.7 million. Capital improvement projects and other non-recurring expenses decreased by \$15.5 million.

- » Major changes in the General Fund (101) are:
 - ♦ Increased the Senior Service Program as the County took over operation of five more senior centers formerly contracted out to the City of Santa Fe (\$0.3 M).
 - ♦ Increased the Asset Renewal and Replacement package (formerly known as the capital package) and set asides (\$1.2 M).
 - ♦ Increased General Fund support of the Road Fund (\$2.3 M).
 - ♦ Increased General Fund support of the Law Enforcement Operations Fund (\$0.6 M)
 - ♦ Maintain a "Recession Contingency" set aside mid-year in FY2010 and continued in FY2011 (\$5.0 M).
 - ♦ The Buckman Direct Diversion operating budget was moved from the General Fund to the Water/Wastewater Enterprise Fund eliminating the transfer from the General Fund (-\$1.3 M).
 - ♦ Reduced General Fund support of the Corrections Operations Fund (-\$3.1 M).
- » The Capital Outlay Fund (213) budget decreased by \$7.0 M. Payments for debt service for three GRT bonds and loan/grant sharing agreements for the Buckman Direct Diversion project increased by \$0.7 M. Without that debt service obligation, the budget in this fund would have decreased by \$7.7 M across all project categories.
- » Funding for the Sole Community Provider payment was reduced by \$4.8 M across funds 220, 223, 232 and 234.
- » The Fire Operations Fund (244) budget increased by \$4.8 M. Of that amount \$3.2 M is in the form of an operating transfer to the RECC Operations Fund (245) which formerly came from the EMS GRT or Services Fund (234/232) and the remaining \$1.6 M is to fund capital projects from the accumulated cash balance in the fund.
- » The Regional Emergency Communications Center (RECC) Operations Fund (245) budget decreased \$0.15 M. Since this fund has no significant funding of its own, it is reliant upon transfers from other funds. In FY 2012 the Fire Operations fund will transfer \$3.2M to the RECC. Funding for the RECC is of major concern due to its reliance upon other funds for support.
- » The Corrections Operations Fund (247) budget increased by \$0.8 M. This is due to a change in the method of budgeting for salaries and for Asset Renewal and Replacement package.
- » Bond proceeds from the 2009 Series GOB were budgeted at \$2.8M across all project categories. This is a decrease of \$2.7 M from the FY 2011 budget.
- » Proceeds from the Series 2011GOB were budgeted at \$16.4 M across all projects.
- » Total debt service for Santa Fe County increased by \$1.4 M.



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BASELINES AND BUDGET BUILDING BLOCKS

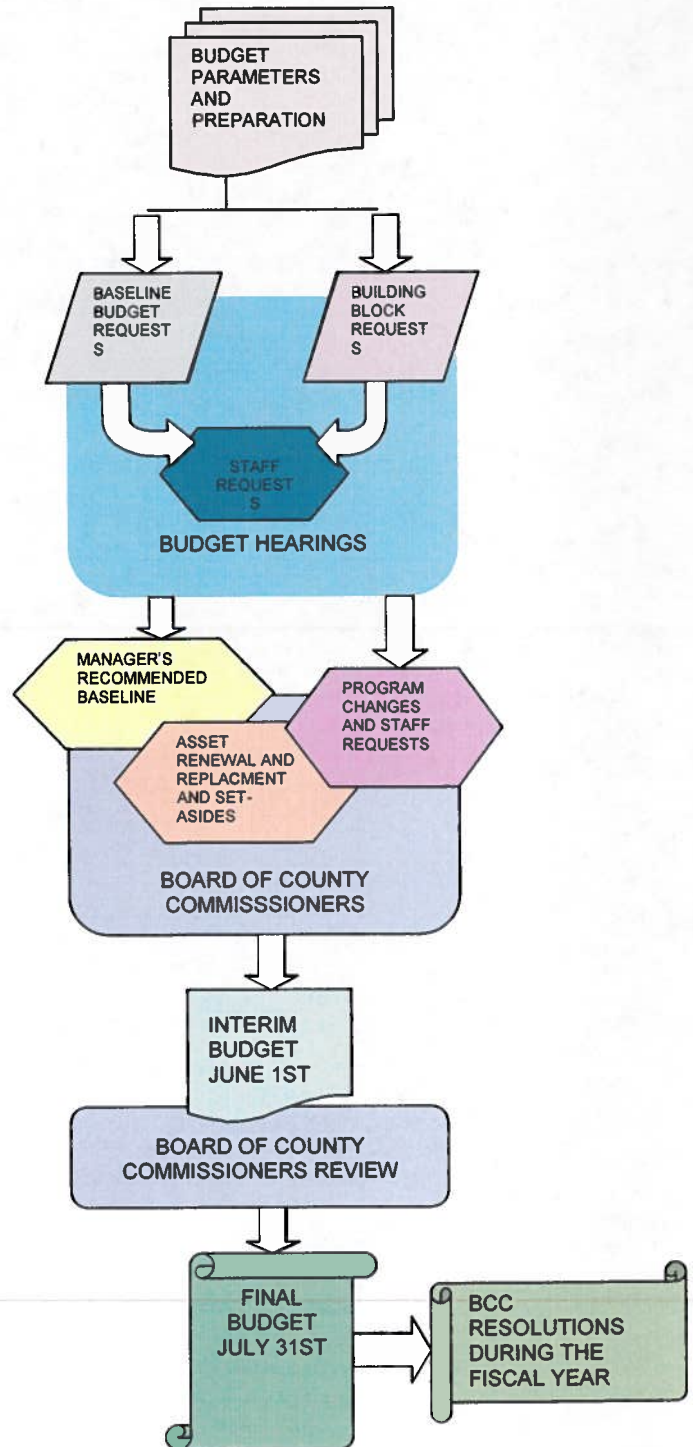
The standard budget methodology used in preparing budgets consists of the submission and review of baseline and building-block budgets. Baseline budgets include necessary expenses for established County services, programs and supporting organizations at existing levels of service. Each County organization 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
- ◆ Vehicle Expenses
- ◆ Travel
- ◆ Maintenance
- ◆ Contractual Services
- ◆ Supplies (office, field, educational, employee uniforms, etc)
- ◆ Operating Costs (utilities, employee training, insurance, etc)
- ◆ Insurance Premiums and Deductibles (not related to employee benefits)
- ◆ 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. Few “building blocks” requests have been approved since the economic downturn which began in FY 2009 and created uncertain revenue prospects. Retaining long-term financial viability of existing services became the focus instead of the expansion of services.

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.





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THE ANNUAL BUDGET CALENDAR

1. **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 process and review deadlines and timelines.
2. **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, and detail forms for training, telecommunication and vehicle requirements. Budget staff input budget requests into the financial system.
3. **JANUARY – MARCH:** The Finance Division prepares revenue projections, analyzes department requests and prepares a budget request package for budget hearings.
4. **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.
5. **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.
6. **JUNE:** Any adjustments made by the DFA to the Interim Budget are then incorporated by the Finance Division into the Final Budget which must be approved by Board Resolution. Once approved by the Board the Final Annual Budget is compiled on specified forms and submitted to the DFA by July 31 for final certification. The Final Budget is the subject of this document.

