

Budget Deficit Initiative Report

February 2018

I. Executive Summary

In December 2017, Mayor Tim Keller created an initiative that directed members of his administration to work with financial experts in the City to address the structural deficit projected in the Department of Finance and Administrative Service's Five Year Forecast (www.cabq.gov/dfa/budget/five-year-forecast). This is the first report on the results of that initiative. This report discusses financial and economic conditions that are outside of the City's control, actions the City has taken to address these ongoing challenges to date, and the public safety crisis facing our City and impacting our City's budget.

The challenges facing our City with respect to the deficit are:

- A \$25 million "structural deficit," meaning a fundamental long-term gap in recurring revenue as compared to recurring expenses resulting from slow economic growth, loss of "hold harmless" tax revenue and the trend toward online purchasing.
- A \$15 million increase in recurring costs arising from external pressures on the cost of medical insurance, water and compliance with the Department of Justice settlement agreement.
- An \$88 million increase in additional costs over Fiscal Years 2018-2022, leveling off at a \$32 million recurring cost, **at a minimum**, if the City wishes to improve public safety by adding 100 new police officers per year until staffing levels return to the desired number of 1200. This does not include the price of recruitment strategies or pay increases designed to recruit and retain officers.
- A \$21 million increase in one-time and short-term costs to address the equipment and technological needs of our first responders, including large backlogs in fingerprint and DNA testing at the crime lab, which ultimately delay, for several years, the criminal justice system in Albuquerque.
- A \$5.2 million recurring increase in costs if the City wishes to improve public safety through advances in technology and initiatives that address the systemic pressures on first responders.

These challenges exist despite years of expense reduction measures in City government. This report details the City's recent efforts in cutting hundreds of positions, maintaining vacancy savings, and cutting employee pay while increasing the share of benefits that employees shoulder. The City has also drawn down and swept unspent funds, improved efficiency of service delivery, outsourced key functions and automated services to reduce personnel costs. Because of limited revenue growth, only a small portion of capital requests have been funded since Fiscal Year 2011, leaving departments to absorb these costs out of their existing budgets. Capital requests for repairing and maintaining aged buildings, an aging fleet, and an antiquated public safety radio system have been deferred for several years. Annual costs for properly funding these items could alone use up \$17 million per year. The funding need for replacement vehicles is \$8 million per year, and building maintenance requests are \$7.5 million per year.

In the long term, the Albuquerque economy must begin to grow again, and a stronger economy will generate adequate revenue for the government to function well. However, that growth can only happen in a community that has taken control of its public safety problems and provides a vibrant environment to nurture, retain and attract businesses and families. The staggering needs of our City just to maintain

the status quo of services and make long overdue improvements to our public safety operations necessitate major changes.

This memo discusses options for freeing up funds through decreased services to reduce costs, through increased fees and charges, and through various tax changes. This first category may reduce short-term costs but could eventually contribute to the deficit through further economic downturn and an increase in crime resulting from a lack of behavioral health and educational opportunities.

While there is always room for improvement, across the board cuts and additional belt tightening alone may be possible solutions in the very short term, but will not be enough to address the magnitude of the structural imbalance facing the City in the coming years. The Fiscal Year 2018 budget is smaller in real terms than the budget in Fiscal Year 2010. No single solution alone will suffice. No collection of small measures will aggregate enough resources to address the underlying structural problems. Furthermore, because of the delayed impact (due to standard six month tax and fee revenue lag times) of recurring revenue side solutions, it is critical the City implement as soon as possible the serious measures that will close the long-term structural gaps in government funding.

II. The Structural Deficit

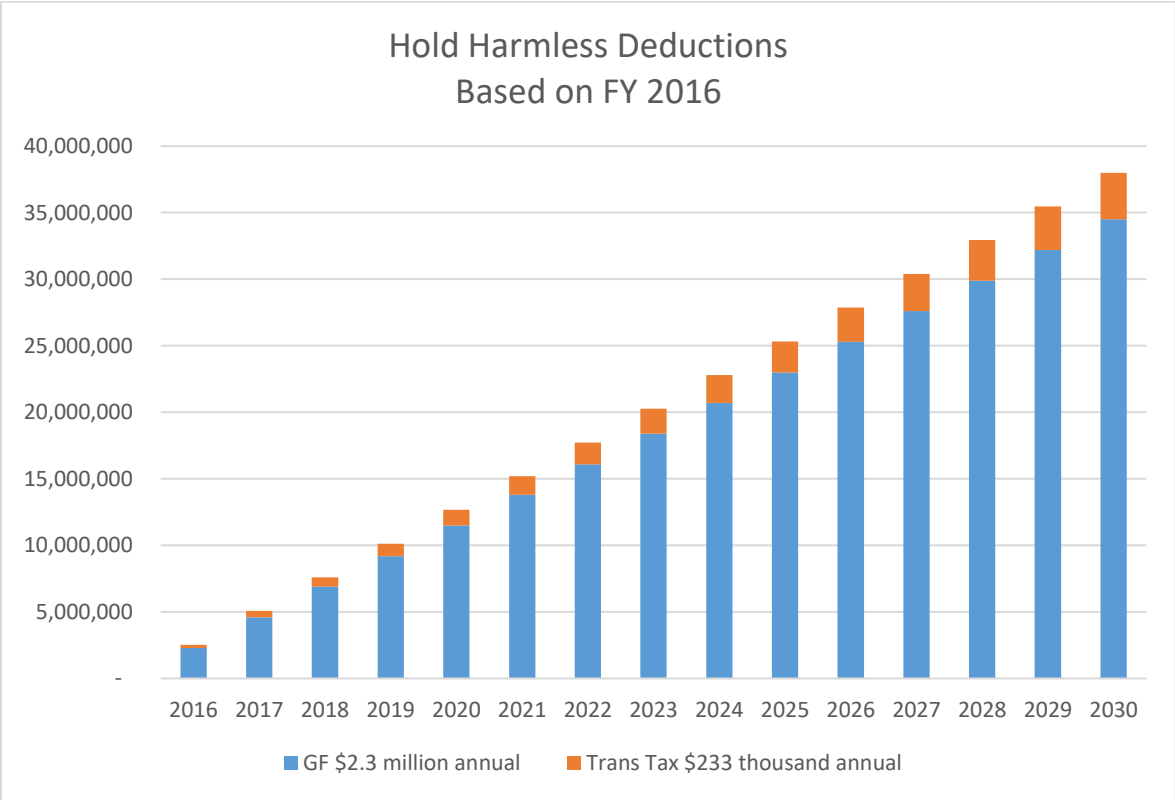
A structural deficit is a difference between government revenue and expenditure that results from a fundamental change in the economy, as opposed to a one-time or short-term imbalance. The City is facing a number of these changed conditions that require us to consider a range of cuts to spending, increases to revenue, and ways to increase the efficiency of how we do business. Three factors contribute to the City's structural deficit:

Slow Economic Growth. The average growth in employment for the Albuquerque Metro area has been less than one percent since the Great Recession ended, below the national average growth rate of 1.6 percent and below peer cities like Tucson, Colorado Springs, Oklahoma City, El Paso, and Salt Lake City. Those cities have experienced an average of about two percent growth over that time. The State has not yet fully recovered from the Great Recession, despite better growth in the nation as a whole. For the past two years, the City has budgeted based on an assumption of GRT growth at a rate of approximately 3 percent, resulting in repeated emergency measures to cut the budget when reality did not meet those assumptions. Going forward, the City's revenue forecasting model will need to be adjusted to take into account recent trends in GRT as they relate to overall economic growth.

Loss of Hold Harmless Distribution. The State exempted food and some medical services from gross receipts taxes in 2004. To compensate local governments for the lost revenue, the State implemented a food and medical "hold harmless distribution." The hold harmless distribution for Albuquerque averaged \$38 million per year. Beginning in Fiscal Year 2016, the State began a 15-year "phase-out" of the hold harmless distribution. The annual cost to the City began at \$2.5 million, which represented a loss in revenue growth of nearly one full percentage point. By next year, the City's recurring loss from the phase-out will be \$10.1 million per year and the cumulative loss will be \$25.3 million. For budget year 2021, the City will need a 1/8th cent tax increase just to get back to zero, not including the cumulative losses.

Loss of Hold Harmless in 2016 Dollars			
Fiscal Year	General Fund: \$2.3M/Year	Transit Tax: \$233 thousand/Year	Total \$ Loss
2016	2,300,000	233,333	2,533,333
2017	4,600,000	466,667	5,066,667
2018	6,900,000	700,000	7,600,000
2019	9,200,000	933,333	10,133,333
2020	11,500,000	1,166,667	12,666,667
2021	13,800,000	1,400,000	15,200,000
2022	16,100,000	1,633,333	17,733,333
2023	18,400,000	1,866,667	20,266,667
2024	20,700,000	2,100,000	22,800,000
2025	23,000,000	2,333,333	25,333,333
2026	25,300,000	2,566,667	27,866,667
2027	27,600,000	2,800,000	30,400,000
2028	29,900,000	3,033,333	32,933,333
2029	32,200,000	3,266,667	35,466,667
2030	34,500,000	3,500,000	38,000,000

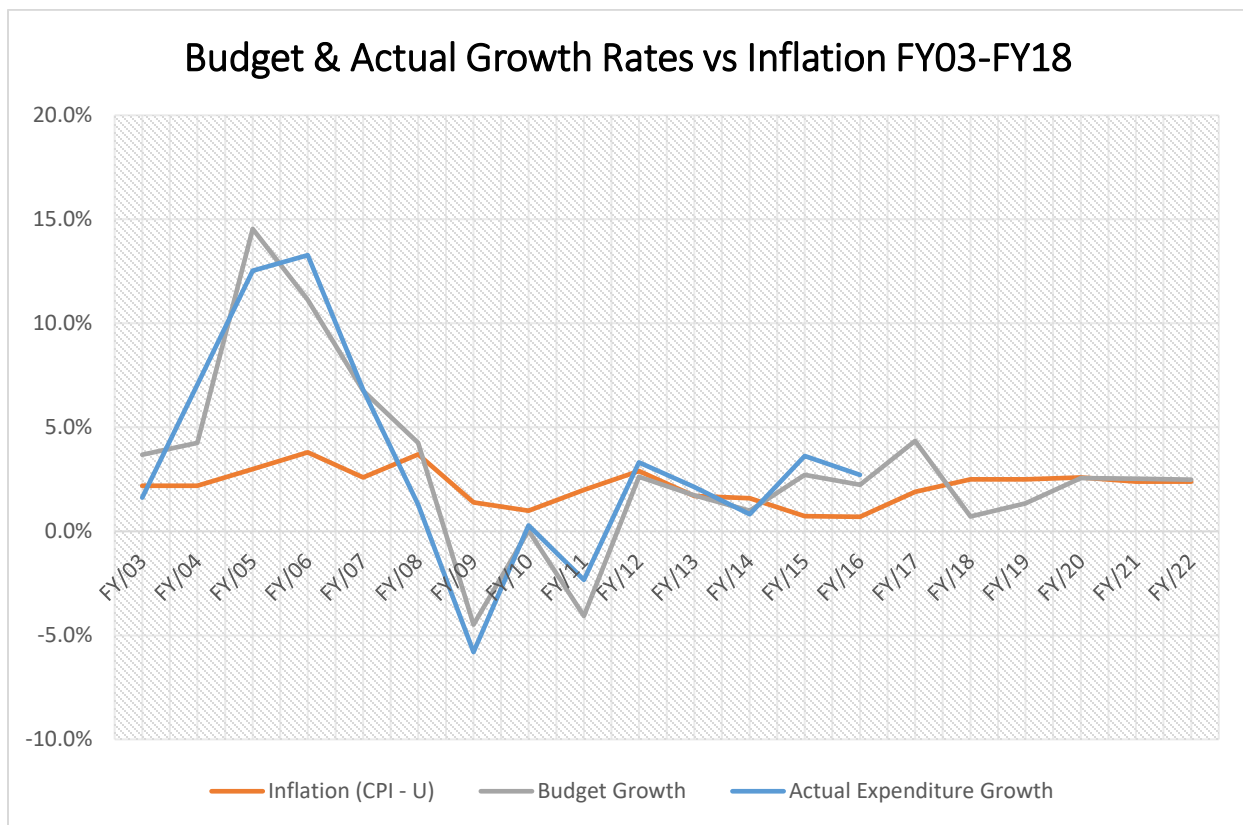
Source: Department of Finance and Administrative Services, City of Albuquerque



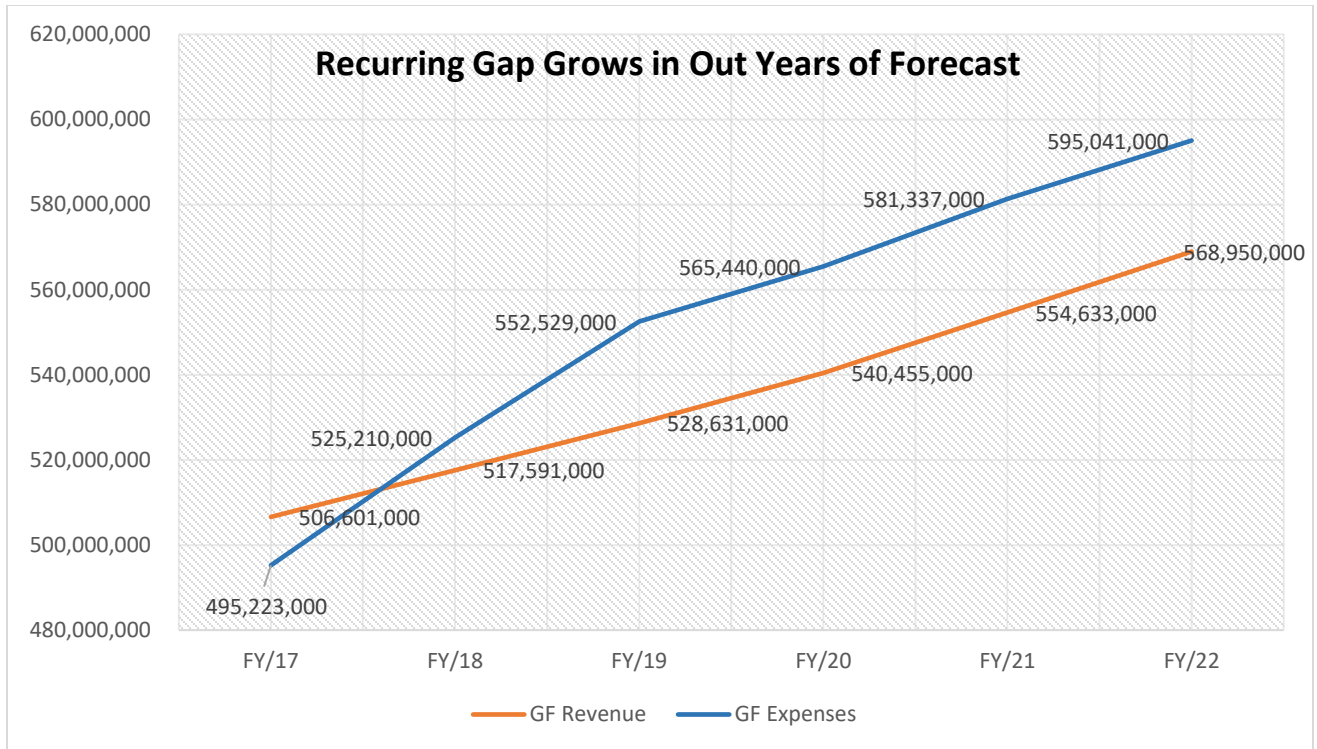
Source: Department of Finance and Administrative Services, City of Albuquerque

On-Line Purchases (Amazon). The City estimates it is losing at least \$6 million per year (and growing) in taxes on internet sales. Amazon, which is estimated to represent 40 percent of all internet sales, has signed a voluntary agreement with the State of New Mexico under which the State collects taxes on Amazon retail sales; however, the State makes no distribution to the respective counties or municipalities where those goods are purchased and delivered. The economic trend toward on-line purchasing is not likely to reverse, creating a permanent change in the City's tax base absent any move to change current tax laws.

As a result, growth in revenues has been muted and has not kept up with basic inflationary growth on the expenditures side as shown in the first graph below. Revenues are growing a full percentage point slower than expenses and are forecasted to do so through Fiscal Year 2022.



Source: Department of Finance and Administrative Services, City of Albuquerque



Source: Department of Finance and Administrative Services, City of Albuquerque

III. Escalating Costs

In addition to those factors largely outside of the City's control that have created a fundamental structural deficit, external costs for basic needs continue to escalate. This adds a greater strain to the budget deficit. Cost increases face the City across the board, with the following five items being the primary concerns.

A. Water Rate Increases. The Albuquerque Bernalillo County Water Utility Authority has raised water rates by five percent in each of the following fiscal years: 2012, 2014, 2015, 2016, and 2018. The City spends about \$6.4 million per year on water for parks, medians, pools, and other facilities, an increase of \$2.1 million over fiscal year 2012. In addition, two years ago the Authority replaced several large broken meters resulting in surcharges and Utility Expansion Charges (UECs) costing the city another \$1 million.

B. Medical Healthcare Costs. Given the City has escaped cost increases for the past three years, the City has been notified of a potential near double digit increase next year in medical insurance costs from our insurance provider for employees adding \$6.2 million to the General Fund expenditures.

C. Increased Cost of Self-Insurance (Workers Comp/Tort). The payments to the City's Risk Fund have grown by over 50 percent in the last decade, in large part due to large claim settlements, mostly associated with law enforcement use of force. The Risk Fund is still in a negative net position despite annual premium payments of over \$28 million from the General Fund each year and a \$3 million risk recovery contribution, above the annual premiums.

D. Department of Justice (DOJ). Costs to comply with the DOJ Settlement Agreement have tied up \$4 million per year since Fiscal Year 2016. The previous administration forecasted a decrease in those costs in Fiscal Year 2019. However, due to the lack of progress made in 2016 and 2017, the City needs to plan based on the assumption that the current cost will continue and perhaps escalate for at least the near term.

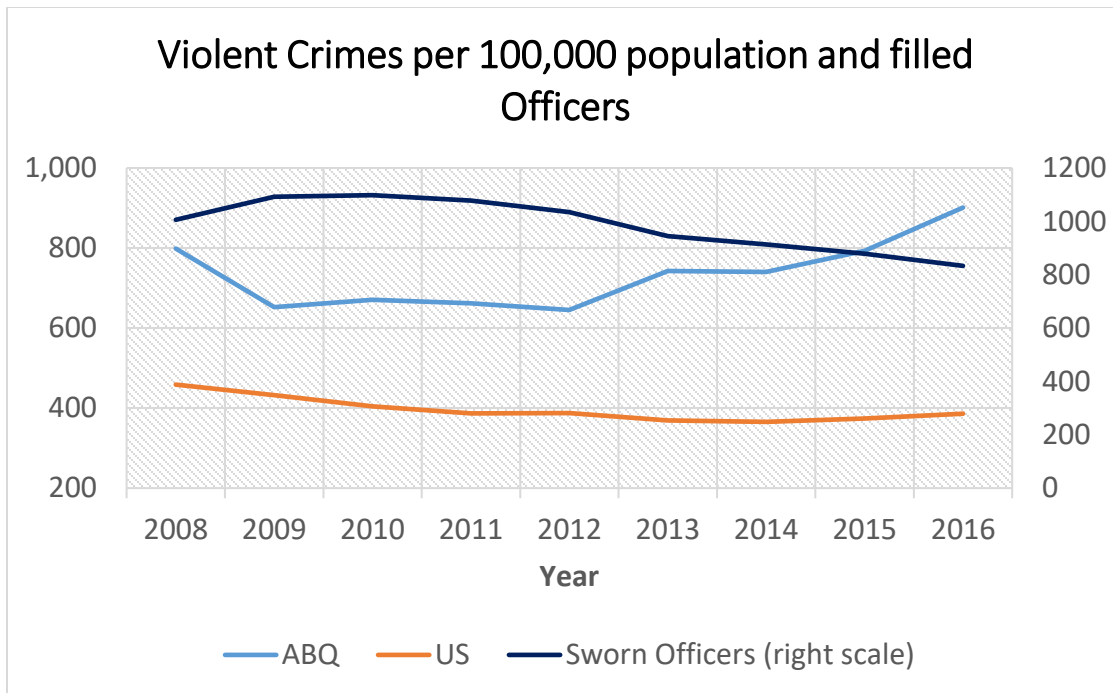
E. Potential Loss of High Bond Ratings. The City currently has very favorable ratings on its outstanding General Obligation Bonds, Aa1 and AAA by Moody's and S&P, respectively. One major risk of not dealing with a structural imbalance and drawing down fund balance is a lowering of our ratings. Lower ratings mean higher costs of borrowing when the City goes to issue debt for our capital program. Higher rates could cost the city hundreds of thousands of dollars annually over a long period.

IV. The City must increase public safety resources to counter ever worsening crime trends.

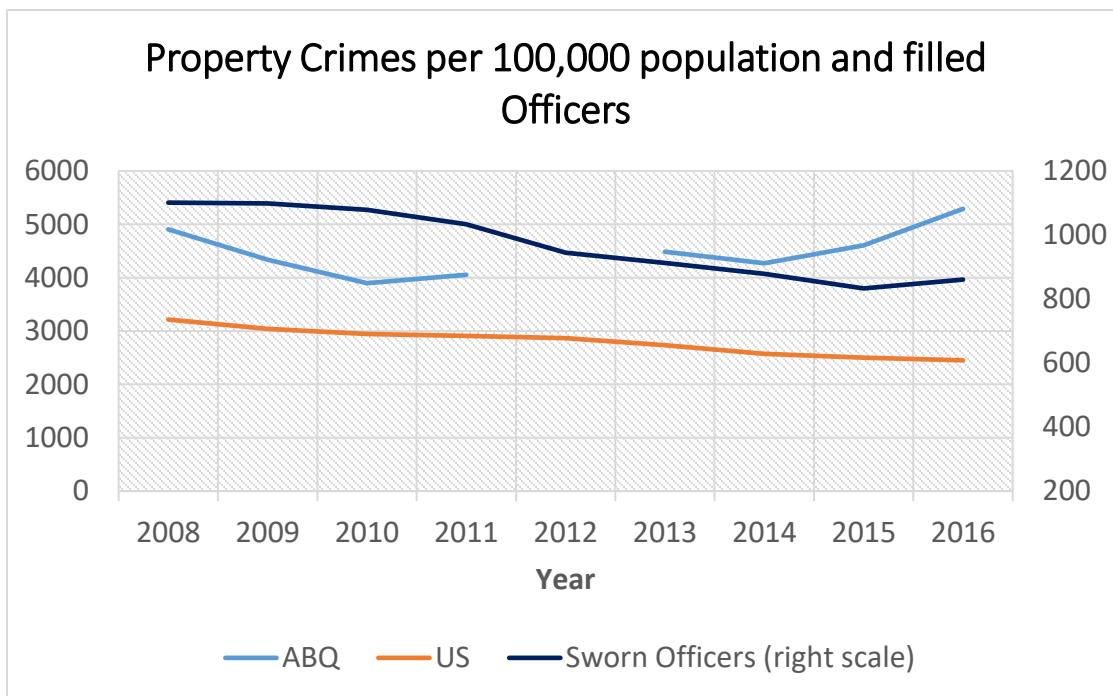
The preceding issues result in a projected \$40 million annual budget deficit, even assuming that government spending stays flat apart from increased third-party costs and inflation. The \$40 million deficit does not take into account fully addressing the public safety crisis that our City is facing, which is due in large part to a failure to fund adequate personnel and other resources. Obviously, the problem is multi-faceted and solving it will take additional resources outside of the City's control. For the City's part; however, adding new Public safety personnel is the top priority. Public safety personnel includes but not limited to: sworn officers, crime scene and crime lab specialists, crisis outreach specialists, forensic laboratory technicians, telecommunications operators.

The goal is to prevent and protect the public from dangers affecting safety such as crimes and disasters, and create positive community relations. All public safety personnel must have an understanding of community policing and that every community needs and expectations are different. First responders will have a visible presence in the community and will work with community to strengthen connections with the community.

A. Addressing Crime in Albuquerque. Albuquerque's crime rates are at historically high levels. This crisis facing the city is multi-faceted, including issues involving the justice system, drug addiction and behavioral health issues. However, one thing the City can and will do is hire more public safety professionals including officers, detectives, lab techs, behavior and mental health specialists and first responders. By way of example, adding a typical growth class of 40 officers will cost \$3.6 million, not including vehicles and equipment. Adding 400 officers and detectives will create a recurring cost of more than \$36 million due to pay increases needed to recruit and retain officers. While adding new officers would be expected to reduce overtime expenditures, this will occur slowly as those officers are added over time.



Source: FBI Uniform Crime Reporting; Albuquerque Police Department



Source: FBI Uniform Crime Reporting. ABQ data for property crimes is unavailable in 2012 because the FBI determined that the agency's data were underreported.

Despite past efforts, the City is currently experiencing a net loss of 8 officers per year, when recruitment is offset by retirements and transfers. The following table illustrates what would happen to our Police Department if nothing changes.

Status Quo Projection for Number of APD Officers

	2018	2019	2020	2021
Starting Officer Count	880	872	864	857
Annual New Recruits	56	56	56	56
Annual Lateral Recruits	2	2	2	2
Total Annual Recruits	58	58	58	58
Annual Retirements	41	41	41	41
Annual Resignations	24	24	24	24
Total Annual Attrition	65	65	65	65
Net Loss	-8	-8	-8	-8
Remaining Officers	872	864	857	849

Source: Albuquerque Police Department and Department of Finance and Administrative Services, City of Albuquerque

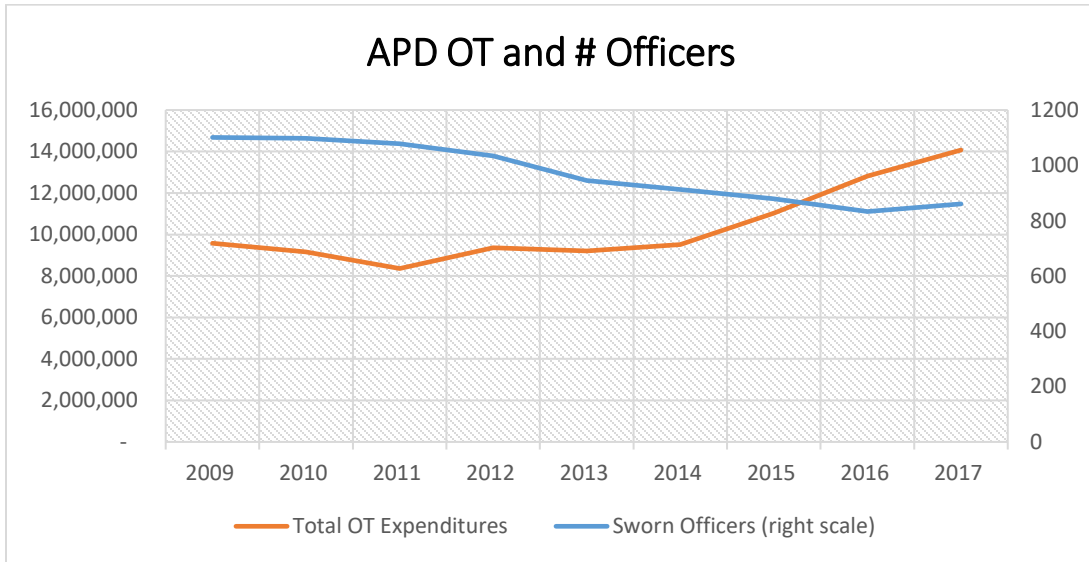
As shown in the following table provided by APOA, staffing levels for specialized units are only a fraction of what they were in 2010. This data does not indicate that the APD stopped working on crimes that were assigned to specialized units. Instead it means that specialized officers were assigned to patrol or specialized positions were left vacant when officers left. Furthermore, successful programs like the PSA 2 program resulted in civilians being able to respond to property crime complaints more efficiently. However, fewer detectives and fewer officers with specialized expertise were left to do the work.

Specialized Unit Numbers (2010 compared to 2018)		
	<u>2010</u>	<u>2018</u>
School Resource Officers**	48	8
Narcotics	24	6
Vice	8	2
Gangs	9	6
White Collar Crime	6	1
Burglary Unit	13	0
Auto Theft/Night Unit	19	5
Homicide	9	6
DWI	13	8
Crimes Against Children	12	5

*** The decline in School Resource Officers coincided with the Albuquerque Public Schools establishing its own police force. More information on APS Police can be found at <http://www.aps.edu/police>. Source: Albuquerque Police Department.*

There are a myriad ways to address the shortage of police officers in the City. As part of the Budget Deficit Initiative, a detailed recruitment strategy was developed. The total cost of adding new officers and detectives to the Police Department depends on the extent to which the Department uses increased pay, longevity incentives, incentives for new recruits, and other tools to increase the force. In addition, the long-term recurring cost of the additional officers depends on the mix of new recruits (with lower pay but higher training costs) and lateral hires (with higher pay but lower training costs).

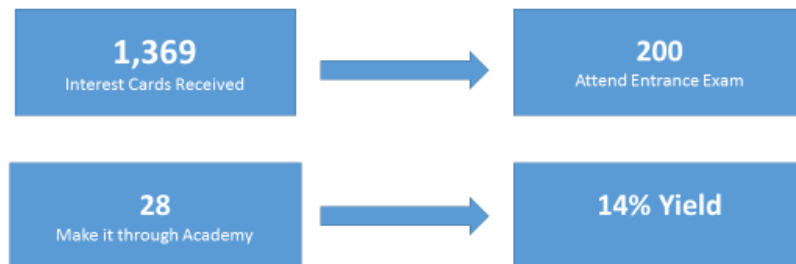
APD is currently funded for the salary and benefits for 68 additional officers. Right now, that money is being absorbed by the need to fund overtime to cover the officer shortage. In addition, that amount does not account for training, additional vehicles and other equipment that more officers would need. To add 100 officers and detectives per year until staffing reaches a level of 1200 officers, the APD would need to spend an estimated \$88 million over four years, with long-range recurring costs of \$32 million annually. This amount does not take into account pay increases, which will be necessary for many recruitment and retention strategies.



Source: Albuquerque Police Department and Department of Finance and Administrative Services, City of Albuquerque

Recruitment strategies must take into account the net yield on various strategies. Appendix A details the reasons why only an average of 28 out of 200 people who took the entrance exam graduated from the Academy.

APD Recruiting



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Source: Albuquerque Police Department

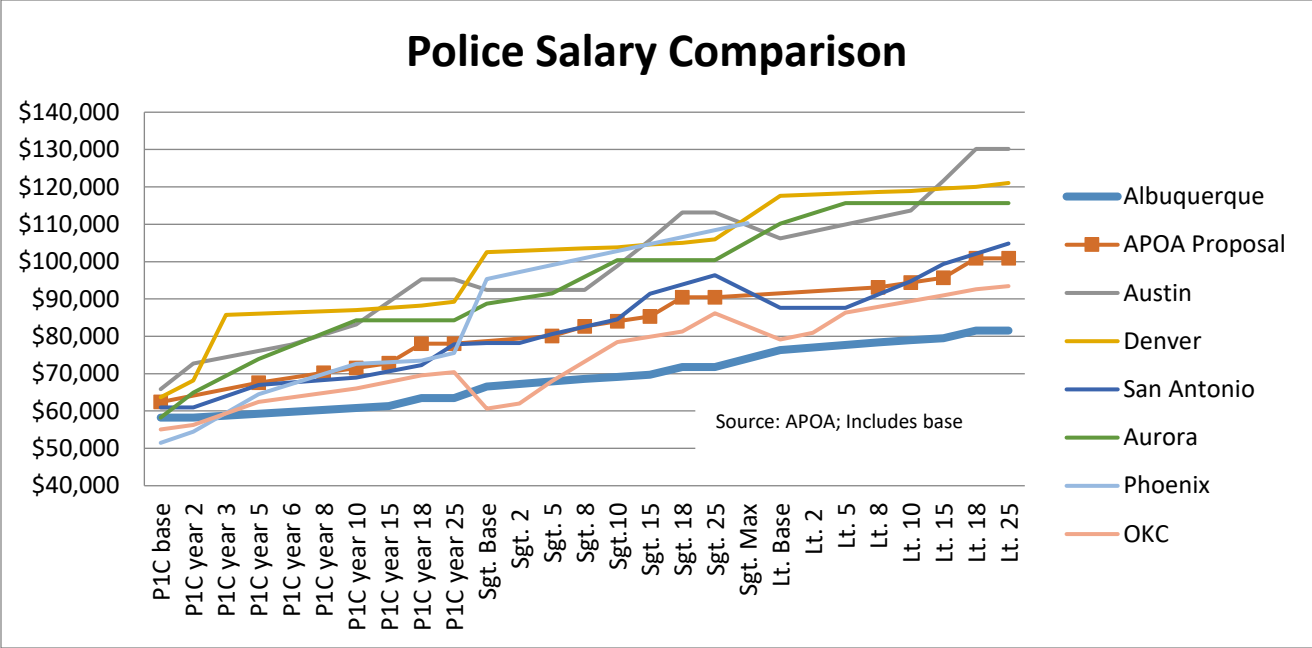
The recruiting strategies that APD intends to pursue, budget permitting, are:

- To attract new recruits:
 - Institute and broaden hiring and referral bonuses
 - Create an APD Intern "PSA2 Plan" Program to keep a connection with applicants who were rejected for reasons that can be corrected over time (credit scores, physical abilities, etc.)
 - Increase recruiting and background check staff
 - Produce recruitment video to be used during movie theatre showings on local television stations during active recruitment cycle. Video could also be shared on social media
 - Off-site testing for the Academy
 - Host a Law Enforcement Explorer Program and other outreach programs for youth
 - Reconsider educational requirements to allow recruitment of officers to temporarily defer the college credit requirements and meet the requirement within reasonable time frames following graduation from the police academy
 - Formalize CNM Pipeline/apprentice program
 - Morale building initiatives including parking, re-examining take home vehicle restrictions, reasonable tattoo standards and other issues important to frontline officers

- To attract more laterals
 - Create lateral transfer program with career development program to allow certified law enforcement officers to be hired and placed at salary levels commensurate with their training and experience
 - Use strategic and targeted longevity increases for recruitment of lateral officers in order to adequately compensate them for their law enforcement time and experience
 - Reach out to recently retired APD or other NM officers with incentive plan to return to the department

- To retain more existing officers from leaving for other police departments or retiring
 - Increase compensation
 - Adopt a flexible shift schedule for officers assigned to field services division
 - Provide diversified training offerings
 - Institute other nonmonetary measures designed to improve morale

Apart from the base cost of hiring new officers (including detectives and other law enforcement professionals and first responders), the price of these options depends on whether APD officers' compensation increases. Currently APD compensation for new recruits is competitive with other departments, but that competitiveness decreases with longevity over time.



Source: Publicly available salary data compiled by Department of Finance and Administrative Services, City of Albuquerque. Does not include information on benefit packages available in these jurisdictions.

B. Additional Resources for Public Safety. In addition to being understaffed, the City's public safety departments also lack key equipment and technology. These items over time have contributed, and will continue to contribute, to broader criminal justice system delays across the district attorney, public defender and court systems. Some of the most pressing needs include:

- In order to comply with federal regulations, the land mobile radio system for the Police and Fire Departments needs to be replaced at an estimated one-time cost to the City of \$15 million.¹
- In order to redirect more appropriate resources to the over 30 overdoses per day and over 20 calls for psychological issues and suicide attempts, an estimated investment of \$2.8 million recurring and \$2.1 million in non-recurring for community paramedicine and basic life support units for the Albuquerque Fire Department.
- In order to keep up with modern technology, implement effective crime fighting strategies and comply with the Department of Justice settlement agreement, an estimated \$2 million recurring for the Police Department needs to update its information technology systems.
- In order to address the backlog of over 4,000 untested sexual assault evidence kits with a combination of in-house and outsourced testing, an estimated one-time investment of \$4 million.
- In order to address the backlog of over 6,500 untested fingerprints and 4,800 DNA samples in addition to the sexual assault kits, and a wait time on this testing of up to 16 months, an estimated recurring cost of \$400,000.

¹ Cost estimates for the land mobile radio system and related infrastructure range from \$10 million to \$30 million, with some portion of the cost possibly to be shared by Bernalillo County. This cost does not include the individual radios needed by each public safety employee. Those costs are estimated at an additional \$8 million, non-recurring.

V. The City has already taken stringent measures to balance annual operating budgets.

A. Cut Vacant Positions. In Fiscal Year 2011, the City cut 162 vacant General Fund positions and delayed filling another 88 positions by half a year. In fiscal year 2012, the City cut another 149 vacant positions. In fiscal year 2015, the City cut 100 vacant police officer positions and used the funding on other line items within the Police Department. Those positions have not yet been restored.

B. Delayed Filling Budgeted Positions. Because departments have not received adequate funding, it is common for them to delay filling vacant positions in order to generate savings. That savings is used to buy needed capital or to pay for contract labor necessary to continue service levels. While this has worked to some degree, this is not a sustainable way to fund City services.

C. Reduced Employees' Pay and Benefits. In Fiscal Year 2011, the City reduced employee wages by an average of 2.2% across-the-board and did not appropriate funding for pay increases for police and fire that were part of multi-year contract bargaining agreements. That same year, the City's percentage contribution for medical benefits was reduced from 83% to 80%, shifting more costs onto employees. In fiscal years 2013 and 2014, only employees making less than \$50,000 per year received a 1 percent pay raise. The City recently rescinded longevity pay for non-union police management in order to save \$250,000.

D. Drawn Down Balances and Swept Funds. Balances in the General Fund and other subsidized funds have been drawn down to minimum requirements in order to free up funding for on-going operational needs. Where there were excess balances in project or capital funds, unassigned balances were moved into the General Fund. Where appropriate, General Fund costs were moved to other funds in order to save money. Recent examples include the move of median maintenance and the downtown clean programs from the General Fund to the Solid Waste Enterprise Fund. Most vehicle purchases are now done using GO Bond proceeds instead of General Fund, leaving less money for rehab work on Community Centers, Senior Centers, and streets. Within the past 5-years, over \$500,000 of marketing costs for the Convention Center and costs of Cultural's ABQ Todo website were moved from the General Fund to the Lodgers Tax Fund. In the Fire Department, over \$300,000 of routine operating costs were moved from the General Fund to the Fire Fund, resulting in less money for firefighting related equipment.

E. Improved Efficiency, Outsourced Services, Automated with Technology. Other cost saving measures have included: reducing contractual costs such as terminating lease agreements and consolidating staff into City-owned facilities; utilizing more contract labor throughout the BioPark, Park Maintenance, Open Space, Golf Courses, and the Weed and Litter Program in order to save on paying fringe benefits; and deciding to contract with only one health care provider instead of three in order to solicit a lower bid. Additionally the City has improved efficiency by utilizing technology, including automating all of our human resources, accounting, purchasing and treasury processes.

F. Absorbed Operating Costs for Capital Coming-on-Line. As new facilities such as the west side softball complex, zoo exhibits and community center expansions are opened, new streets and parks are added, or additional square footage is added to buildings, departments request funding for related utilities, maintenance, and staff. Because of limited revenue growth, only a small portion of these requests have been funded since Fiscal Year 2011 leaving departments to absorb these costs out of their existing budgets.

G. Deferred Capital Investment. Capital requests for repairing and maintaining aged buildings, an aging fleet, and an antiquated public safety radio system have been deferred for several years. Annual costs for properly funding these items could alone use up \$17 million per year. The funding need for replacement vehicles is \$8 million per year, and building maintenance requests are \$7.5 million per year.

VI. The City is also exploring a range of options related to increasing revenue.

City departments have been in cost cutting mode for years now. While there has been an attempt to maintain service levels and not increase taxes and fees over recent years, this situation is not sustainable given the underlying fundamental challenges facing our community. The following table includes various options “on-the-table” for discussion. This is not an all-inclusive list, but represents major options that are on the table for consideration.

Options for Increased Revenue

Title/Description	Annual Revenue	Issues Related to Increase
3/8ths GRT to offset reduction in Food/Med HH Dist.	\$43,700,000	Simple majority vote of Council required. Can be used for general purposes. Full-year of revenue will generate an estimated \$52M. Year 1 will only bring in 11-months of revenue or \$47.6M. 1/12th of that would have to be reserved. \$43.7 is available to spend in Year 1.
Increase property tax operational mill levy	\$11,000,000	Authority of almost 1 mill is available on operations/simple majority of council required. A property tax would be born entirely by residents versus a GRT which would be spread among visitors of Albuquerque as well. 1/12 th would need to be reserved.
Electric Franchise increase from 2% to 3%	\$4,125,000	Difficult to implement. Requires amending charter or meeting charter requirement Article XV. Competitive Bidding for Electrical Franchises. 1/12 th would need to be reserved.
Impose a City Gas Tax of 2 cents per gallon	\$4,600,000	Restricted. Requires a positive referendum. Recurring \$4.8 million in revenue offset by \$186,000 in costs to administer and initial costs of \$228,000 for equipment/software. Revenue would be restricted to streets or transportation. 1/12 th would need to be reserved.
Natural Gas Franchise increase to 4% from 3%	\$1,165,000	Difficult to implement. Requires rewriting of Franchise ordinance and negotiation with the utility. 1/12 th would need to be reserved.
Telecom including century link increase to 4% from 3%	\$550,000	Difficult to implement. Requires rewriting of Franchise ordinance and negotiation with the utility. 1/12 th would need to be reserved.

Options for Additional Revenue Through Fees and Charges

Title/Description	Annual Revenue	Issues Related to Charges
Planning Permitting Fees	\$4,458,569	Based on a cost of service study. Fees would likely be passed on to residents purchasing homes and commercial properties.
Increase bus fares by 25% system-wide	\$1,000,000	Affects the transit dependent population. Has not been increased since 2002 when they were increase by \$0.25. Still lowest in the region. Would require Council approval through normal budget submittal.
Fees for Alarms from \$25 to \$30 annual fee	\$180,000	Requires amendment of alarm ordinance.
Raising latchkey and Childcare Services Fees by 10%	\$160,000	Requires council approval. Current Revenue is \$1.6 million.
Community Center adult fee \$25/year (currently free)	\$80,000	Public not willing to pay. Software in place to track.
Aquatics fees increased by 10%	\$90,000	Requires council approval Current budget revenue is \$912,000.
Charge \$10 weekly transportation fee for kids transported from APS schools to City Community Centers.	\$909,000	The City is currently transporting kids from APS sites where fees are charged for before and after school care to Community Centers where no fee is charged. The transportation fee would be a fair way of adjusting for the service.
Raise Golf fees by \$1 across-the-board	\$171,000	Was last done in FY/18. Fares still lowest in the region. Requires approval of the Golf Advisory Board.
Engineering Fee 10% increase	\$70,000	Requires Council approval. Has not been updated in years, based on cost of labor.
Increase Annual Membership Fees at Senior Centers by \$5	\$50,000	Proposed at \$20 in FY/18: Council only approved at \$15.
Museum Rental Fees-increased by 10%	\$40,000	Requires Council approval during the budget adoption.
Family & Community Service Health Social Service Centers	\$20,000	Dept. currently working with Real Property to renew the expired leases. We have been implementing a 3% annual escalator of base rent for all new and renewed leases. (3% escalator refers to non-governmental leases).

Options for Reduced Spending Through Cuts to Service

Title/Description	Annual Savings	Issues Related to Cuts
Reduce Social Service Contracts by 10%	\$1,800,000	Has been tried in the past. Will likely get heavy pushback from constituencies impacted by the reductions.
Close one (or more) Golf Course	\$1,000,000	Layoffs. Each course costs about \$1M to operate. There would be layoffs of employees and an offset of lost revenue.
Permanently cut 200 unfilled positions.	\$13,325,000	Assuming each position averaged \$51,000 plus benefits. Service impacts would be far-reaching as the majority of vacancies are in high turnover positions in Animal Welfare, Transit, Parks, and Cultural Services. Gaps are often filled with overtime and contractors, undercutting the value of long terms savings.
Cut the current subsidy to Explora.	\$1,434,000	This would likely have huge impacts on the children’s museum; however, Explora could seek alternative funding from the private sector.
Cut Community Events	\$3,355,000	Events include the Kimo Theater, South Broadway Cultural Center, Summerfest, Old Town Events, and the Veterans’ Memorial.
Impose 12 Furlough Days to all City Employees	\$15,082,000	Service impacts would be significant and savings would only be for one year unless imposed each year thereafter.
Shift Medical benefits costs to employees. Currently City picks up 80%. Propose going to 75%.	\$2,000,000	This would require changes to the current CBA’s with Unions.
Impose a 2.5% across the board pay cut.	\$7,800,000	This could have negative impacts on recruitment of a qualified labor force.
Reduce Transit Services by 10%	\$2,700,000	Reducing bus service will require public hearings. Service reductions to the lower income residents of the community would be substantial.
Cut Animal Welfare Department’s Budget by 25%	\$2,750,000	Layoffs. Animal Welfare would have to close locations or hours of operation. The likely outcome would be fewer adoptions and an increase in animals euthanized.
Eliminate the 311 Call Center	\$3,619,000	Layoffs. While the program has been well received by the public, it could be considered a “nice to have” rather than an essential service offered by the City. Departments would have to take all calls directly.

Title/Description	Annual Savings	Issues Related to Cuts
Wireless Service Fees - cut by 20%	\$336,000	Would have to pull phones and mifi's from employees and vehicles. May mean no wifi on buses or tracking of vehicles.
Shift School Crossing Guard Program to APS	\$1,250,000	At the very least, moving the cost to APS could save taxpayers overall because as non-school employees, guards routinely file for unemployment during school breaks and the City is billed those costs by Workforce Solutions. This would not occur if guards were employees of a school district.
Phase-out post retirement life insurance policy for all new employees (grandfather existing employees).	\$385,000	The City has an after-retirement life insurance benefit that requires premium payments and a catch up payment to fund the liability of the program. Eventually, the phase-out of the program will could save the City \$2.5 million.

VII. Timing Considerations

Typically any cost cutting or revenue enhancement changes to the City operating budget takes a minimum six months to take effect. The New Mexico Tax and Revenue Department needs time to begin collecting revenue pursuant to tax changes. City departments need time to initiate and administrate fee changes and cost changes. When revenue is collected, there may be a legal obligation to reserve (that is, not spend) some of it. Because of the challenges outlined in this memo, the City faces relative urgency with respect to dealing with these issues.

Continued cost cutting measures and fee increases can be incorporated faster than a tax increase. However, the degree to which they can be depended upon as 'recurring' budget changes is highly uncertain, making many of these types of changes likely temporary solutions. It is important to also note that any tax increases that would require a public vote would significantly delay the City's ability to collect and budget for revenue. This means that the City could not hire additional officers or make other public safety improvements, and may need to implement massive cuts to services, in addition to tax increases.

For example, due to recent state law changes in the Election Code, the City may not be able to conduct a municipal election on the question of a tax until 2020. Even if the citizens voted for a tax increase or revenue generating initiative, the City would not be able to utilize those funds until after the New Mexico Tax and Revenue Department could implement the changes. This means that the City may not be able to collect and spend additional revenue until July 2021. The City would still need to implement all of the discussed strategies, including drastic cuts to services and delaying public safety plans, for the next two years. Under this scenario the City would essentially carry the deficit, public safety challenges and other needs unnecessarily for years even though those austerity measures may not be needed in the future.

VIII. Conclusion

Although the City has a number of financial strengths including a broad tax base, solid operating reserves, strong management, and budgetary and accounting controls, there are certainly challenges ahead that will require difficult decisions by management and elected officials. City departments have and will continue to tighten their belts and find ways to become more efficient. City employees have seen salary and benefits remain stagnant or be reduced and have taken on additional workload caused by a reduction in workforce. To date, the public has not experienced any noticeable impact on service levels. However, in order to continue to provide those services and in light of the underlying economic and financial challenges detailed in this report, revenue increases will be needed to achieve financial sustainability.

APPENDIX A

Data of New Recruits - Using 3-Year Annual Average		
Recruitment		
Annual # of APD Cadet Classes	2	
	Lost	Remaining
Average # of Cadets Applying (Interest Cards Received)	1,369	
Did not Attend City Entrance	-1169	200
Failed City Entrance	-32	168
Failed Personal Inventory Questionnaire (PIQ) Review	-5	164
Failed Physical Test (PT)	-31	133
Failed Nelson Denny (Standardized reading test)	-4	130
Failed Polygraph Test	-18	111
Failed Psychological Test	-15	96
Failed Backgrounds	-50	46
Withdrew from Process	-7	39
Failed Chief's Selection Interview	-3	36
Failed Medical	-1	35
Did not Attend NEO	-1	35
Did not Graduate	-7	28
Total Making it Through	28	
Total New Recruits Annually (Total Yield x # of Classes)	56	
Laterals Recruited Annually	2	
Total Recruited Annually	58	
Attrition (Retention)		
Annual Average # of Officers Retiring	41	
Annual Average # of Officers Resigning	24	
Total Annual Average of # of Officers Leaving	65	
Annual Recruits minus Retirements/Resignations	(8)	