SANTA FE COUNTY

FISCAL YEAR 2008 BUDGET

SECTION III
THE BUDGETING PROCESS

THE BUDGETING PROCESS

OVERVIEW

A budget can be defined as the written expression of an organization or program's goals and objectives and the resources required to achieve them. 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 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 continuing budget resolutions and adjustments 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 statute and the State Department of Finance and Administration (DFA), Local Government Division. It is an annual Fiscal Year budget wherein initial appropriations must be approved by the Board of Commissioners and the DFA. Budget adjustments within a fund, between departments, or between line items may be administratively approved by the County.

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:

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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.

SUMMARY OF BUDGETARY FINANCIAL POLICIES AND GOALS

Santa Fe County Financial Policies are expressed in detail at the end of this section of the budget. Budgetary financial policy as expressed in regard to balanced budgets, is to hold spending of a recurring nature to levels sustainable by recurring revenue for operational costs, particularly in the General Fund, and to fund capital equipment and one-time expense through the use of cash balances and other non-recurring revenues.

The County Finance Department maintains extensive revenue records to enable accurate budget forecasts of revenue. Property Tax budgets are determined from an analysis of property valuations and historic trends. Gross Receipts Tax budgets are determined from trend data and from an economic analysis of business activity underlying the receipt of these taxes. Property tax revenue, being the principle source of revenue to the General Fund, is conservatively budgeted by policy. Gross receipts taxes are also conservatively estimated.

Budgeted expenses are developed through a baseline approach, with zero-based detailed explanations required for contractual services 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.

In Fiscal Year 2006, due to an inability to exactly forecast the Adult Facility (jail) expense as the County took over operations of that facility, budgeted staff additions were placed on a 'rolling list' of new staff positions to be approved as future demands on the General Fund became clear. This process has continued in Fiscal Year 2008. Funding is budgeted in the "Set-Asides" cost center for a list of potential positions to be added to the budget during the Fiscal Year. At various times during the Fiscal Year, the County Manager may propose that certain of these positions be approved for hiring, and the Board of County Commissioners will approve the positions and place them in their departmental cost centers.

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SUMMARY OF BUDGETARY FINANCIAL POLICIES AND GOALS

Revenue is recognized in the budget for Capital Outlay Gross Receipts taxes and available funds from bond proceeds will be 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. In regard to 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 State Department of Finance and Administration guidance.
c) Adjusts the budget through departmental budget amendments and a county-wide mid-year budget review to reflect changes in the local economy, changes in service priorities, and receipt of unbudgeted revenue.
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 revenue and expenditure information for controlling 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 requirement for the General Fund is 25% of budgeted expense. 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 Housing Enterprise Fund, and the Jail Enterprise Fund.

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. The recurring standard of balance budgets facilitates the ability of the County to fund non-grant organizations and programs, minimizing the possibility of over-extending County resources in the future.

THE BUDGETING PROCESS

BASIS FOR DETERMINING REVENUE

The County Finance Department 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 70% 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 budget shortfalls in tax receipts have serious impacts 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 followed as tax revenues are received from month to month.

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 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. 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. An analysis of these parameters is especially important in the markets of declining and then increasing interest rates experienced in the last five years.

THE BUDGETING PROCESS

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. Substantial increases in capital appropriations due to increased State natural gas and crude oil tax revenues have resulted in appropriations that follow the ICIP plans much less than in the past. The Capital section of the budget concentrates this year on the historical growth capital projects and the construction backlog that confronts the County.

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, current 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 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. Historical analysis aided by multi-year worksheets must be maintained to determine total project budgets.


Early October in the Sangre de Cristo mountains

THE BUDGETING PROCESS

PLANNING AND BUDGET DEVELOPMENT

LONG TERM PLANNING

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 2008.

Land Use and Growth Management

Santa Fe County's land use and growth management policy is to promote development that avoids sprawls; protect open spaces and maintain the diverse character of the County through creative development design solutions; ensure the availability and affordability of housing and economic opportunities with adequate and economically efficient infrastructure and services; and maintain and preserve traditional communities and their economic structures.

Natural Resources and Open Space

Santa Fe County's open space policy is to protect significant open space, 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.

THE BUDGETING PROCESS

PLANNING AND BUDGET DEVELOPMENT

LONG TERM PLANNING

Community and District Planning

Santa Fe County's community and district planning policy is to recognize that each settlement area in the County has a unique history and land ownership pattern. The County creates a planning process and does more detailed planning, with the involvement of local residents and property owners, to consider the present and future needs of the areas. Community and district planning should protect communities, help solve problems, help prioritize local projects for available funding and resources, and involve property owners and residents in the formulation of land use regulations that respect the unique character of the communities regulated.

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.

UTILITIES: The County plays an active role in the development of water and wastewater systems coordinated with the planned location of new development and in critical areas. Through the community and district planning process, the County designs utilities to support and fit into the rural, unique and diverse county characters, aesthetics and environment of the County.

TRANSPORTATION: The County promotes a variety of transportation systems in the County, including mass transit, bicycles, pedestrians, equestrian uses and vehicles. These systems are developed to reflect rural, unique and diverse community character and patterns, and emphasize an efficient network of smaller roads and trails, scenic byways and buffered road and highway corridors between communities.

PUBLIC SERVICES: The County builds and maintains facilities and provides services in response to public need. The necessary services and infrastructure are provided in community centers throughout the County as these new areas are developed and as existing communities grow.

THE BUDGETING PROCESS

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, which have an impact on revenue and budget planning are:

a) Continue planning to fund and construct a new County Judicial facility.
b) Continue County and Regional planning of water projects, including the Buckman Direct Diversion Project.
c) Construct road improvements and expand road maintenance for the public to ensure a safe, economical and environmentally friendly road system.
d) Enact a County Affordable Housing Ordinance and establish an affordable housing program and function in the County.
e) Strengthen and expand County Fire Department services to meet growing population needs.

Santa Fe September Fiesta

THE BUDGETING PROCESS

FISCAL YEAR 2008 BUDGET – SHORT TERM PRIORITIES

Short term priorities which impacted budget planning for Fiscal Year 2008, differing from the prior year, are as follows:

1. Santa Fe County voters approved a $25 million General Obligation Bond (Series 2007) for the construction of a Judicial Complex (District 1 Courthouse). Proceeds from this bond were received and appropriated into the Fiscal Year 2007 budget. In addition, there is a $500,000 legislative appropriation for the Courthouse, and an additional $5 million from a 1/16 cent General Fund gross receipts tax in Fiscal Years 2007 and 2008 is dedicated to the expense associated with the Judicial Complex. The remainder of the total $55 million cost of this facility is envisioned to be funded by a future revenue bond supported by the 1/16 cent gross receipts tax.

2. State Legislative "Special Appropriations" topped $16.7 million in the Fiscal Year 2008 budget, $6 million more than in the previous Fiscal Year which up to that time was a record year for appropriations. Projects associated with the purchase and renovation of The Woman Health Services facility, $3.7 million, and $1.85 million for the Esperanza shelter, both appropriated for non-county operated programs, constitutes a third of the appropriations. The remainder of state appropriations is divided between 45 projects, giving rise to the issue of the County's ability to work off the project backlog with the current in-house project management staff.

3. A one-quarter cent "Emergency Communications and Medical Services" gross receipts tax was approved by voters, which will bring in $7 million in Fiscal Year 2008 and $9.8 million in Fiscal Year 2009. In association with the enactment of this tax, the County took financial responsibility for the Regional Emergency Communications Center (RECC) which hitherto was funded by the City of Santa Fe with a 30% operations contribution and 50% capital contribution from the County. The RECC budget for Fiscal Year 2008 is $3.2 million, but will be funded from the EMS gross receipts tax while the new tax will fund operations of the Fire Department. $1 million was transferred from the new tax to the EMS Health Services fund for operation of RECC in Fiscal Year 2008.

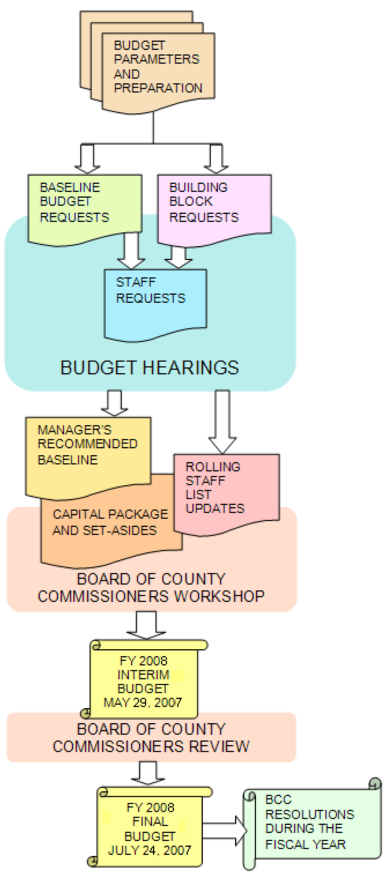
4. The Care Connection Detox center began operation in November 2006 and will experience its first full year of operation in Fiscal Year 2008 with an $855 thousand budget, funded mostly from St. Vincent's MOA carryover. Most of the Detox clients in Fiscal 2007 were sent to the Detox center from the St. Vincent's emergency room. Funding for continued operation of the Detox center is of concern as carryover funds are non-recurring.

THE BUDGETING PROCESS

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 cost center (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, printing, 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. Requested resources are justified by specifying and explaining what line items or services are anticipated to be required. 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 after baseline needs are met, and according to their prioritization.

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.

THE BUDGETING PROCESS

THE ANNUAL BUDGET PROCESS

1. The Finance Department 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.

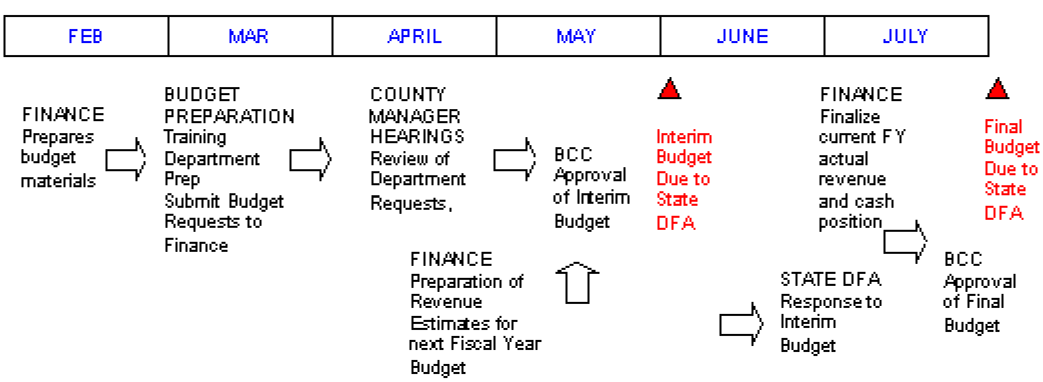
2. Department Directors and Elected Officials and their staffs complete a set of budget request forms for each cost center. Requested amounts for expenditure line items are entered into the budget preparation module of the financial accounting system. Completed forms are submitted to the Finance Department 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.

3. The Finance Department prepares revenue projections, analyzes department requests, and prepares a budget request package for budget hearings.

4. The County Manager, along with the Finance Director and the Budget Administrator, meet with each Department Director and Elected Official to review budget requests. These meetings 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. The Board of County Commissioners reviews the recommended budget package at a public hearing and make any necessary adjustments. From these proceedings an Interim Budget is constructed and approved by Board Resolution, and submitted to the State Department of Finance and Administration (DFA) by June 1.

6. Any adjustments made by the DFA to the Interim Budget are then incorporated by the Finance Department into the Final Annual Budget which is submitted to the DFA by July 31 for final certification.



THE BUDGETING PROCESS

BUDGET MANAGEMENT

During the course of the fiscal year the budget is managed through revenue and expenditure tracking and analysis, periodic reviews with each County department, and adjustments are made to the budget as necessary.

A monthly report of major revenue sources, cost category and fund expenses and major fund cash positions is published. These analyses give an early indication of revenue deficiencies or surpluses, and expenditure patterns which can be addressed in a timely manner through budget adjustments. Similarly, budget and expense reviews with each department bring to light their financial needs and opportunities which can also be addressed through amendments to the budget.

After the annual budget is adopted, the following types of adjustments must be approved by the County Board of Commissioners through a resolution submitted to the state Department of Finance and Administration (DFA) for review and approval:

- Budget Revenue (Fund Sources) increases or decreases.
- Transfers of Budget or Cash between funds.
- Additions and deletions to Full-time Employees (FTEs)

Additionally it is County policy to prepare an internal budget request form (BAR) for the following:

- Transfer within a cost center between expenditure categories
- Transfer between cost centers within the same fund

A total of 96 Board of County Commissioner budget Resolutions requiring DFA approval and 378 internal budget adjustments were made in Fiscal Year 2007.

Cost center budgets are monitored by the Finance Department to ensure that DFA and County policies are followed. Additionally, a mid-year budget review is conducted in a series of hearings with the County Manager, Finance Department staff and Department Heads or Elected Officials. During the hearing, department goals, objectives, and budget status are reviewed to determine if the budget is being managed as appropriated. This review may result in budget adjustments.

General Fund capital is initially budgeted in a Capital Package cost center. At the time of purchase of a capital item, funds are transferred from the Capital Package budget to the purchasing organization's budget. This ensures that the items budgeted are the items that are actually purchased. Capital Package distributions comprise a quarter of the budget adjustments made during the fiscal year.