

Work Session of the City Council, City of Farmington, New Mexico, held Tuesday, May 3, 2011 at 9:00 a.m. in the Executive Conference Room at City Hall, 800 Municipal Drive, Farmington, New Mexico, in full conformity with the rules, regulations and ordinances of the municipality.

At such meeting the following were present, constituting a quorum:

MAYOR	Tommy Roberts
COUNCILORS	Dan Darnell Mary M. Fischer Gayla McCulloch Jason Sandel

Constituting all the members of the Governing Body.

Also present were:

CITY MANAGER	Rob Mayes
ASSISTANT CITY MANAGER	Bob Campbell
CITY ATTORNEY	Jay B. Burnham
CITY CLERK	Dianne Fuhrman
DEPUTY CITY CLERK	Melody Coyner

#### FISCAL YEAR 2012 BUDGET HEARING

Directing the Council's attention to the information contained within the FY 2012 Preliminary Budget book ("budget book"), City Manager Rob Mayes reviewed the General Fund revenues noting that staff is not projecting an increase in gross receipts tax revenue from the FY11 Adjusted Budget. Furthermore, he stated that the reduction in "Other Revenue" from \$10.1 to \$9.4 million is due to the proposed reduction of the franchise fee from 7.5 to 5 percent that is being paid by the Electric Utility Fund for use of City rights-of-way, and pointed out that the FY11 Electric Utility Fund dividend ("dividend") for FY11 was 5.8 percent of gross revenue and that the proposed FY12 dividend is based on 40 percent of net revenue which results in an increase from \$5.7 to \$8.1 million. He noted that the total dividend revenues to the General Fund for Fiscal Year 2011 was \$9 million because all utility bills for the General Fund were paid by the Electric Utility Fund. Mr. Mayes announced that the Public Utility Commission has recommended approval of the Electric Utility Fund Dividend Policy and stated that it will be presented to the Council for consideration at the May 10, 2011 regular City Council meeting. He also stated that the proposed FY12 General Fund expenditures are projected at \$54.3 million and that, based on the recently adopted Cash Reserve Policy for the General Fund, \$194,497 has been transferred to the 408 Fund for General Fund capital projects. Mr. Mayes noted that the projected beginning cash balance in the General Fund would be \$14.2 million. If the City were to have implemented the State-required cash reserve minimum balance of 8.3 percent, the City would be required to have a General Fund cash balance of only \$4.5 million and if the City would have adopted the policy recommended by the Government Finance Officers Association of 16.6 percent, the cash balance requirement would be about \$9 million.

In response to inquiry from Councilor Fischer, Mr. Mayes stated that the dividend revenues will be used for both operating and capital expenditures in the General Fund. He directed the Council's attention to the information contained within the budget book and reviewed the projected sources of revenue and the proposed expenditures for FY12. In response to the discussion, Councilor Sandel requested a detailed list of General Fund capital expenditures. Mr. Mayes explained that the ratio of salaries and benefits compared to capital, operating, supplies and equipment is back to a much more sustainable ratio of 76 to 24 percent as compared to 82 to 18 percent the prior year. Directing the Council's attention to page 3 of the budget book, he stated that the proposed expenditure increases include pay plan steps; health insurance; retiree health; unemployment; temporary employee costs; Municipal Court security contract; Community Relations Commission; New Mexico Centennial; electric, water and sewer bills; training; fleet; fuel; personal

computers; police cameras, radios, uniforms and supplies; and reductions in transfers to the 201 and 202 Funds.

Councilor Fischer stated that she would like to see the revenues from the dividend earmarked for specific projects.

Councilor Darnell initiated discussion regarding the use of the dividend as a revenue source to bond for capital projects. In response, staff noted that using gross receipts tax revenue would be the more recognized approach.

Lengthy discussion followed concerning the impact on the FY12 budget without the \$8.1 million dividend revenues. Mr. Mayes pointed out that if public safety is excluded from any budget cuts, the majority of the cuts would be absorbed by the library and the Parks, Recreation and Cultural Affairs Department.

Following further discussion, Mr. Mayes pointed out that the \$517,821 for the pay plan step increases ("step increases") is currently in the FY12 proposed budget, in accordance with the adopted pay plan, and strongly suggested that the "Operating Surplus" of \$509,485 be considered, in part, for an across-the-board market adjustment ("market adjustment") for employees.

Councilor Sandel pointed out that if the FY12 budget expenditures were maintained at the FY11 level of \$47 million, the 25 percent required cash reserve balance would be \$11,750,000, freeing up approximately \$3 million for capital expenditures. Following brief discussion, he asked that staff be directed to investigate if other entities base their cash reserve requirement on the total budget, operating expenditures or capital expenditures. There were no objections from the Council.

Councilor Fischer expressed concern that the library budget is seven percent of the total budget. In response, Mr. Mayes stated that the library budget has not increased, noting that it, like other department budgets, has decreased significantly during the recent economic downturn.

Councilor Sandel questioned the six percent increase in healthcare costs since changing third party administrators ("TPA") last year. In response, Mr. Mayes noted that there was no increase in the healthcare premium last year and that staff anticipates implementing a five percent increase this year. In addition, he stated that staff anticipates an increase in the stop/loss renewal fees. Following discussion concerning the City's healthcare loss ratios, Councilor Sandel asked that the Council be provided a report from the TPA regarding the current and projected healthcare claims and the anticipated cost of the stop/loss renewal.

Staff responded to numerous questions from Councilor Sandel regarding the proposed increases in the FY General Fund budget.

Following brief discussion, Councilor Sandel asked for a listing of the departments/divisions that are requesting an increase in the hours for temporary employees.

Following discussion concerning the cost of fuel for City vehicles, Councilor Sandel expressed a desire to prioritize converting the fleet to natural gas and to work with private partners to establish a natural gas fueling station for the City.

Councilor Sandel also expressed concerns that the City depends on the dividend for operational expenses and pointed out that the Electric Fund capital budget does not include expenditures for emission reduction at San Juan Generating Station to address regional haze issues and the need for additional generation. He suggested that the FY 12 budget expenditures be maintained at the FY11 actual expenditure amount of \$47 million.

Councilor Fischer expressed her appreciation to employees for their efforts in reducing expenditures during the economic downturn.

Following discussion concerning the options for raising money for capital projects by extending existing General Fund bond indebtedness, Mayor Roberts pointed out that the Council also has the option of increasing the gross receipts tax to fund capital projects.

With regard to the proposed step increases, it was the consensus of a majority of the Council to leave them projected as an expenditure in the FY12 proposed preliminary budget. Councilor Fischer stated that she does not support this proposal.

Following lengthy discussion concerning an across-the-board market adjustment, Councilors Fischer and Sandel stated that they did not support an increase because of the unstable economic environment and Councilors McCulloch and Darnell and Mayor Roberts stated that they would like to discuss it further. Councilor Darnell expressed support for two percent market increase. Following further discussion, staff was directed to project a 1.5 percent market increase in the FY12 proposed preliminary budget for further discussion.

Reconsideration of Resolution No. 2011-1385 adopting a Cash Reserve Policy for the General Fund

With regard to the recently adopted Cash Reserve Policy for the General Fund, Administrative Services Director Andy Mason stated that he believes there is some confusion on the part of the Council as to how the threshold is determined and requested that staff be allowed to present a simplified policy to the Council for consideration. Expressing concern with how the percentages were determined, Councilor McCulloch stated that she would like the Council to reconsider the Cash Reserve Policy for the General Fund, as adopted by the Council on April 12, 2011.

Thereupon, a motion was made by Councilor Sandel, seconded by Councilor McCulloch to reconsider the General Fund Cash Reserve Policy at the May 10, 2011 regular City Council meeting, and upon voice vote the motion carried unanimously.

There being no further business to come before the Council, the meeting was adjourned at 11:26 a.m.

APPROVED this 24<sup>th</sup> day of May, 2011.

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Tommy Roberts, Mayor

SEAL

ATTEST:

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Dianne Fuhrman, City Clerk