

FIRST QUARTER REPORT
for
Fiscal Year 2007

July 1 - September 30, 2006

City of Farmington, New Mexico

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Introduction

Private corporations make major operational decisions based on quarterly reports. It is very convenient to provide analyses for four 13-week periods a year. In an organization like the City of Farmington that has many diverse functions and services, it is very easy to get lost in a sea of data regarding our operations and lose sight of the "big picture." This report is designed to provide a quarterly update on key issues in a manner that is relatively easy to read and share with others who are not involved in City operations on a daily basis.

There are five sections to this report. The first section deals with a financial analysis of key City funds.

The second section analyzes key staffing and turnover information that should help in assessing the state of municipal employment.

The third section deals with the delivery of public services. This section focuses on key data from each department regarding their most important public services.

The fourth section is a gross receipts tax analysis that is prepared based on data provided to the City by the New Mexico Taxation and Revenue Department. This data from businesses in the Farmington city limits is very useful in providing a broad overview of the local economy. The data has a one-month lag period which means that receipts collected in July are reported to the state in August. Actual payment is then received by the city in September.

The fifth section summarizes county employment.

NOTE: Quarterly reports are generated based on fiscal year rather than calendar year. The City of Farmington's fiscal year begins July 1 and ends June 30 of the following year; therefore, this is the First Quarter Report of Fiscal Year 2007 which comprises July 1 through September 30, 2006. Where quarters are referred to within the text of this report, they are identified by the calendar year, such as 2007, or if the fiscal year is being discussed, it is identified as FY, such as FY07.

I. FINANCIAL ANALYSIS

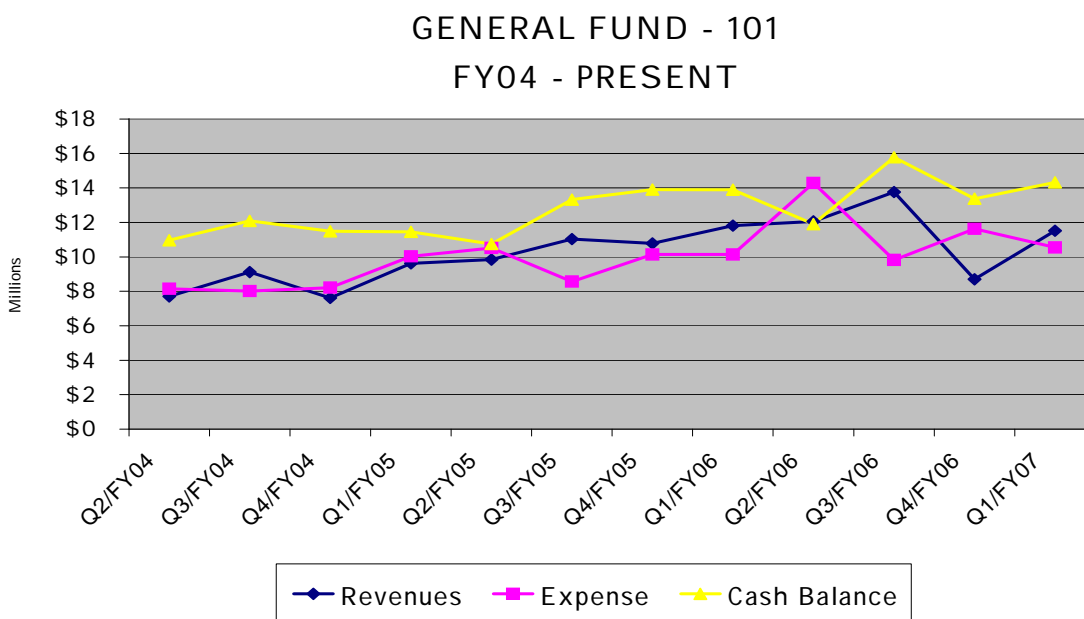
The City's Financial Health

GENERAL FUND - 101

The Q1/FY07 ending cash balance totaled \$14,326,602 which includes \$2,000,000 dedicated to debt stabilization reserve for the 2001 Sales Tax Revenue Bonds.

Q1/FY07 expenditures tracked well under budget with 25% of the year passed and 2% of the budget expended. Revenues came in at 4.5% over FY06's actuals, primarily due to an increase in GRT and oil/gas lease payments. By the end of the first quarter, the budget for FY07 expenditures stood at \$5.0 million. This number includes a budget increase of \$882K due to the addition of FY06 budget encumbrances. The General Fund cash balance has remained fairly stable even though the FY07 budget anticipates using some \$1.6 million of existing cash balance for operations and \$2.6 million for one-time capital projects. The ending cash balance for the quarter is actually \$1.1 million higher than the beginning cash balance,

The Q2/FY06 and Q4/FY06 reductions in cash balance reflect the purchase of the Animas Credit Union building, and the purchase of a large number of Police and Parks vehicles, respectively.

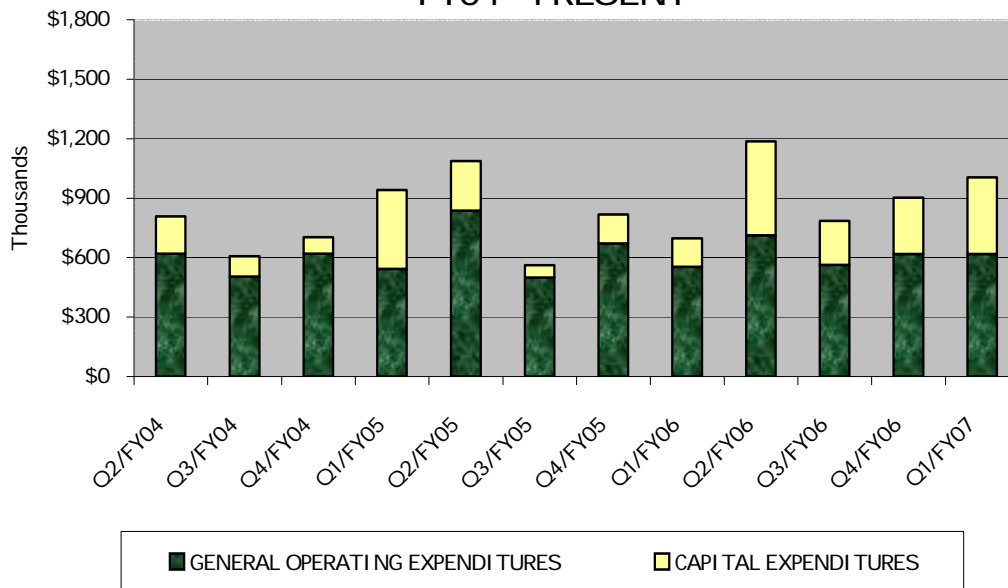


RESTRICTED GENERAL FUND - 201 - STREETS

The majority of capital expenditures have been in the areas of street resurfacing and concrete rehabilitation. This fund also provides the local cash match for state funded roadway projects through a revenue transfer which is not reflected in the graph. Legislation (HB 685), effective August 1, 1999, requires that all gasoline tax revenue be deposited in the Municipal Street Fund. In prior years, a portion of the gasoline tax revenue was reported in the General Fund. The entire gasoline tax is now reported as Street Fund revenue.

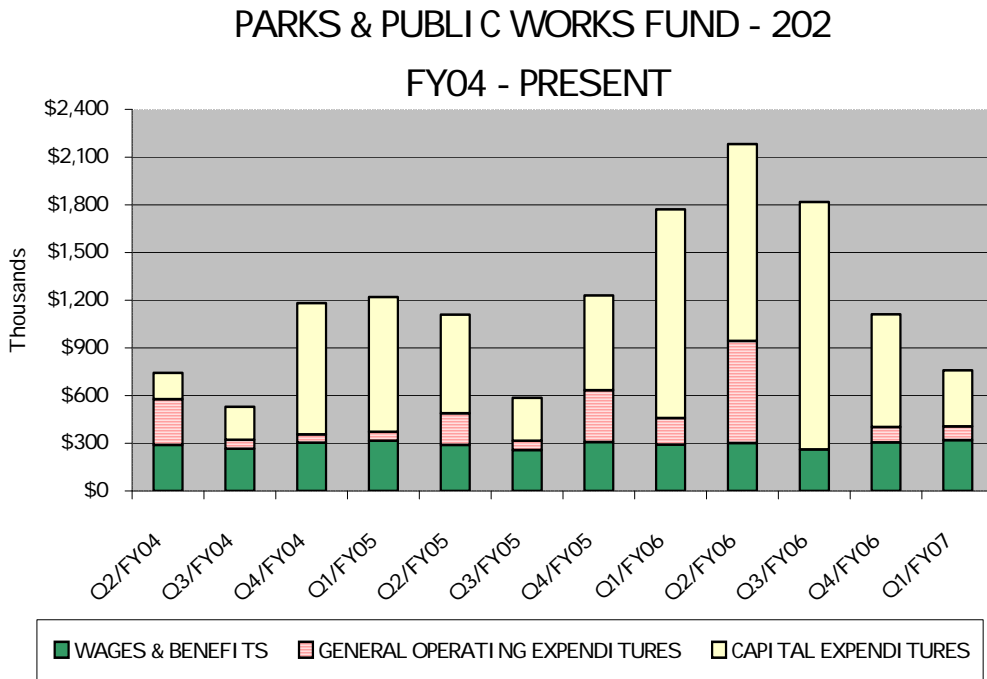
General operating expenditures usually increase in the first and second quarters of the fiscal year due to the seasonal nature of construction. The slight increase in capital expenditures in Q1/FY07 was primarily due to the rehabilitation of College Boulevard, the annual concrete sidewalk, curb and gutter work completed prior to slurry seal, and the construction of the English Road right turn lane onto Main Street.

RESTRICTED GENERAL FUND - 201 FY04 - PRESENT



PARKS & PUBLIC WORKS FUND - 202

Over the last twelve years, the wage and benefit transfer to the General Fund has been stable at \$250,000 per quarter which pays the wages and benefits of Parks and Public Works employees performing the maintenance and construction duties associated with the 201 and 202 funds. Expenditures tend to be low in the fourth quarter of each fiscal year due to lower construction and maintenance activities during the previous months of winter and early spring. The largest capital expenditure in Q1/FY07 included the purchase of playground equipment for Civitan, Beckland, and Lions Pool parks, and the development and construction of Sandewood Park.



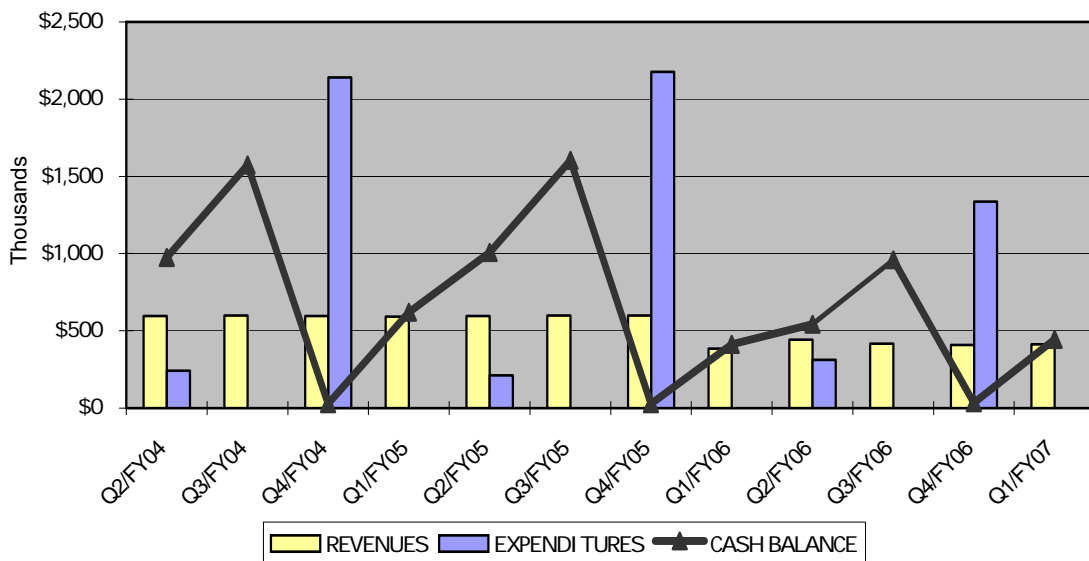
SALES TAX BOND FUND - 501

The Sales Tax Bond Fund was originally designed to track revenues and expenditures related to several sales tax bond issues that were implemented in the 70s and early 80s. Currently, the 2001 and 2005 Sales Tax Revenue Bonds are being paid from this fund.

On November 1, 2001 the City called the outstanding 1993 Bonds which had principal outstanding of \$395,000, and issued \$14.78 million in sales tax revenue bonds. The bond proceeds were used to construct and furnish a new 50,000 square foot library facility and street and drainage improvement projects. Remaining proceeds were used to refund the 1994 sales tax bonds. The 2001 sales tax bonds will mature in 2014. Payments are made in December and June of each fiscal year.

In the spring of 2005 the City issued \$5.725 million in Sales Tax Revenue Bonds to construct a new fire station and purchase additional fire vehicles. Because the debt service schedule in the 2001 issue provided for a large decrease in 2006 the combined debt service for both the 2001 and 2005 is now less than the prior debt service for just the 2001 issue.

SALES TAX BOND FUND - 501 FY04 - PRESENT



UTILITIES CASH BALANCES

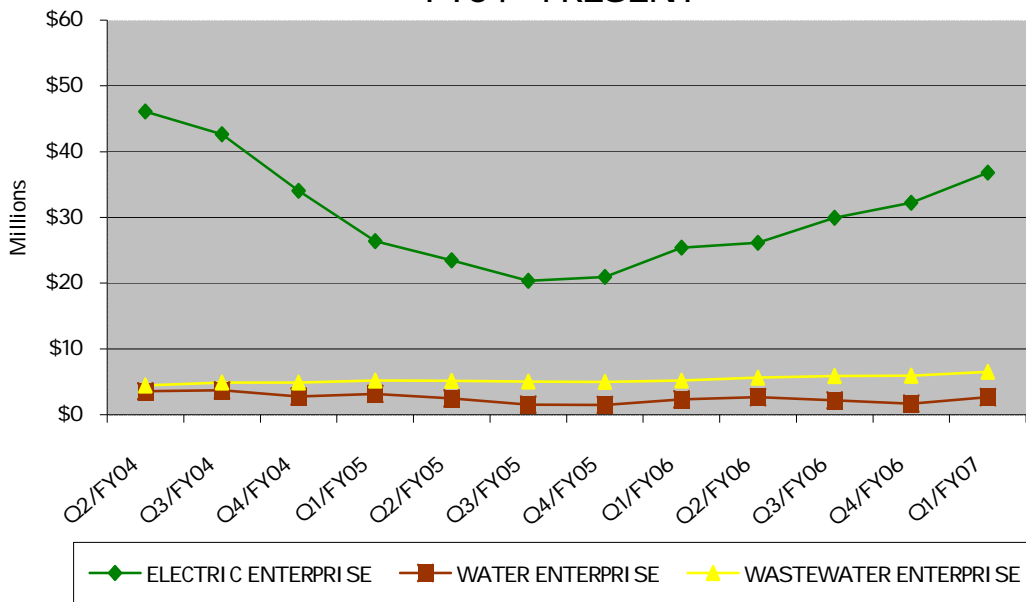
Because the electric, water and wastewater funds are utility enterprise funds with ongoing utility payments, revenues, and debt-related expenditures, the cash basis of accounting is not used. Therefore, it is inaccurate to include revenues, expenditures and cash balances on the same graph because they are not interrelated. This graph is designed to track cash balances only.

The electric, water and wastewater utilities maintain enterprise funds within the City's multitude of funds and financial statements are prepared each quarter demonstrating the position of the utilities' cash balance. The electric enterprise fund had a cash balance of \$36,812,866 on September 30, 2006, of which \$15,639,291 was restricted for deposits.

The water utility had a cash balance in the amount of \$2,656,897 of which \$206,297 was restricted for deposits. The wastewater fund had a cash balance of \$6,548,494.

UTILITIES CASH BALANCE

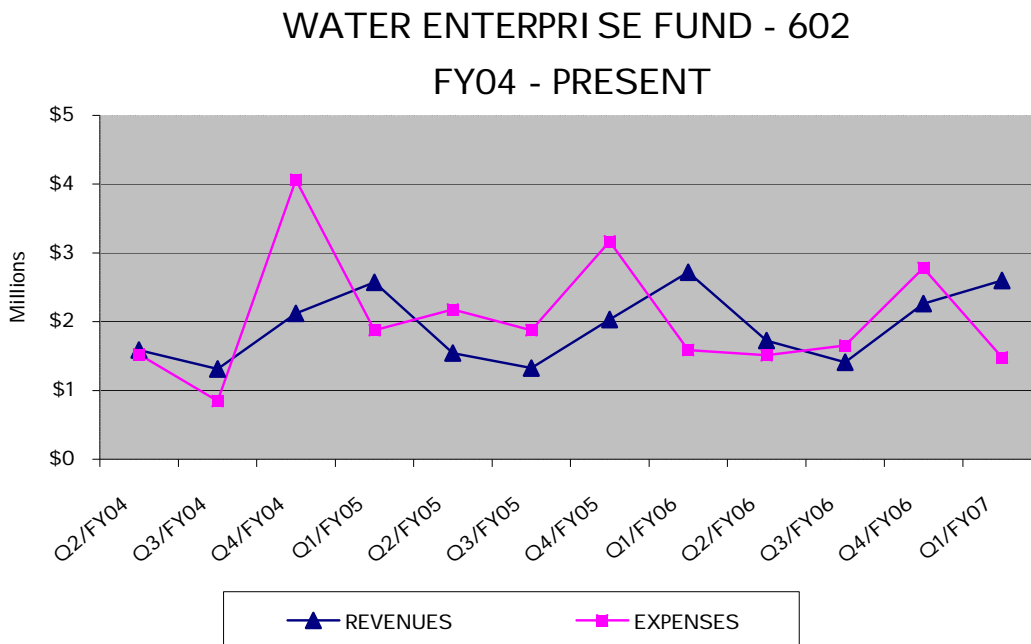
FY04 - PRESENT



WATER ENTERPRISE FUND - 602

This enterprise fund was created in January 1990 to track the performance of the Water Utility. The electric, water and wastewater funds' cash positions are summarized on page 5. Water rates were last increased 7% on July 1, 1991. In 1992, JMM Operation Services, Inc. of Denver, Colorado (now known as United Water Services, Inc.) assumed responsibility for the operation and maintenance of the water/wastewater system; City Council extended this contract until January 2000. In July 1999, proposals were received for a new operation and maintenance contract. The contract was awarded to Operations Management International, Inc. (OMI) of Greenwood, Colorado and went into effect on January 12, 2000; the existing (OMI) contract expires in 2007. An analysis of the financial impact of that privatization is shown on page 9.

Expenses are typically higher in the fourth quarter of the fiscal year due to the debt service payments that are made annually in May. Revenues are naturally higher in the first quarter of the fiscal year since more water is used during the summer months of July and August. The spike in expenses in Q4/FY04 was a result of the debt service payment, and the delayed payment of Q3/FY04 OMI installments. Expenses in FY06 remained constant with limited capital construction, due to pipe material shortages. Q1/FY07 expenses were down slightly as a result of scheduling construction projects, which began late in the quarter. Expenses should increase in the second quarter as construction projects are completed.



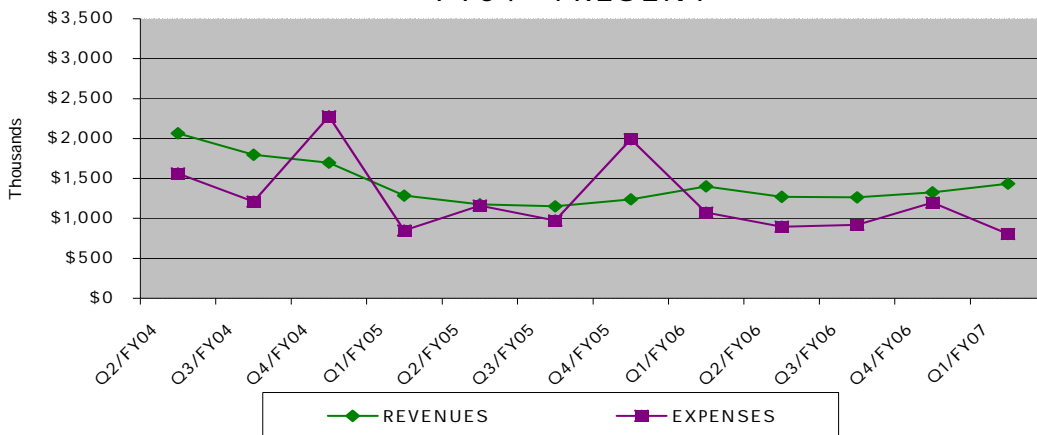
WASTEWATER ENTERPRISE FUND - 603

This enterprise fund was created in January 1990 to track the performance of the Wastewater Utility. In March 1991, a 1/16% environmental gross receipts tax was passed that provided \$658,976 in additional revenue for this fund in FY96. The electric, water and wastewater funds' cash positions are summarized on page 5.

In 1992 JMM Operational Services, Inc. (aka United Water Services, Inc.) assumed responsibility for the operation and maintenance of the water/wastewater systems. Wastewater rates were decreased an average of 12% effective September 1, 1992. In February 1996, the City Council extended their contract until January 2000. In July 1999, proposals were received for a new operation and maintenance contract. The contract was awarded to Operations Management International, Inc. (OMI) of Greenwood, Colorado and went into effect on January 12, 2000; the existing (OMI) contract expires in 2007. An analysis of the financial impact of that privatization is shown on page 9.

Expenses are typically higher in the 4th quarter of the fiscal year due to debt service payments that are made annually in May. In addition, expenses were elevated in Q4/FY04 as a result of the delayed payment of Q3/FY04 OMI installments. Revenues are generally flat since most customers pay a fixed amount each month based on the average of three winter month's water usage. Construction of Phase I and Phase II of the WWTP expansion project was funded by a low interest loan from NMED in the amount of \$13 million. Construction of the Phase II improvements began in Q4/FY02, and the impact of that construction on revenues and expenses can be seen in every quarter through Q1/FY04. This project was substantially completed by the end of Q3/FY04. Due to the rise in power demands, there has been an anticipated increase in operating expenses since the completion of the Phase II improvements. Expenses in Q2/FY06 and Q3/FY06 decreased slightly because of limited capital construction due to pipe material shortages. Q1/FY07 expenses were down slightly due to scheduling of construction projects, which began late in the first quarter. Expenses should increase in the second quarter as construction projects are completed.

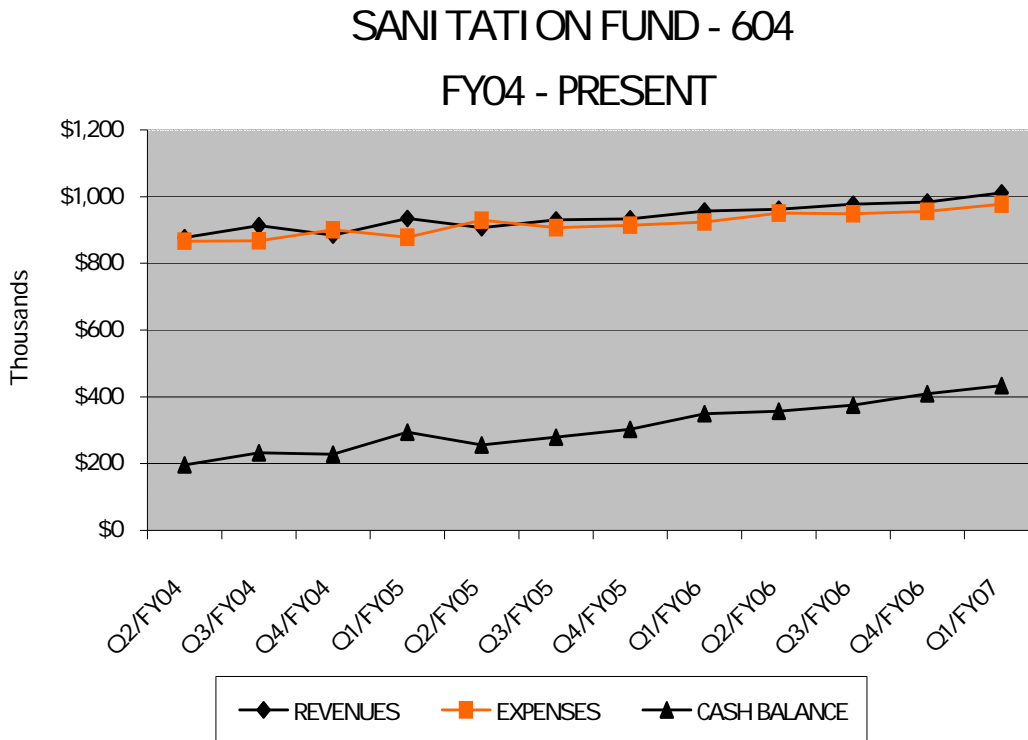
WASTEWATER ENTERPRISE FUND - 603
FY04 - PRESENT



SANITATION FUND - 604

This fund tracks the City's financial involvement in the refuse collection and landfill services currently operated on a contractual basis by Waste Management, Inc. Trash collection rate increases are based on an inflation formula computed at 75% of the annual percent change of consumer price index.

An eight year contract extension was negotiated with Waste Management in October 1999, which resulted in a 3% decrease in commercial rates as of July 1, 2000, and a decrease in the payments to Waste Management from 95% to 94% of the billings for refuse collection services as of January 1, 2000. The latter contract change has contributed to the growth in this fund's cash balance. On July 1, 2006, the residential rate was increased from \$9.34 to \$9.58 per month. The new rate was based on 75% of the increase in the Consumer Price Index for that year.



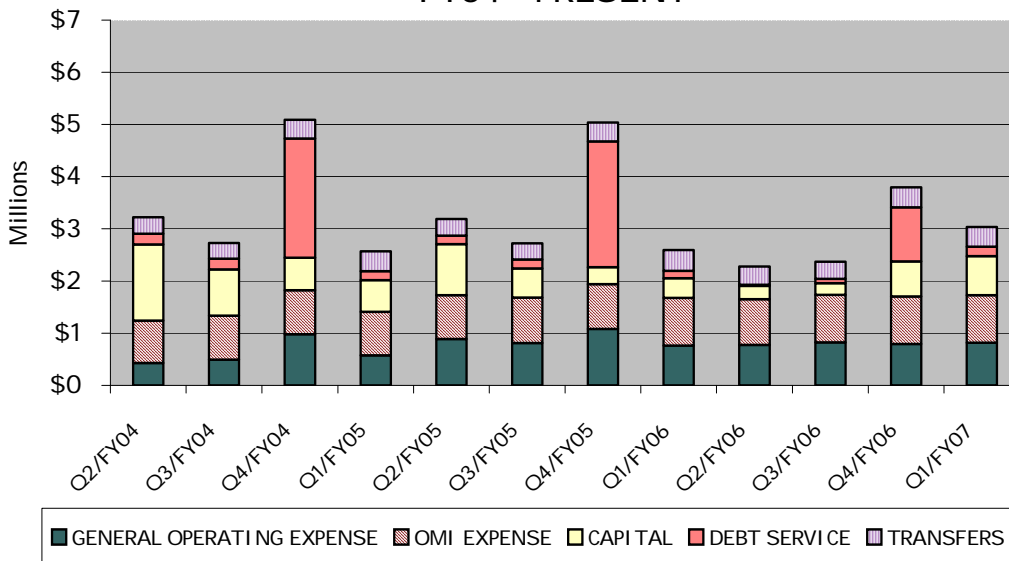
WATER/WASTEWATER EXPENSE

On January 1, 1990, the City established the Water and Wastewater Enterprise Funds. On January 12, 1992, the City turned over the daily operations of the entire water/wastewater system to JMM Operation Services, Inc. (later known as United Water Services, Inc.). In February 1996, the City Council extended their contract until January 2000. In July 1999, proposals were received for a new operation and maintenance contract. The contract was awarded to Operations Management International, Inc. (OMI) of Greenwood, Colorado and went into effect on January 12, 2000; the existing (OMI) contract expires in 2007.

The graph shown below is designed to show the quarterly progress of the water/wastewater expenses. The graph shows the water/wastewater expense in five different categories.

The water and wastewater utility administration staff has seven approved positions to assist with work on the WWTP expansion and water issues. Capital expenditures increased significantly in Q2/FY04 through Q3/FY04 due to the WWTP expansion project. The increase in the OMI expense category is the result of a contract amendment that went into effect in January 2004. Capital expenses decreased in Q2/FY06 and Q3/FY06, from the previous quarters as a result of limited capital construction due to pipe material shortages. Capital expenses increased in Q4/FY06 due to the purchase of approximately 3 miles of pipe materials for waterline and sewer line construction projects budgeted in FY07.

WATER/WASTEWATER EXPENSE
FY04 - PRESENT

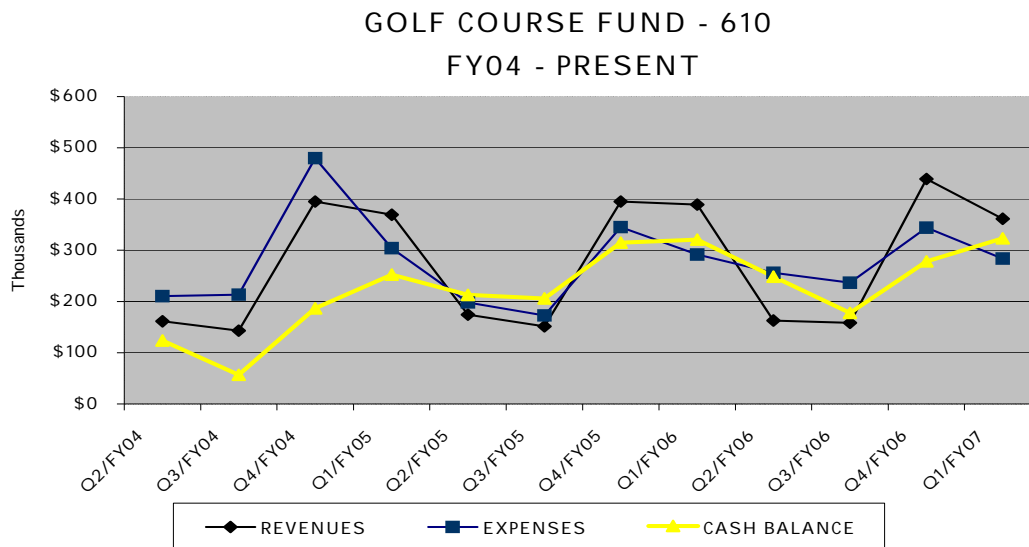


GOLF COURSE FUND - 610

The golf course enterprise fund is comprised of the revenues and expenditures connected with the operation of Piñon Hills and Civitan Golf Courses. Even though revenues were down the first quarter of FY07, they remain consistent with previous first quarters.

Piñon Hills finished Q1/FY07 with an 11% increase in season passes, a 22% increase in cart fees and a 25% increase in range fees. Weekend rounds were up, although weekday rounds were down due to Fridays being counted as part of the weekend. Civitan Golf Course continues to be heavily utilized by juniors and senior citizens, and has been incorporated into our teaching program.

Ongoing and upcoming projects include: installation of rough zones, bunker maintenance, and new pro shop counters at Piñon Hills. Completed projects include clubhouse landscaping and tree removal at both golf courses.

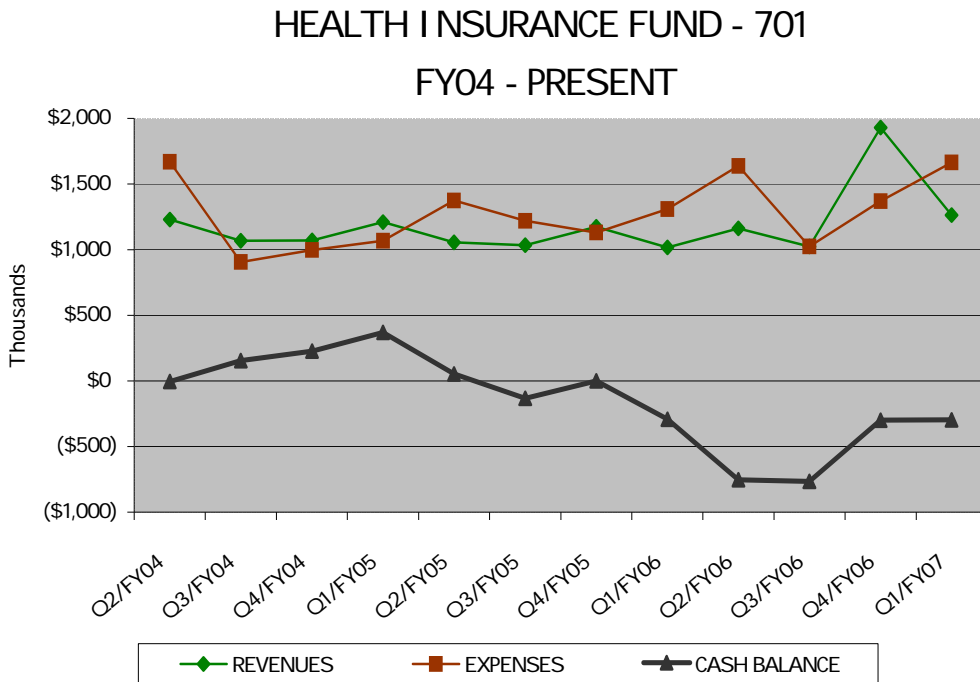


HEALTH INSURANCE FUND - 701

In the FY95 budget a 30% increase in the employer's share was implemented and another 20% increase was included in the approved FY99 budget. On January 1, 1999, both employer and employee contributions were increased 20%, and then again by 10% in FY01.

Following employee meetings and evaluation of completed employee surveys, yet another increase of an average of 18.93% in contributions was implemented effective January 1, 2001. Increasing costs required a plan change to a 90% plan on January 1, 2002. Additional plan changes incorporating deductibles, higher co-pays, and a 16% rate increase were implemented during the third quarter of FY03.

During the 4th quarter of FY06, the City Council approved a one-time contribution from the general fund to the group health fund of \$750,000. Commencing with the first quarter of FY07, the funding ratio was adjusted, resulting in employer contributions increasing, and employee dollar amount contributions remaining the same. Consequently, the City now pays approximately 78% of the premium and employees pay approximately 22%. Retirees continue to pay 100% of their premiums.

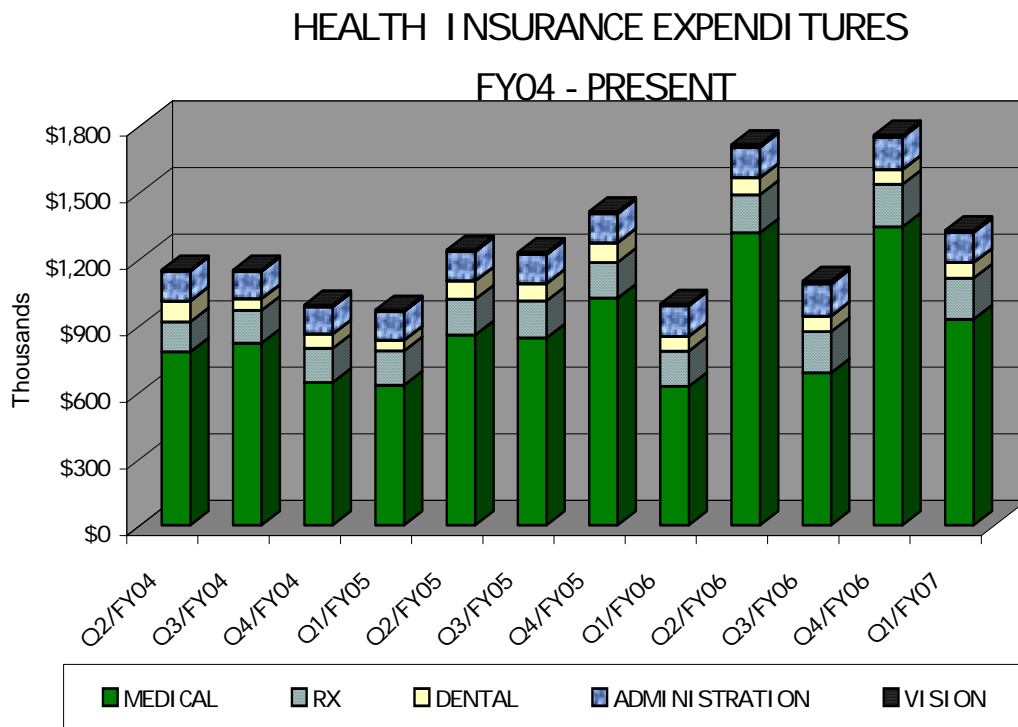


HEALTH INSURANCE EXPENDITURES

Medical costs continue to be the greatest portion of the group health plan. Prescription drug costs remain the second highest component with dental, administration, and vision also contributing to the expense of the plan.

Effective July 1, 2003, the San Juan Independent Practice Association (SJIPA) became the third party administrator to process and pay medical, dental and vision claims. At the same time, Eckerd Health Services (EHS) became the prescription benefit manager (PBM) for the City's plan. Q4/FY06 completed the third full year of an unbundled program with the SJIPA processing the City's group health claims.

At the end of FY06, many providers and facilities in Durango and Cortez, Colorado were added to the City's network at the first tier. During Q1/FY07, the group health plan provided coverage for more than 1,500 lives and included 517 employees and 107 retirees as participants.

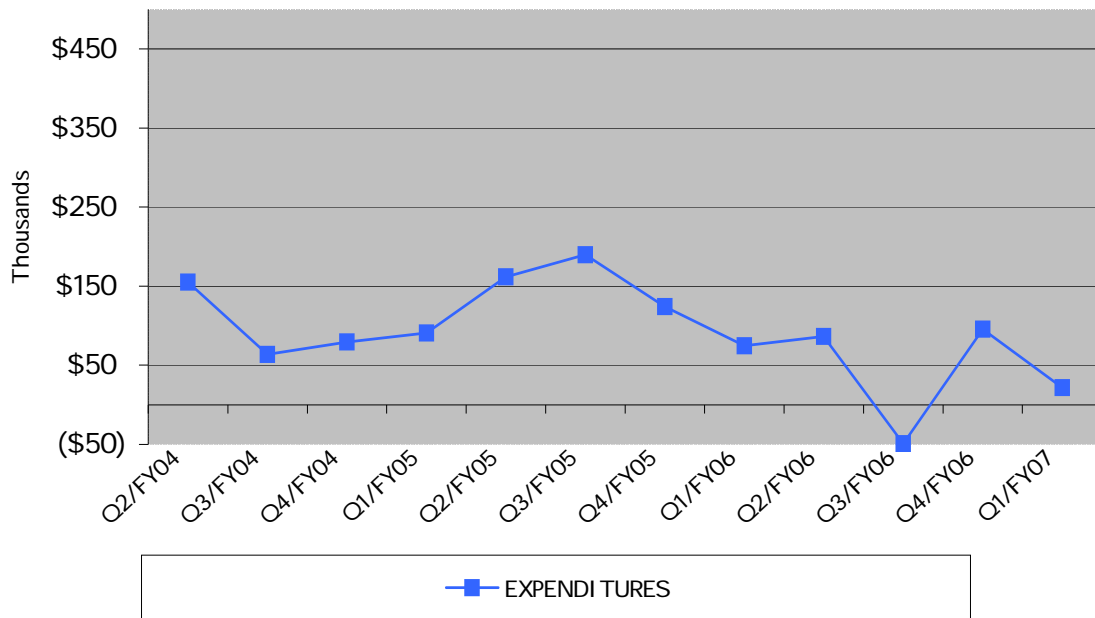


WORKERS' COMPENSATION INSURANCE

The workers' compensation insurance program is self-insured for the first \$400,000 of each claim. The Workers' Compensation fund balance of \$810,726 was closed to the General Fund at the end of FY03.

The graph below portrays both the former Workers' Compensation Fund expenditures and General Fund Workers' Compensation expenditures since January, 2003. The credit balance for Q3/FY06 is indicative of an insurance reimbursement received in March, 2006.

WORKERS COMPENSATION EXPENDITURES FY04 - PRESENT



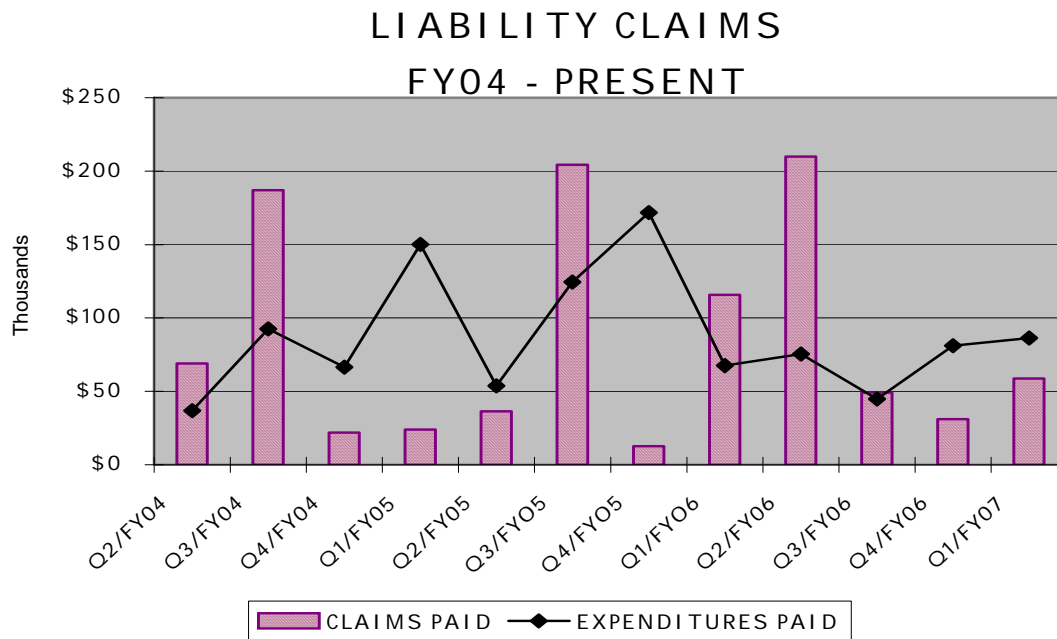
LIABILITY CLAIMS

The graph below shows the total paid for claims and the amount paid for items relating to claim expenditures such as legal fees and expert witnesses. Spikes in the graph indicate a large claim has been paid. Normally, expenditures tend to be flatter, as those costs are paid over time rather than in lump sums.

The Q1/FY07 expenditures include attorney fees and costs associated with 13 lawsuits against the city. The largest of these expenditures was \$53,000 incurred for trial preparation and a four-day trial. The City prevailed in this trial. One lawsuit was filed against the city in Q1/FY07 and one lawsuit was terminated when the plaintiff voluntarily dismissed the lawsuit.

Claim payments for Q1/FY07 include a \$15,000 settlement for one of two plaintiffs in a lawsuit. The City also paid four sewage backup claims for a total of \$31,831.36

The graph below provides the figures over the past three years for comparison purposes.



II. PERSONNEL ANALYSIS

State of Municipal Employment

Employee Safety Analysis

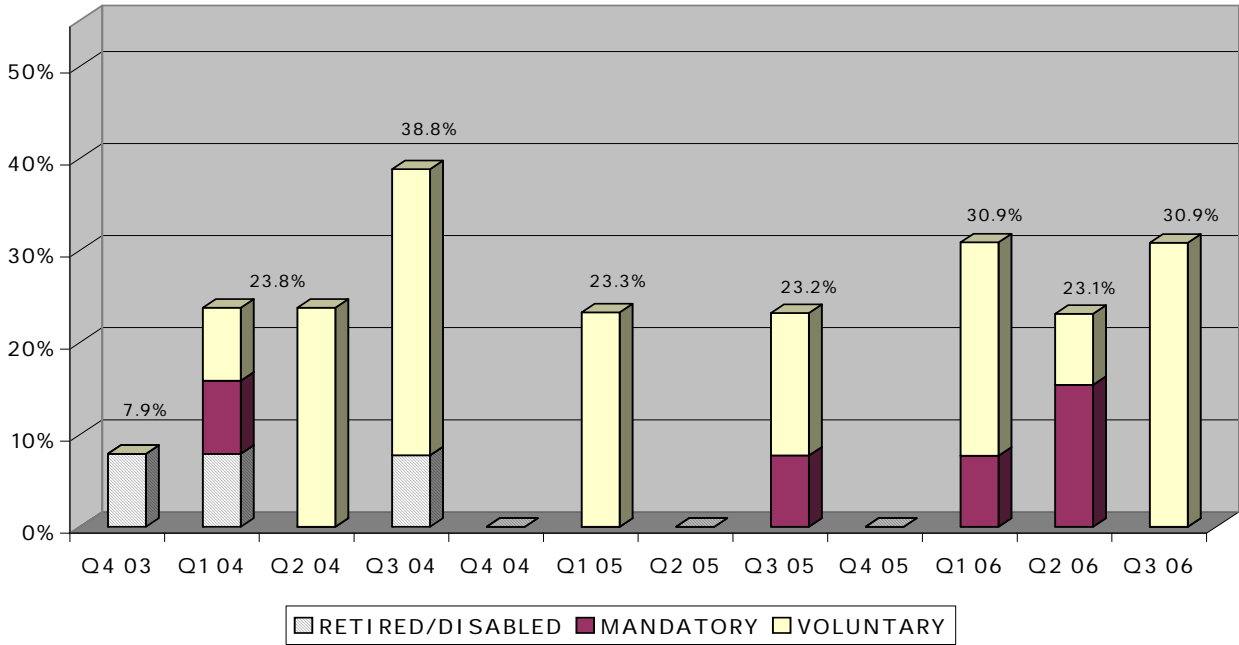
TURNOVER ANALYSIS

On the following pages, turnover is analyzed over the last twelve quarters for the seven occupational groups and for City employees as a whole. This information is being reported on a calendar year quarterly basis. Percentages for voluntary turnover over the last twelve years are shown below:

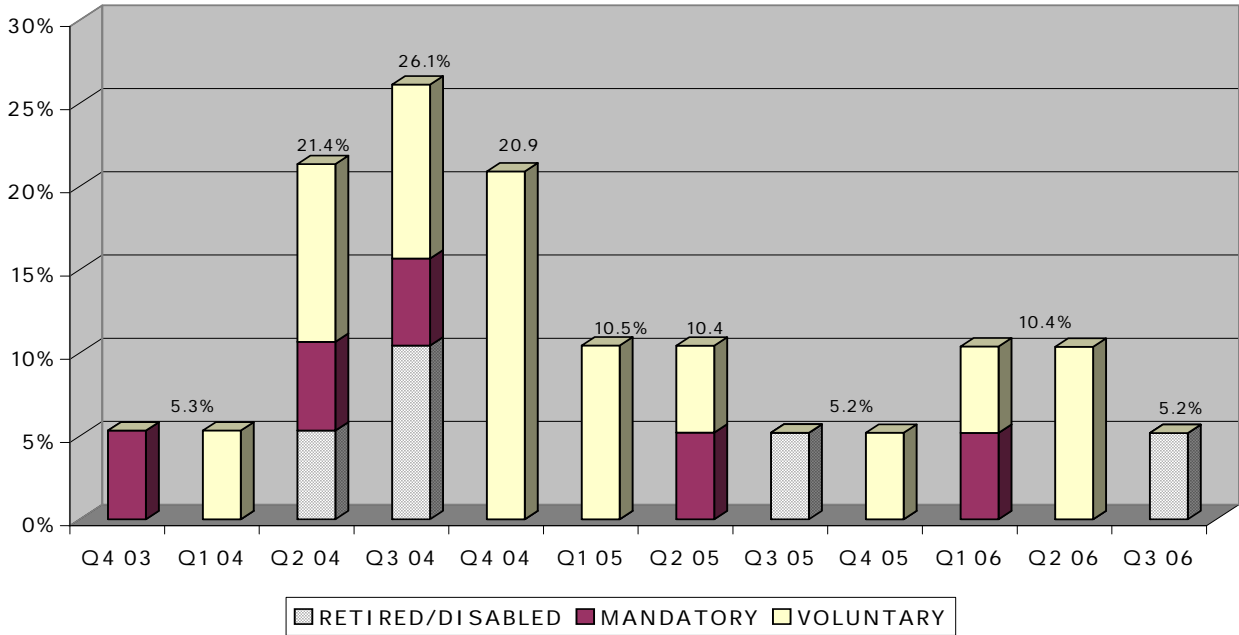
Voluntary Turnover Rate

1994	6.5%
1995	7.2%
1996	7.0%
1997	7.0%
1998	8.0%
1999	8.3%
2000	7.6%
2001	8.1%
2002	7.3%
2003	5.5%
2004	7.3%
2005	7.4%

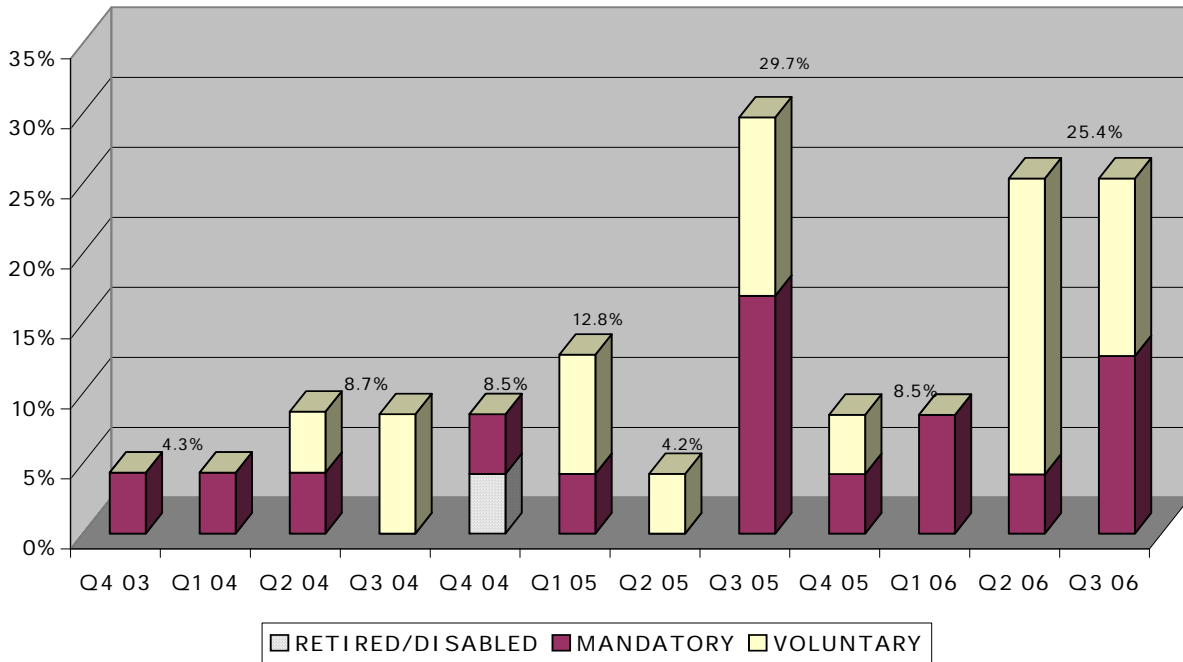
CLERICAL TECHNICAL TURNOVER
Senior level: paygrades C-1 thru C-5



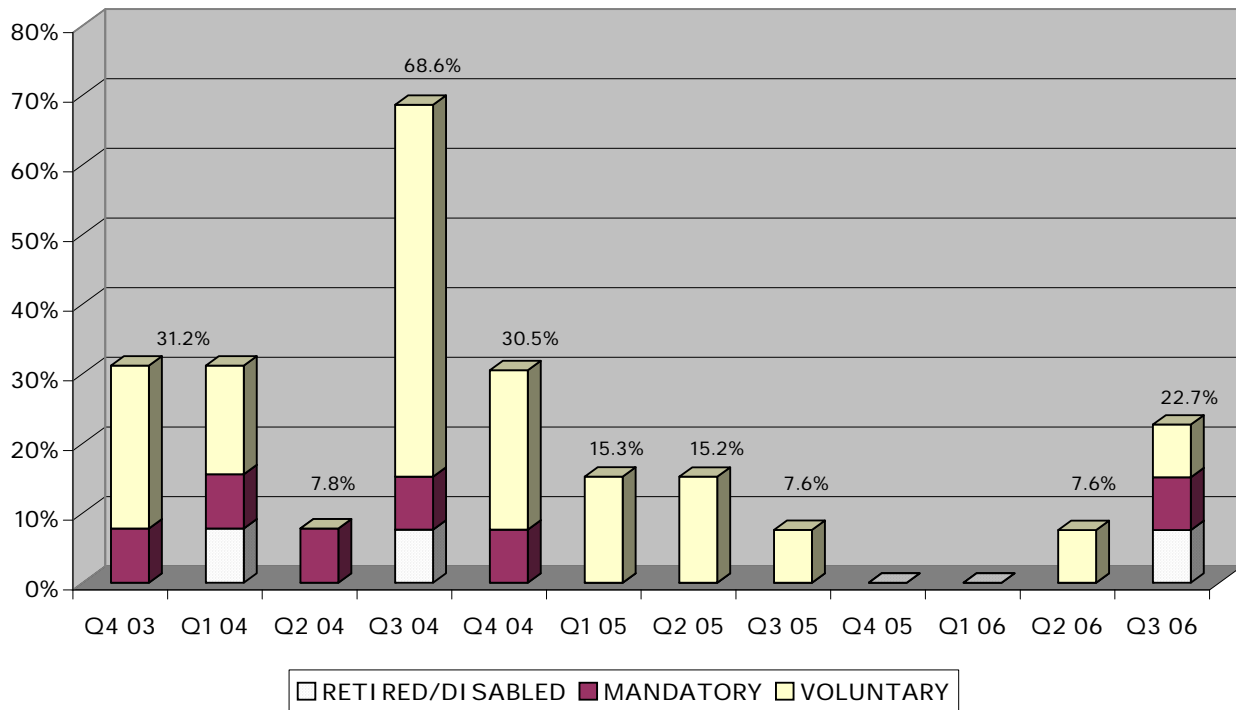
CLERICAL TECHNICAL TURNOVER
Entry level: paygrades C-6 thru C-10



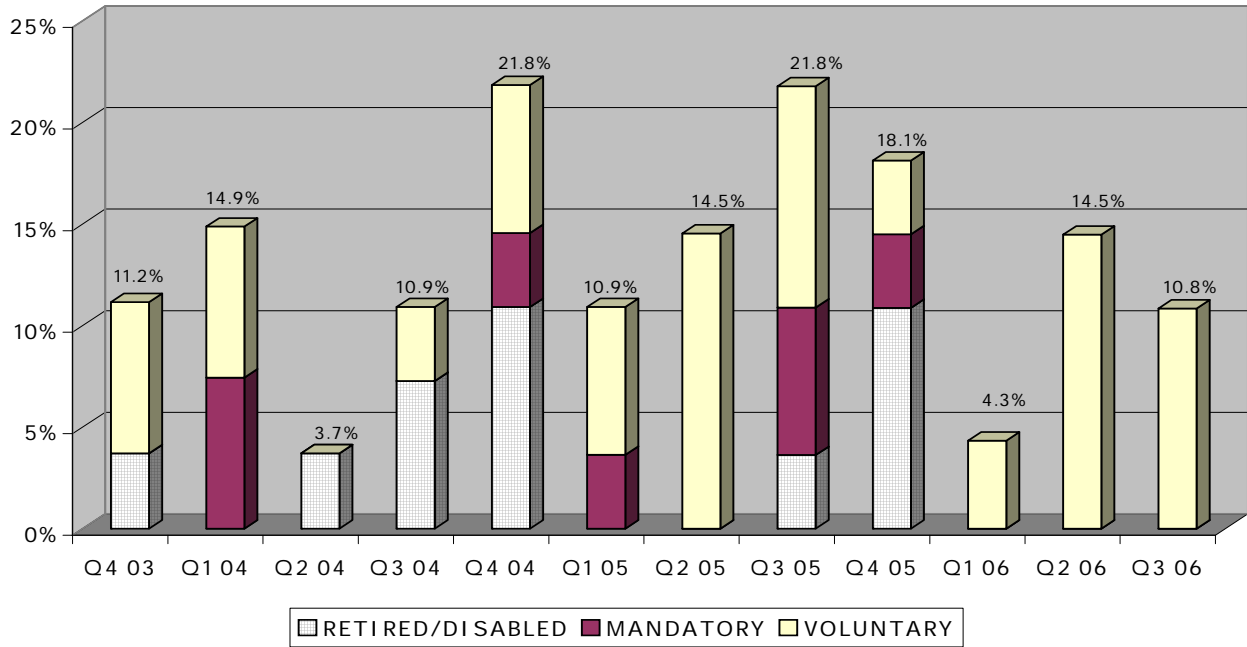
LABOR TRADES TURNOVER
Senior level: paygrades L-1 thru L-4



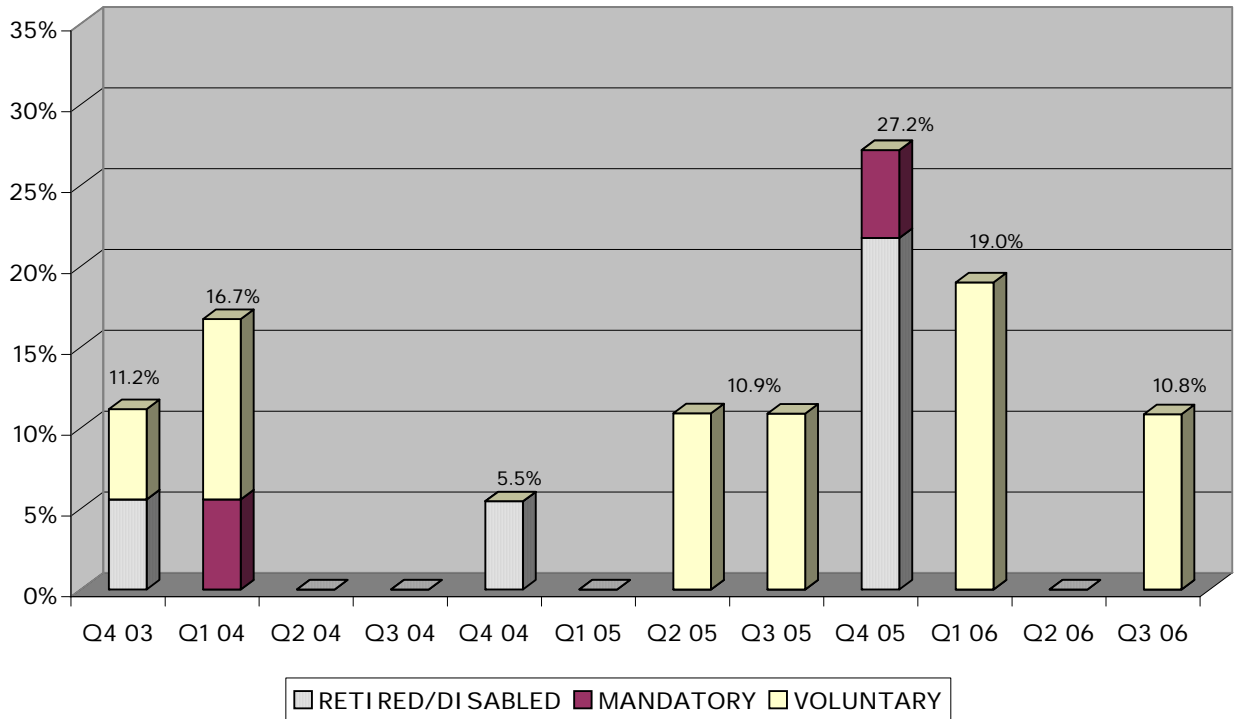
LABOR TRADES TURNOVER
Entry level: paygrades L-5 thru L-8



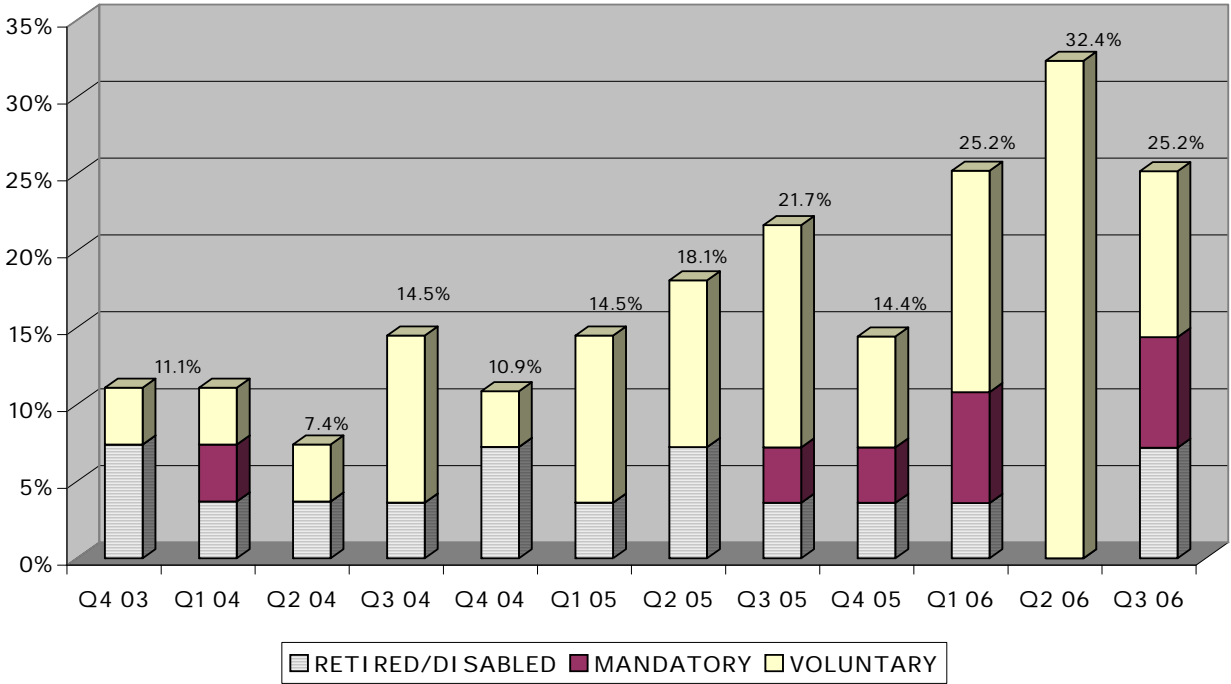
POLICE TURNOVER 2003 - PRESENT



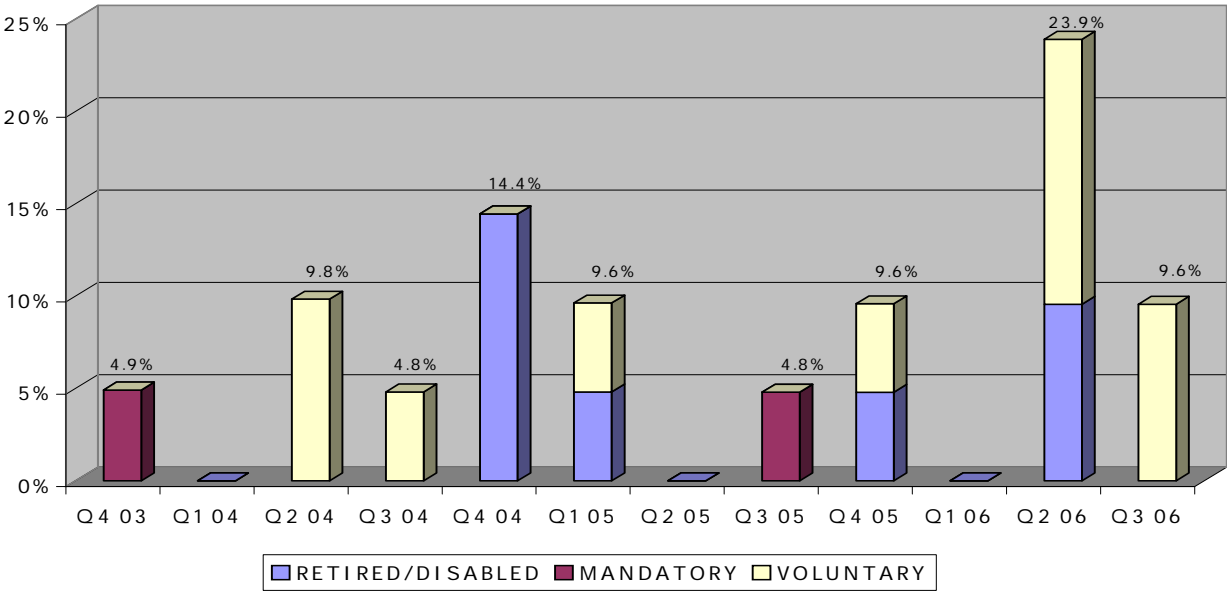
FIRE TURNOVER 2003 - PRESENT



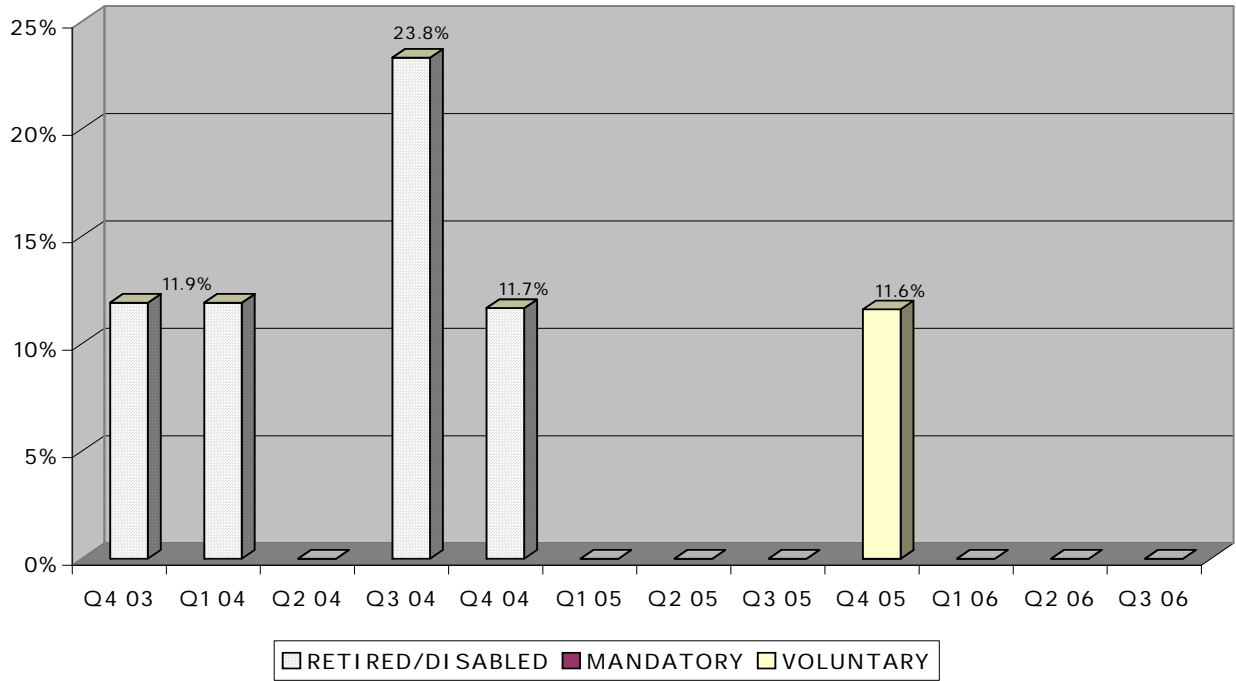
PROF/ADMIN/TECH TURNOVER
2003 - PRESENT



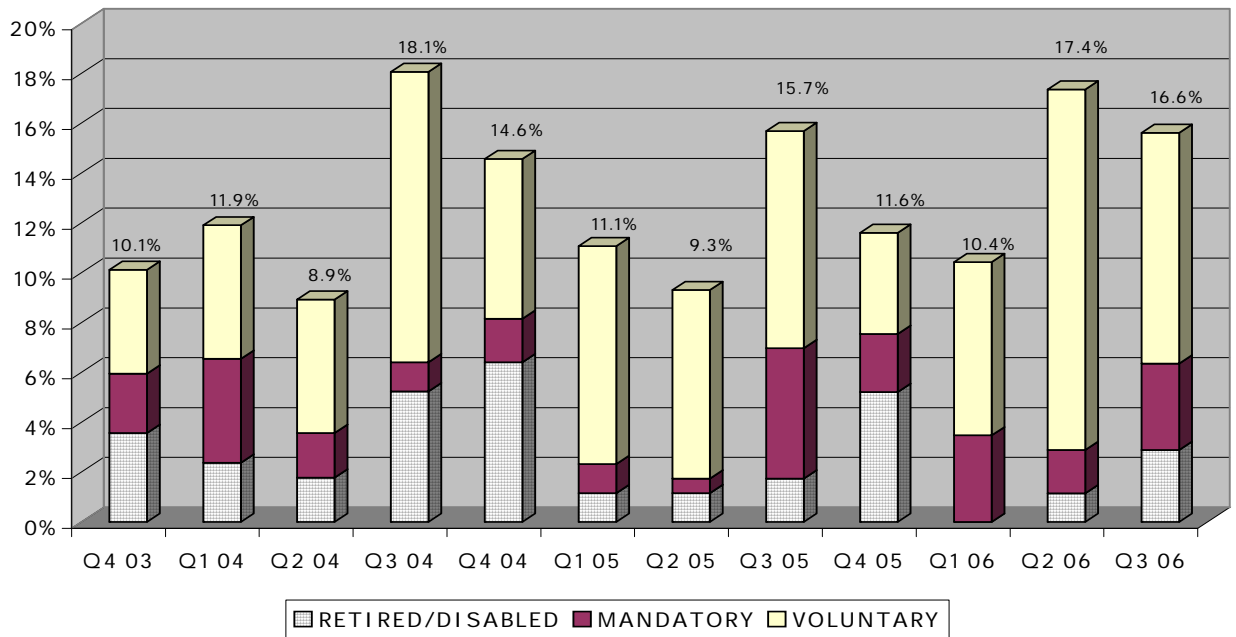
ELECTRIC TURNOVER
2003 - PRESENT



MANAGEMENT TURNOVER 2003 - PRESENT



TOTAL CITY TURNOVER 2003 - PRESENT



PERFORMANCE EVALUATION PROGRAM

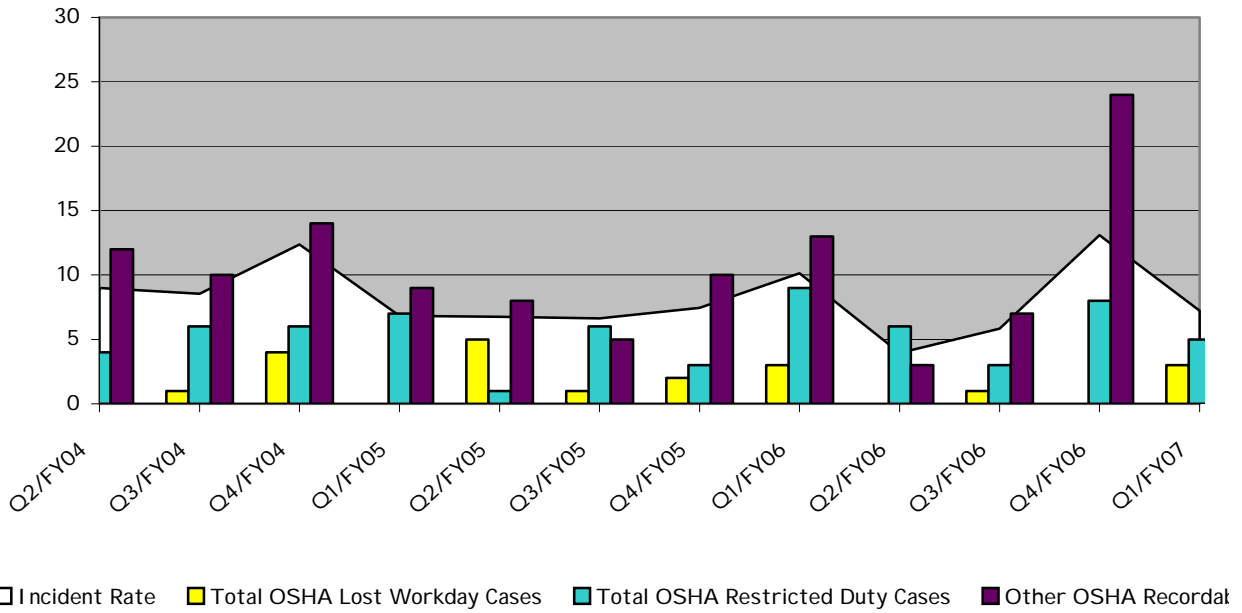
Q3 2006	Passed Evaluation		Failed Evaluation
Departments	with Salary Increase	Salary Frozen/Longevity Only	
Administration	13	2	0
Administrative Services	9	4	0
Community Development	23	7	0
Library	10	4	1
Electric	52	17	0
Fire	33	12	0
General Services	16	5	0
Human Resources	4	0	0
Parks & Recreation	29	15	0
Police	33	8	0
TOTALS	222	74	1

SAFETY DIVISION

The Safety Division is responsible for managing the City's Environmental, Health, and Safety (EHS) program. One of the goals of the Safety Division is to reduce the loss of City resources (funds, property, equipment, and employees) through the implementation of a comprehensive EHS program. Two essential components of the EHS program are Incident Reporting and Annual EHS Audits. The incident reporting component of the City's EHS program allows supervisors, managers, department heads, and safety office staff to identify trends and causes of incidents and to implement corrective actions to prevent recurrences. The annual EHS audit component allows the City to take a proactive approach to its EHS program by identifying hazards and deficiencies and implementing corrective actions before an incident occurs. Through the implementation of these programs, hazardous conditions and program deficiencies can be identified and corrected, therefore reducing the potential for loss of resources.

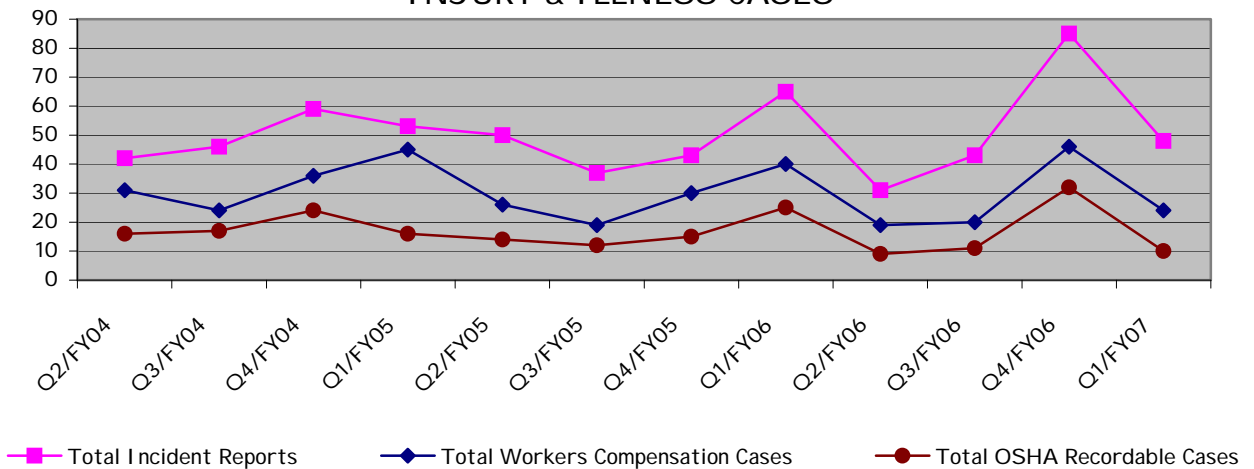
The OSHA Recordable Cases & Incident Rate graph shows the City's incident rate and the severity of recordable cases based on the outcome (lost work day case, restricted duty case, and other recordable case) of each incident. The incident rate (7.23) for Q1/FY07 decreased significantly in comparison to the incident rate (10.13) for Q1/FY06. The total number of lost workday cases remained the same for Q1/FY07 in comparison to the total number of lost workday cases for Q1/FY06 while the total number of restricted duty cases and other OSHA recordable cases decreased for the same period.

OSHA RECORDABLE CASES & INCIDENT RATE



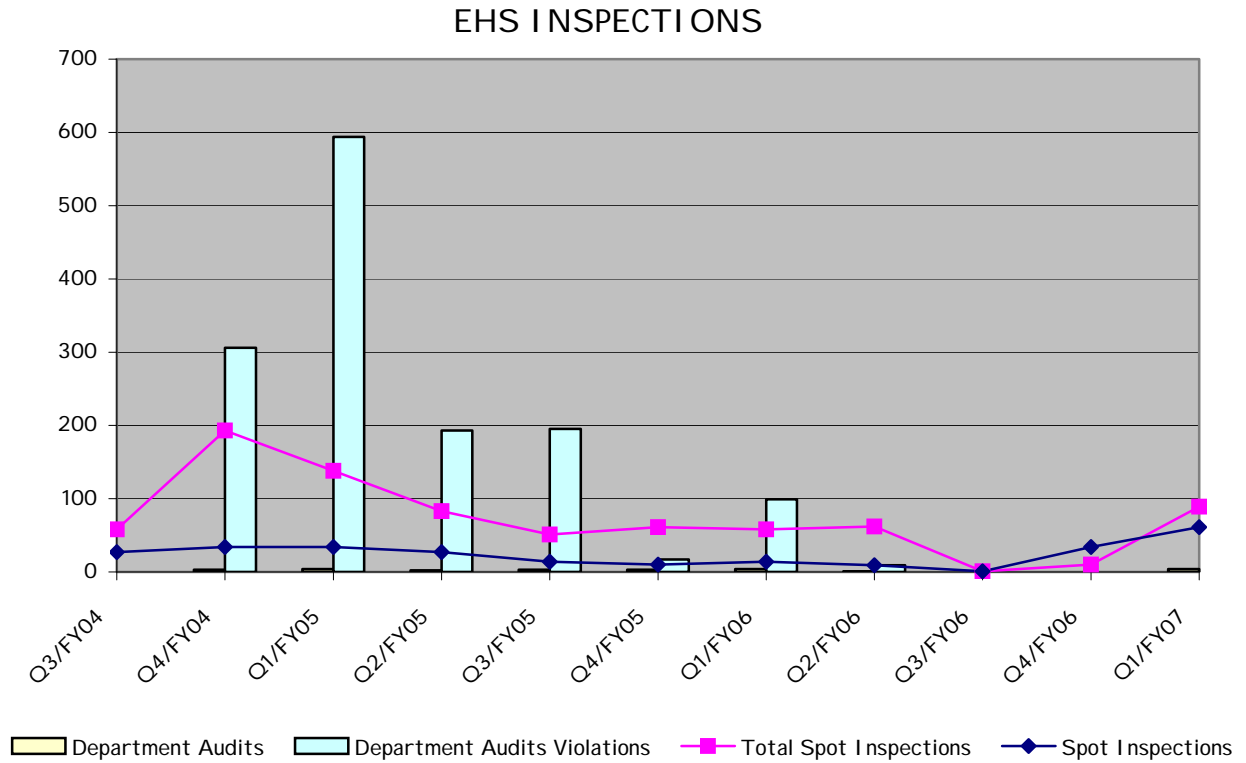
The Injury & Illness Cases graph shows a comparison between the City's reported incidents, workers compensation cases, and OSHA recordable cases. The City's total incident reports, total workers compensation cases, and total OSHA recordable cases decreased during Q1/FY07 in comparison to Q1/FY06.

INJURY & ILLNESS CASES



The EHS Inspections graph shows the total number of annual and spot inspections conducted by the Safety Division and the total number of identified

deficiencies/violations. During the Q1/FY07, the Safety Division conducted four department audits identifying 215 deficiencies/violations. The Safety Division also conducted 89 job site/facility spot inspections during Q1/FY07 identifying 61 deficiencies/violations.



III. PRODUCTIVITY / SERVICE ANALYSIS

Public Service Delivery

IV. GROSS RECEIPTS TAX ANALYSIS

Local Economic Conditions

In the fall of 2003 the New Mexico Taxation and Revenue Department transitioned from the "TRIMS" tax reporting system to the new "GENTAX" software reporting system. The newer system uses a more widely-used industry classification known as the North American Industry Classification System (NAICS). As a result, gross receipts tax information received from the State of New Mexico subsequent to October 2003, is shown in a different format and is not comparable to the City's prior GRT industry-based data.

V. EMPLOYMENT

Local Employment Conditions