EC-23-258

CITY OF ALBUQUERQUE
Albuquerque, New Mexico
Office of the Mayor

Mayor Timothy M. Keller

INTER-OFFICE MEMORANDUM February 27, 2023

TO: Pat Davis, President, City Council

FROM: Timothy M. Keller, Mayor TK

SUBJECT: EXECUTIVE COMMUNICATION FOR THE SUBMISSION OF THE FIVE-YEAR FORECAST FY2023 to FY2027

Attached please find the City of Albuquerque Five-Year Forecast. The Five-Year Forecast estimates future revenues and expenditures for the General Fund and subsidized funds for the current fiscal year, and for fiscal years 2024 through 2027. The purpose of the report is to provide a planning analysis that identifies key trends in revenues and expenditures and information about the financial challenges and opportunities anticipated over the next few years.

As with previous Five-Year Forecasts, the forecast broadly includes potential expenditures but does not reflect expenditure levels that will be presented in the upcoming budget. Similar to previous years, this does forecast unmet deficits for the out-years of the City. This trend continues as result of expanding City needs, historical increases in wages, especially for public safety and more importantly going forward, inflation. This year's forecasted expenditures are particularly impacted by across the board cost inflation, medical and retirement increases. Lastly, expenditures going forward include recurring cost increases made this year pursuant to our requirements with respect to gender pay equity.

With respect to revenues and city income, this forecast shows a leveling off of expected recurring tax revenues. Compared to the last two years, this revenue forecast represents our expectations for the baseline scenario, which excludes any significant one time and supplementary funds, that have been included in the previous two years' revenues. Accordingly, FY23 and FY22 revenues were enhanced by significant non-recurring funding from a variety of sources, such as settlements and COVID related funds, outlined in this report.

My Administration is committed to presenting a balanced budget and will continue to comply with relevant budget law. Based on this forecast, the forecasted deficit can be adequately addressed through prudent program reviews and reductions; and will still allow for modest increased investment in some priority operations.

Preliminary estimates of revenues to date indicate that the City should expect modest revenue growth through the end of the forecast. Final estimates will be reported to the Council through the

Committee of the Whole process as stated. I look forward to working with the Council as we prioritize resources and create a balanced operating budget for Fiscal Year 2024.

EXECUTIVE COMMUNICATION FOR THE SUBMISSION OF THE FIVE-YEAR FORECAST

Approved:

Lawrence Rael Date
Chief Administrative Officer

Recommended:

3/2/23
Sanjay Bhakta Date
Chief Financial Officer

Recommended:

3/2/23
Stephanie Yara Date
DFAS - Director

Recommended:

2/27/2023
Lawrence L. Davis Date
DFAS – Budget Officer

CITY OF ALBUQUERQUE

Five-Year Forecast
Fiscal Year 2023-2027

February 2023

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EXECUTIVE SUMMARY

The Five-Year Forecast estimates future revenues and expenditures for the General Fund and those funds subsidized by the General Fund for the current fiscal year 2023 (FY/23) through FY/27. The purpose of this forecast is to identify key trends in revenues and expenditures and provide information about the financial landscape anticipated over the next five years. This report is divided into seven sections: an Executive Summary, Economic Outlook, Revenue Outlook, Expenditure Outlook, Alternative Scenarios, Revenue History, and Accuracy of the Revenue Estimates. The information contained in this forecast is based on the data available through December 2022. The Executive Summary discusses only the baseline scenario. The optimistic and pessimistic scenarios have the same key assumptions as the baseline but are driven by different economic assumptions and inflationary factors. As the FY/24 budget is developed, revenue and expenditure projections will be updated based on the most current information.

Revenues

The revenue projections are based on revenue received through October 2022 and forecasts of economic activity for Albuquerque and New Mexico. A number of key economic forecast variables used in the City's revenue forecast models were prepared by the Bureau of Business and Economic Research at the University of New Mexico (BBER) (local variables) and IHS Global Insight (national variables). The City's Forecasting Advisory Committee, made up of experts from within and outside government, reviewed the forecasts and revenue projections prepared by the City Economist.

The current five-year outlook for revenue growth is complicated by the ongoing recovery from the pandemic, inflation and the possibility of a modest recession. Nevertheless, in FY/22 City revenue was significantly increased by the addition of local tax increments on internet sales and this provides FY/23 a much larger base from which to grow. Finally, the phase out of food and medical hold harmless payments dropped to 49% in FY/23, falling further to 42% in FY/24.

This time last year, recurring General Fund growth was projected at 4.3% for FY/22. In the end, FY/22 GRT audited revenues were $66.4 million, or 15%, above the amount estimated in the approved FY/22 budget process. This is $84.9 million, or 19.8% over FY/21. Just over $12.3 million of this is one-time revenue from the settlement of a lawsuit between the City and the State Taxation and Revenue Department. The remainder is due to the phase out of the food and medical hold harmless payments.

Total FY/22 General Fund growth, which includes non-recurring revenue, is 15.7% over FY/21.

For FY/23, GRT revenue growth has had a solid start, with cumulative growth at 7% as of October 2022 business activity. As mentioned, FY/23 GRT benefits from a larger beginning base due to better-than-expected revenues in FY/22.

For FY/23, base GRT growth as measured by the State share 1.225% is expected to grow at 4% due to a still-hot economy, a tight labor market and a modest recession that is not expected until late FY/23 or early FY/24. This base growth is reduced slightly from the 5.7% built into the approved FY/23 budget to account for what is essentially a 50/50 probability for at least a mild recession within the next 6 to 12 months.

In the remainder of the forecast, growth slows to more historical levels at 2.6% for FY/24, 0.7% in FY/25, and averaging 2.5% by FY/26 and FY/27.

GRT receipts, which comprised 71.3% of all General Fund revenues in FY/22, continue to be volatile, more recently due to the wild swings of an economy buffeted first by a pandemic and subsequent recovery, as well as once-in-a-generation tax changes at the State level resulting in major changes to the City's tax base.

This is in addition to the reduction in the distribution for food and medical hold harmless payments resulting from a 15-year phase-out that began in FY/16. To account for the one-time nature of this revenue, a percentage is phased-out each year and treated as non-recurring revenue. That same principle is applied in all years of this forecast as the phase-out compounds. However, the State tax department removed the 3% administrative fee on food and medical hold harmless payments in FY/20, which had the effect of mitigating the usual impacts of the declines for a year.

Other expected reductions continue to affect growth in GRT. This includes Tax Increment Development Districts (TIDDs), such as the expansion of Winrock and Mesa Del Sol, which had experienced delays and setbacks in FY/20 and FY/21 due in part to COVID-19. Additionally, during FY/21, a new UNM South Campus TIDD was proposed and is still undergoing review. The

City does its best to estimate the impacts of these agreements, typically based on developer estimates; however, market conditions and construction progress are inherently variable. For FY/23, the impact is expected to be $3.5 million, increasing to $4.4 million in FY/24. Should the UNM South Campus TIDD progress as planned, total TIDDs impact could be $7 million in FY/25 and $13.5 million by FY/27.

Along with the impact of TIDDs there are the impacts of the Local Economic Development Act (LEDA). These are estimated at $250 thousand per year during the forecast, beginning in FY/23.

Building permit revenues remained strong through most of FY/20, with FY/21 revenues coming in nearly flat with FY/20, despite the ongoing health crisis. For FY/22, growth was 12% over FY/21 and about $75 thousand over the approved budget. However, expectations for housing starts and other construction GRT are fairly weak for FY/23 due to the expectation of a cooling economy with the possibility of a mild recession. Consequently, building permit revenue is projected to be 23.6% below FY/22. In FY/24, a modest rebound of 14% is expected. Growth slows again in FY/25 and then averages 4.1% for the remainder of the forecast period.

For FY/22, property taxes were $684 thousand, or 0.7%, below the FY/22 approved budget and 1.8%, or $1.7 million over FY/21. In FY/23, revenues are projected to increase by 3.2%. For FY/24, property taxes are expected rise by 2.8%, and just over 3% by the end of the forecast period.

Recurring FY/22 franchise tax revenues were about $3 million, or 9.4%, over the approved budget, primarily due to the gas franchise. The gas franchise was just over $1 million, or about 23% over the Q2 estimate for FY/22. The New Mexico Gas Company reported it experienced a 36% hike in the cost of gas purchased on behalf of their customers in 2021 due to rising worldwide prices for natural gas that have continued for a third straight year. The franchise was granted a request to raise rates by 4.3% effective January 1, 2023.

For FY/23, the electric franchise is projected to grow 13.2% on the possibility of higher fuel prices and a potential rate hike. The water franchise is increased a total of 5.3% in FY/23 due to an approved 5% rate hike. The remaining franchises are expected to grow modestly or remain nearly flat to slightly negative.

For FY22, charges for services fully recovered to pre-pandemic levels. Categories for City aquarium, botanic garden, and zoo admissions all performed well, including many fees that had completely fallen off during the pandemic, such as community activity charges. Other items such as reimbursement for ambulance, engineering fees and fees for child care services also increased. For FY/23, expectations are scaled back about 2.5% as a conservative measure given current risks to consumer and business spending in the event of a modest downturn. FY/24 is increased by 0.5%, more in line with historical growth patterns.

Equity markets were extremely volatile in FY/22 and the impact on City investments was equally dramatic. In FY/22 interest earnings experienced a $10.4 million unrealized loss. This outcome was in stark contrast to FY/20, during which strong markets pushed interest earnings up to $2.2 million. For FY/23, earnings growth is currently left at the budgeted amount of $885 thousand; however, FY/23 revenues are again tracking in the negative, with additional loss currently at about $98.6 thousand. Consequently, this estimate may be adjusted downward as the FY/24 budget is built.

<u>Fiscal Year 2023 Budget Outlook</u>

The approved General Fund budget for FY/23 is significantly higher at $856.3 million reflecting a total increase of $141.7 million or 19.8% over the original FY/22 budget, not including reserves. Recurring increases include a $18.7 million 5% cost-of-living adjustment (subject to negotiations for union positions), $4 million to expand Albuquerque Community Safety Department's (ACS) vital service of responding to calls for service on a 24/7 basis and perform outreach for inebriation, homelessness, addiction, and other issues that do not require a police or EMT response, $9.8 million for supportive housing vouchers, $3.8 million to support 29 firefighter positions that will address high utilization areas and paramedic training initiatives and $3.7 million for the increase of health costs, which rose by 7.9%.

The amount of non-recurring appropriations at $95.9 million is significantly higher as compared to the $36.6 million in the original approved FY/22 budget. This increase reflects the use of one-time funding due to the City's available fund balance, which is inherently non-recurring.

Highlights for non-recurring appropriations include $5 million for City vehicles, $5 million for LEDA projects, $10 million for facility and building improvements, $10 million to aid the completion of current capital projects, $4.3 million for risk recovery, $3 million for housing projects and $1.5 million to continue free transit fares through FY/23.

In FY/21, the City formally established the Albuquerque Community Safety Department (ACS), a third public safety department that will respond to the calls and needs of the City that are not best served by Police or Fire departments. ACS was created with an initial budget of $2.5 million in FY/21. In FY/22, ACS's budget increased to $7.7 million and full-time personnel increased from 13 positions in FY/21 to 61 positions in FY/22. In FY/23 the budget increases to $11.8 million and full-time personnel will increase to 133.

Fiscal Year 2024 Budget Outlook

The forecast for FY/24 includes anticipated expenses using the best available information. The net effect is a forecasted budget of $848.8 million. This would be a reduction of $8 million or a 0.9% decrease over the original FY/23 budget. The FY/24 slight decrease is primarily due to a maintenance of effort budget and the reduction of non-recurring expenses from FY/23.

Five-Year Forecast for FY/24 includes an estimated $5.7 million for the operation of capital projects coming-on-line; $3.4 million for the increase in medical benefits; $9.3 million for a 2% cost of living wage increase; $34.7 million subsidy to support Transit Department operations, and $6.5 million for risk recovery allocations.

Historically, the majority of non-recurring resources comes from unspent appropriations from prior years. As budgets contract, those resources become less common, putting a constraint on the allocation for non-recurring uses. The FY/24 forecast includes $35.2 million in non-recurring expenses, while only $3.7 million is available in non-recurring resources. As is typically the case in the annual budget process, decisions will have to be made to either eliminate some of these non-recurring expenses or absorb them with recurring resources. A complete list of non-recurring items can be found in the "Expenditure Outlook" section of this document. All of these non-recurring expenses are carried into the out-years, which contributes to the outyear deficits.

The City is self-insured for workers compensation and general liability. Based on recent trends and analysis by the Risk Division, an overall increase in the cost of risk allocated to the departments is reflected in this forecast. Workers' compensation and tort is slightly reduced by $111 thousand for FY/24 as compared to FY/23. The Risk Recovery Program transfer is fully funded at $6.5 million in the General Fund for FY/24.

The revenue estimates may change over the next few months depending on the outcome of the remaining GRT distributions from the State. Should the revenue estimates hold or worsen, the assumptions regarding expenditures will have to be revised in order to present a balanced budget for FY/24. Some expenses will have to be fully funded. However, some expenses may be scaled back or deferred to later years if possible. It is also possible that some of these early estimated costs will be lowered in the coming months as new information is made available.

Fiscal Years 2024 – 2027 Budget Outlook

Most of the underlying assumptions in FY/24 are carried forward in the out-years of the forecast period. For example, funding for CIP coming-on-line stays in the base and is adjusted in increments as additional projects are added. Inflation factors from IHS Global Insight are used to grow most line items with the exception of those developed in-house, which are based on local information. For instance, health care cost increases were estimated by the City's Human Resources Insurance and Benefits Division. The forecast includes a sustained increase of approximately 5.7% for health care costs through FY/27. Other costs were estimated by the respective departments or OMB.

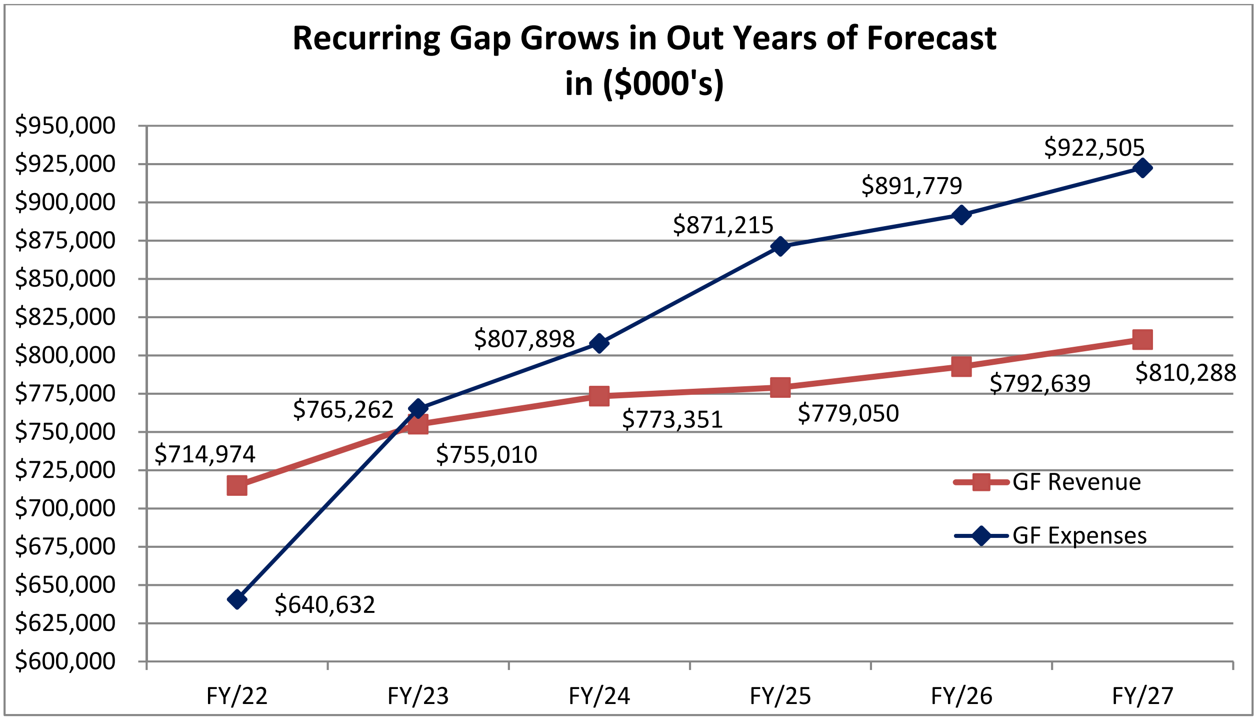
The out-years of this forecast reflect a fund balance deficit that compounds with each year the budget is not brought into balance, which is a highly unlikely outcome given the City's requirement to submit a structurally balanced annual budget. That said, the baseline forecast for FY/24, reflects an overall fund balance of negative $32.8 million, which transitions to an unmet compounded need of $507.1 million in FY/27.

Table B on the following page shows the entire General Fund Baseline summary.

TABLE B
FIVE YEAR FORECAST
GENERAL FUND - BASELINE SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
($000's)

($000's)	AUDITED ACTUAL FY/22	REVISED BUDGET FY/23	FORECASTS FY/24	FY/25	FY/26	FY/27
RESOURCES:						
Recurring Revenue	714,974	755,010	773,351	779,050	792,639	810,288
% Change Recurring Revenue		5.6%	2.4%	0.7%	1.7%	2.2%
Total Non-recurring	15,262	3,265	3,663	3,763	3,901	4,050
TOTAL REVENUES	730,236	758,275	777,013	782,813	796,540	814,337
% Change Total Revenue		3.8%	2.5%	0.7%	1.8%	2.2%
BEGINNING FUND BALANCE	196,871	218,933	96,691	24,910	(118,214)	(271,618)
TOTAL RESOURCES	927,107	977,208	873,705	807,723	678,326	542,719
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	640,632	765,262	813,579	892,567	916,574	947,703
% Change Recurring Appropriation		19.5%	6.3%	9.7%	2.7%	3.4%
Non-recurring Exp/App:						
One-time Items	67,542	115,254	35,215	33,370	33,370	33,370
TOTAL EXPEND/APPROP	708,174	880,516	848,794	925,937	949,944	981,073
UNADJUSTED FUND BALANCE	218,933	96,691	24,910	(118,214)	(271,618)	(438,353)
ADJUSTMENTS:						
Encumbrances	(16,560)	0	0	0	0	0
Warehouse Closure						
Unrealized (Gain)/Loss on Investments	13,144	13,144	13,144	13,144	13,144	13,144
Other Accounting Adjustments	(116)	(116)	(116)	(116)	(116)	(116)
TOTAL ADJUSTMENTS	(3,532)	13,028	13,028	13,028	13,028	13,028
ADJUSTED FUND BALANCE	215,401	109,720	37,939	(105,186)	(258,590)	(425,325)
RESERVES:						
1/12th Operating Reserve	59,543	71,355	70,733	77,161	79,162	81,756
Wage Adj. Designated Job Codes	0	445	0	0	0	0
EDA DownTown Valley Project*	0	8,000	0	0	0	0
GRT Bond Debt Service	0	4,000	0	0	0	0
Misc	0	0	0	0	0	0
TOTAL RESERVES	59,543	83,800	70,733	77,161	79,162	81,756
AVAILABLE FUND BALANCE	155,858	25,920	(32,794)	(182,347)	(337,752)	(507,081)
1/12th Operating Reserve	59,015	73,376	70,733	77,161	79,162	81,756
Recurring Surplus/(Deficit)	74,342	(10,698)	(40,229)	(113,517)	(123,935)	(137,415)

* Pending legislation (R-22-91) to repurpose for Personnel Wage Equity Initiatives.



The above graph illustrates the underlying trend in recurring revenues to recurring expenses from FY/22 through FY/27. CIP coming-on-line costs are excluded from the expense amount to provide a more realistic outlook for recurring costs. The CIP coming-on-line amounts depict the anticipated needs of each department, but are often well above the funding capacity of the General Fund. As a result, the City funds the most critical CIP coming-on-line needs. Most CIP coming-on-line costs are absorbed by the respective departments through the realignment of existing resources.

Based on the assumptions presented in this baseline forecast, expenses exceed resources beginning in FY/23. The recurring deficit, excluding CIP coming-on-line, in FY/27 is $112.2 million with recurring expenses at $922.5 million and recurring revenue at $810.3 million. The recurring gap is important because it demonstrates the underlying potential structural imbalance going forward. The gap is driven by general inflationary factors, labor costs (wages and benefits), and mandated costs such as medical and pension increases. If this predicted possible scenario actually occurs in the out-years, the Administration and Council will work together to address the variance between revenue and expenses and manage within available resources.

ECONOMIC OUTLOOK

The national economy influences the Albuquerque and New Mexico economy in a variety of ways. Interest rates affect purchasing and construction; federal government spending affects the local economy through spending and employment at federal agencies, national labs and military bases. Inflation affects prices of local purchases as well as wages and employee salaries.

The following information is from the Five-Year Forecast prepared in October 2022 and reflects the best available data to assess the post COVID-19 recovery environment. The data uses October 2022 quarterly forecasts from IHS Global Insight (IHS) and the University of New Mexico Bureau of Business and Economic Research (BBER). Unless otherwise noted, all annual data has been adjusted for City fiscal years. Along with the baseline forecast, alternative forecasts are prepared with pessimistic and optimistic scenarios. The Five-Year Forecast is available on the City's website at http://www.cabq.gov/dfa/budget/five-year-forecast.

Baseline Scenario

In the baseline forecast, assigned a probability of 55%, IHS Global Insight (IHS) projects annual Real GDP growth to decrease from 4.0% in FY/22 to 0.1% growth in FY/23 and 0.3% in FY/24. Growth is expected to resume modest growth at an average 1.9% through the end of the forecast.

The national unemployment rate in this scenario is projected to decline from 4.2% in FY/22 to 4.0% in FY/23. For FY/24, the rate is expected to increase to 5.8% as efforts to slow inflation begin to impact employment. The rate begins to decline again in FY/25 to about 5.4%, and then averages 5% through the end of the forecast.

Core inflation is projected to increase from 5.4% in FY/22 to 5.6% in FY/23. In FY/24, efforts to slow the economy are expected to finally take hold, decreasing the rate to 3.2%. Core inflation then averages much closer to the federal government's target rate at 2.3% for the remainder of the forecast. The IHS predicts some reversals of recent increases in the relative prices of energy, food, and certain durable goods as supplies increase and inflation moderates.

Wage growth is projected to increase from 5% in FY/22 to 5.4% in FY/23, before slowing in FY/24 and FY/25 to about 5.1%. Labor market pressures ease in later years with growth expected to average 4.1% for the remainder of the forecast.

Average oil price (West Texas Intermediate) peaked at about $87.8 per barrel in FY/22, and is expected to drop slightly to $86.6 in FY/23 and down further to $82.4 in FY/24. The price is projected to remain in the low to mid $80's for the remainder of the forecast.

The risks and uncertainties in the forecast are many. Equity markets have been erratic, with wide swings in response to new economic or political information that might foreshadow a decline or improvement in the economy.

The assumption in the current baseline forecast is that there will be a mild recession beginning in Q3 of FY/23 which is expected to have a moderate impact to New Mexico and Albuquerque. An anemic recovery is expected to take hold around the beginning of FY//24.

Year-to-date GRT revenues through September 2022 are consistent with expected growth in the approved FY/23 budget; however, the ongoing risk of a recession has prompted a slight downward expectation in FY/23 revenues and slower growth for FY/24. Detailed revenue projections can be found in the Revenue Outlook section of the Five-Year Forecast.

Pessimistic Scenario

The pessimistic scenario is assigned a probability of 30%. In this scenario, there is weaker consumer spending than in the baseline forecast, and continued supply-chain issues cause businesses to pull back investment plans.

It is further assumed that the conflict in Ukraine continues unabated, which leads to higher prices for energy and industrial commodities and a more significant slowdown in foreign growth. The price of oil is expected to rise to $111 per barrel by the second quarter of FY/23, which is $14 higher than the baseline, before dropping to $106 per barrel by early FY/24.

An expected moderate recession leads to a decline in GDP growth from late FY/23 to early FY/24.

Finally, unemployment in this scenario rises from about 3.5% in FY/23 to 7.9% by FY/24.

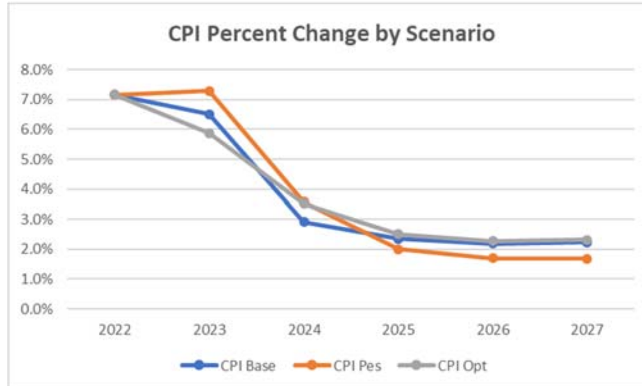
<u>Optimistic Scenario</u>

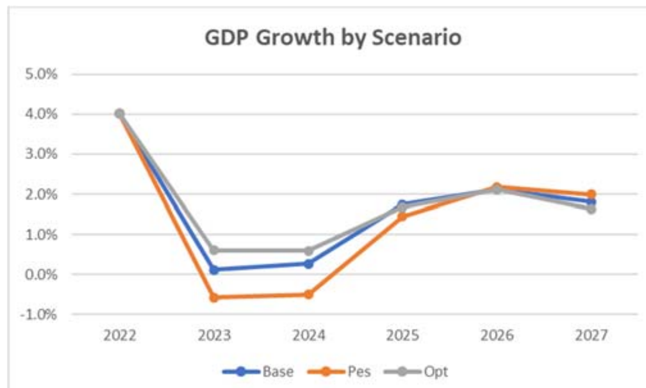
The optimistic scenario is assigned a probability of 15%. In this scenario, consumer spending and productivity are stronger than in the baseline due to prior stimulus, lower energy prices, and less risk aversion for businesses and households.

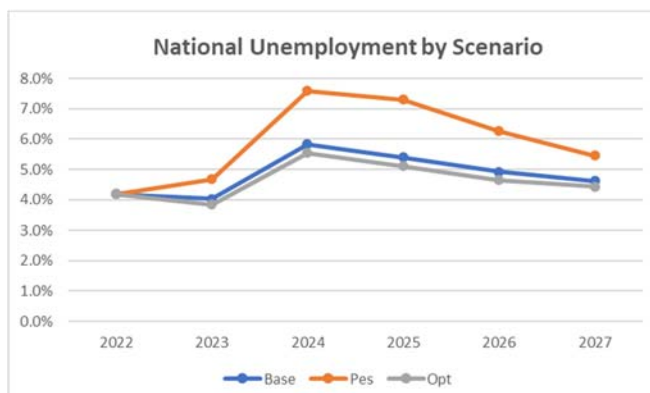
It is assumed that there is a stronger consumer and business response to the Infrastructure Investment and Jobs Act and a faster resolution to the conflict in Ukraine which allows energy prices to moderate.

Business investment remains higher relative to the baseline due to strong demand and higher cash flows. GDP is slightly higher in late FY/23 and early FY/24 compared to declines of 1.4% and 0.5%, respectively in the baseline.

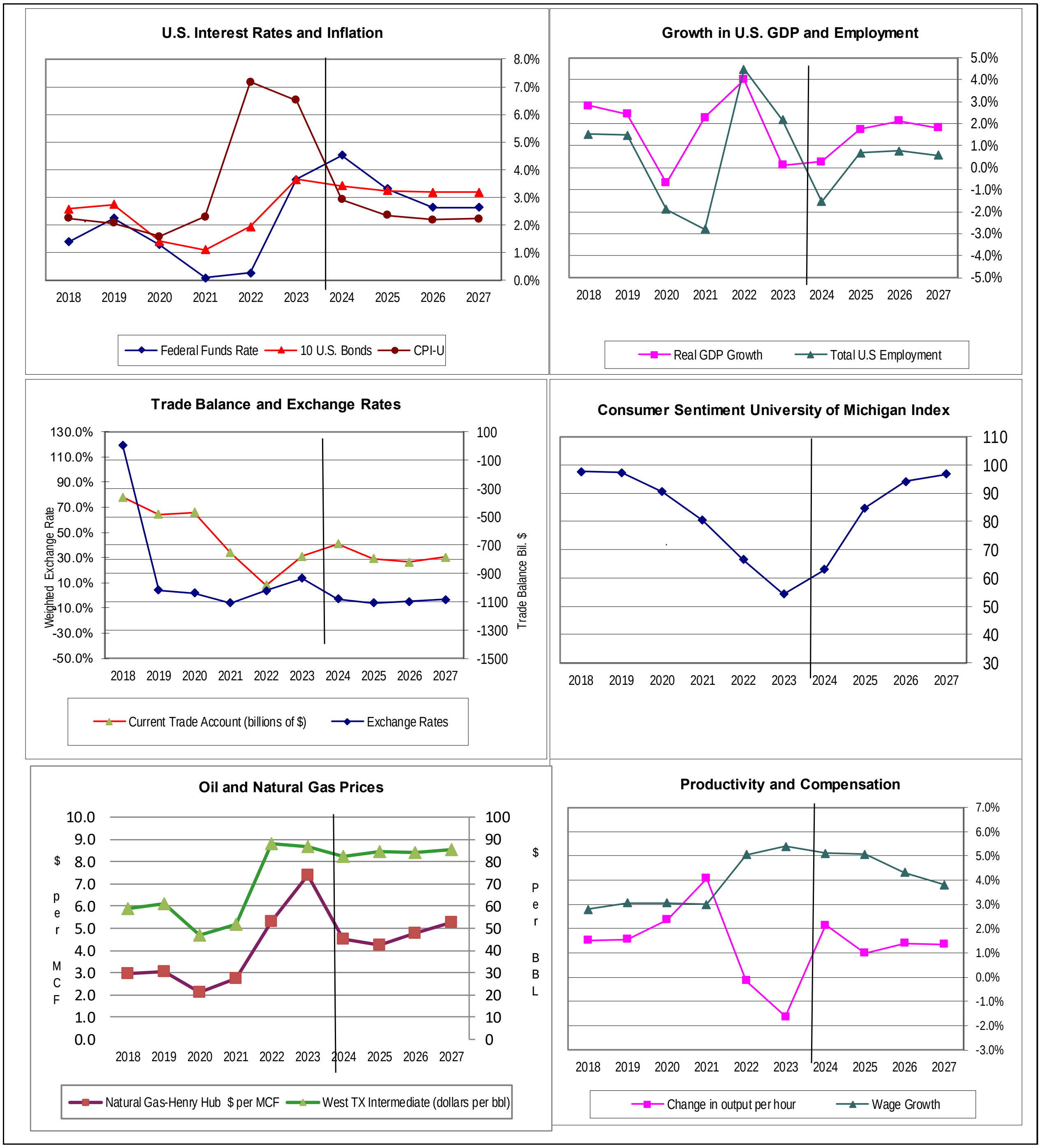
Finally, unemployment declines to 3.4% by the second quarter of FY/23. Inflation is higher than in the baseline through the middle of FY/24, then falls close to the Federal Open Market Committee's 2% target rate through the remainder of the forecast.







U.S. ECONOMIC VARIABLES AND FORECAST (FISCAL YEAR)
December 2022 Baseline Forecast



The employment outlook for the Albuquerque economy is developed by BBER at the University of New Mexico. They use national forecasts from IHS and local insights to develop forecasts for the state and local economy. The UNM BBER forecasting model for October 2022 provides the forecast of the Albuquerque economy presented in the following section.

During the 2008 recession, Albuquerque's economy declined in sync with the national economy but lagged in its recovery. The Albuquerque economy lost over 27,000 jobs from FY/08 to FY/12, a 7% loss of total employment.

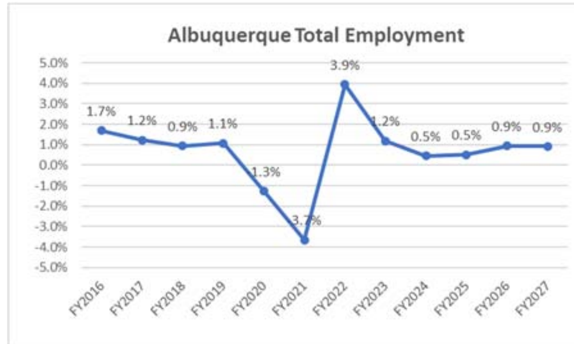
After 10 years of gains, employment in the Albuquerque Metropolitan Statistical Area (MSA) registered 380,079 jobs in FY/19, still shy of the 382,270 pre-recession peak reached in FY/08. The unemployment rate temporarily dropped to a low of 4.1% in December 2019.

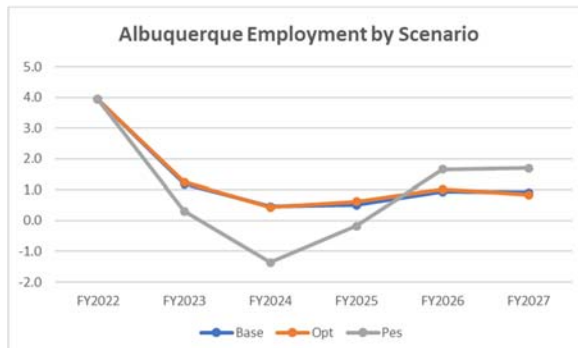
Overall, BBER estimates that the MSA lost about 18,483 jobs from FY/19 to FY/21 as a result of the COVID-19 pandemic. In April 2020, during the most severe portion of the economic shut-down to curb the spread of COVID-19, the Albuquerque MSA unemployment rate spiked to 12.8%.

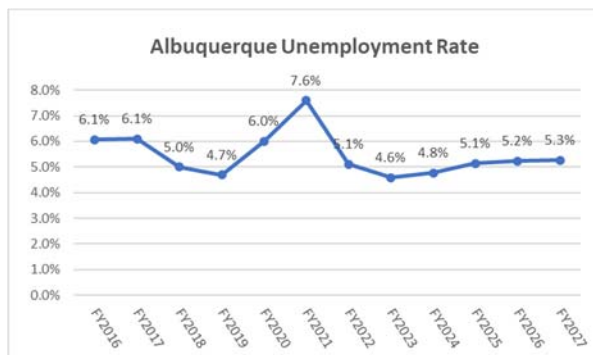
As of October 2022, BBER estimated that for FY/22 the MSA was still around 4,233 jobs below FY/19. In FY/23, total employment is expected to finally rise 266 jobs above FY/19 or about 0.07%. In FY/24, employment increases to about 2,000 jobs above FY/19. Year-over-year growth is expected to increase 0.5% in FY/24 and FY/25, increasing slightly to 0.9% in both FY/26 and FY27. Generally, solid recovery from the pandemic is dampened somewhat by current expectations of a mild recession within the next year.

The Albuquerque MSA unemployment rate decreased briefly to 3.7% in October 2022, but is expected to average about 4.6% in FY/23 as the economy slows following efforts to cool inflation. In FY/24, unemployment increases slightly to 4.8% and remains slightly over 5% for the remainder of the forecast period.

Economic alternatives will be discussed in more detail elsewhere in this document. However, the employment by scenario graph below shows there is negligible difference between the baseline and optimistic scenarios. In the pessimistic scenario, employment actually decreases in FY/24 and FY/25 before rebounding in FY/26 and FY/27.







What follows is a series of charts and tables providing comparisons of Albuquerque to the U.S. economy in addition to Albuquerque MSA employment numbers from FY/16 to FY/27 by major business sectors as categorized by the North American Industrial Classification System (NAICS) categories.

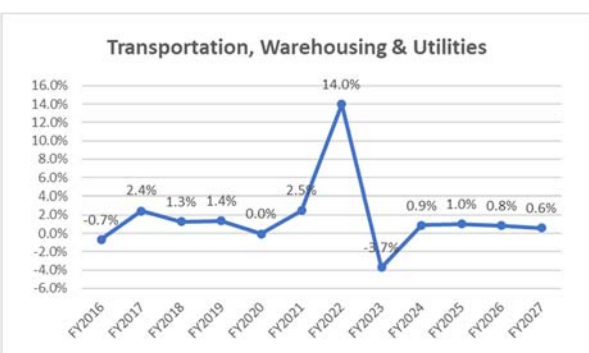
Retail and Wholesale Trade

This sector accounts for about 13.9% of employment in the MSA and is particularly important in terms of the Gross Receipts Tax (GRT), historically comprising about 25% of GRT. However, due to shifts in employment and business sectors following COVID-19 in FY/21, and tax changes in FY/22 which allowed for local tax increments on internet sales, this sector's share of GRT rose to about 32% in the past two years. During the 2008 recession, closure of stores and reductions in purchases substantially reduced employment and GRT in this sector.

After the sharp -3.5% employment decline in FY/20 at the height of the pandemic, retail and wholesale trade rebounded an estimated 0.2% and 2.1% in FY/21 and FY/22, respectively. For FY/23, growth is expected to slow to 1.2%. From FY/24 through the end of the forecast period growth in this sector is projected to be negative as efforts to slow the economy have the expected dampening effects on the economy. In FY/24 growth slows to -0.4%, decreases further to -2.2% in FY/25 and then remains flat to slightly negative.

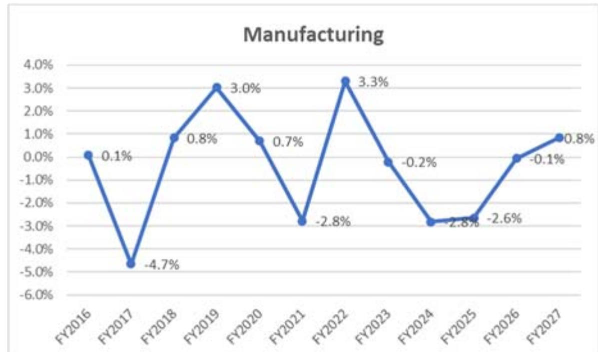
Transportation, Warehousing and Utilities

This sector, while important, accounts for just 3% of employment and 0.6% of GRT. In retrospect, the sector was impacted by COVID-19 later than other sectors. As the recovery took hold and supply chain issues occurred, this sector saw a significant increase in FY/22 with growth at an estimated 14%. However, in FY/23, as supply chain issues resolve and the economy cools, growth is expected to slow considerably, falling to -3.7%. For remaining years in the forecast, growth resumes but averages slightly below historical averages, at or just below 1%.



Manufacturing

This sector accounts for about 4.4% of employment and 2.3% of GRT in the MSA. It is an important sector as it creates relatively high paying jobs that bring revenue from outside the area. It also generates purchases of materials and services in the local economy, making this sector's impact greater than its employment share.



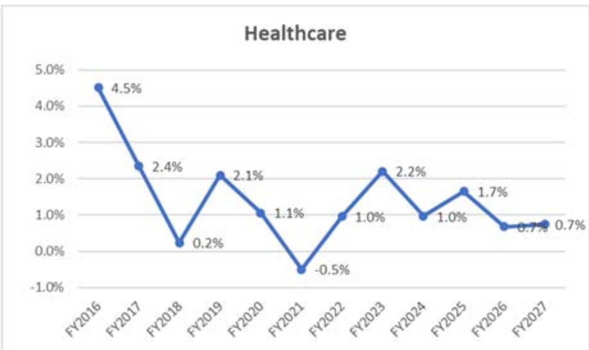
The sector experienced steady growth from FY/17 to FY/19. However, growth slowed in FY/20 and declined 2.8% due to impacts of the pandemic in FY/21. For FY/22, the sector rebounded less than expected, but still about 3.3%. Efforts to slow inflation and the economy are projected to slow growth in this sector through FY/26, with positive growth of 0.8% not returning until FY/27. At about 15,600 jobs, this is still considerably below the roughly 23,000 jobs in this sector prior to the FY/09 recession.

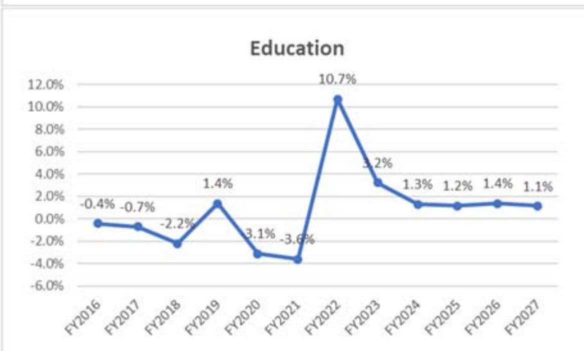
Educational and Health Services

This section represents two sectors, in line with the summary of jobs generally shown in the NAICS sectors. The majority of jobs are in health services and account for 15.1% of total employment. Albuquerque is a major regional medical center that attracts people into the area for services. Presbyterian Hospital and its HMO are one of the largest employers in the area.

While this was the only sector that increased through the 2008 recession, it did experience an initial decline during the most recent pandemic-caused recession as elective procedures and routine medical care was put on hold to ensure capacity to treat COVID-19 cases. However, with continued recovery, from FY/21 to FY/23 this sector is expected to add another 2,790 jobs, or grow at 1.6% compound annual growth. Growth averages about 1% for the remainder of the forecast period.

Educational services was impacted by the pandemic as schools struggled with decisions about remote learning and lost revenues associated with having students on campus. For FY/20 and FY/21, the sector declined by an average of -3.4%. However, in FY/22, the sector rebounded by nearly 11% as students returned to campus in larger numbers. Additionally, in early calendar year 2022, lawmakers expanded the 2-year-old Opportunity Scholarship, which is intended to cover all tuition and fees for some students. In FY/23, growth is expected to slow somewhat to 3.2%, before returning to growth averaging 1.2%, slightly higher than historical averages. The educational services sector accounts for about 1.4% of employment.





Accommodation and Food Services

This category includes eating and drinking establishments as well as hotels and other travel related facilities. It accounted for 9.5% of employment in the MSA in FY/22, which represents a recovery to near pre-pandemic levels of employment. The sector is a major contributor to both GRT, at 9.7%, and Lodgers' Tax, and was a major contributor to employment growth since the 2008 recession.

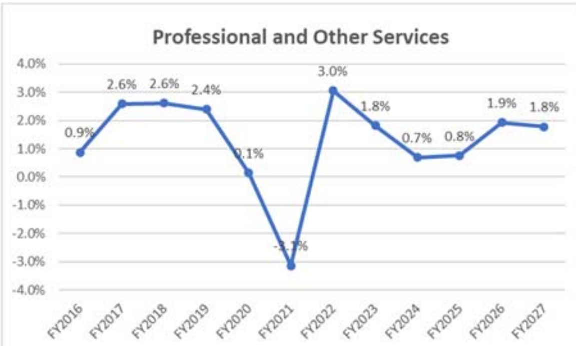
This sector was one of the most severely impacted by COVID-19, dropping from steady pre-pandemic growth to a 13.6% decline in FY/21, representing a loss of more than 8,000 jobs. However, in FY/22 the sector rebounded even more than projected at 15.1%. Nevertheless, despite another 2.4% growth in FY/23, the sector still remains about 2,600 jobs below the pre-pandemic high. This sector is not expected to reach the pre-pandemic high of 39,000 jobs until FY/27, due in part to the continued threat of expected slower growth and a possible recession.

Real Estate & Financial Activities

This section includes two sectors, finance & insurance and real estate, including credit intermediation. It accounts for about 4.7% of employment in the MSA. The 2008 financial crisis, consolidation of banking, and the collapse of real estate negatively impacted this sector; however, FY/14 to FY/19 growth was strong at above 2% each year. However, following the impact from COVID-19, the growth declined 2.5% in FY/21, with only anemic recovery of 0.2% in FY/22. This slow growth is expected to continue, averaging 0.7% from FY/23 through the end of the forecast period. While it is not expected to return to pre-pandemic levels of growth in the near future, the sector should near pre-pandemic levels of employment in FY/26 of about 18,300 total.

Professional and Other Services

This category is a grouping of four service sectors (Professional and Technical, Management of Companies, Administrative and Waste Services, and Other Services) and accounts for 18.8% of employment in the MSA. It includes temporary employment agencies, some of Albuquerque's back-office operations, and architecture and engineering firms that are closely tied to construction. It also includes Sandia National Labs (SNL).



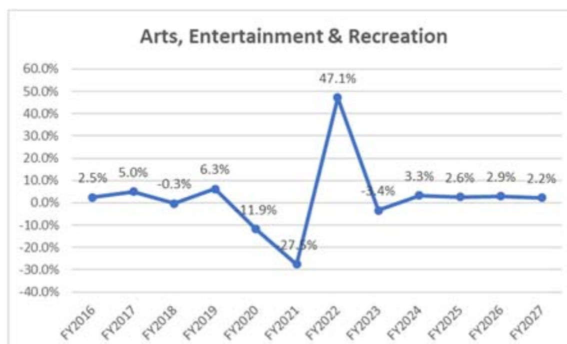
The sector as a whole remained weak until FY/16 when construction services (engineering and architecture) began adding jobs. The sector showed growth in FY/16 of less than 1%, growing to over 2% from FY/17 to FY/19. With many of these jobs allowing for work from home, the professional technical portion of this sector was not impacted as much as some; however, it did decline more than first expected, at -3.1% in FY/21, which is in stark contrast with the previous three years' 2.5% average growth. The sector rebounded in FY/22 with 3% growth and is expected to gradually slow through FY/25, never reaching pre-pandemic levels of growth for the remainder of the forecast period. This sector accounts for 11.3% of GRT.

<u>Information</u>

This sector includes businesses in telecom, broadcasting, publishing, internet service establishments, and film studios. It accounts for about 1.4% of employment in the MSA. This sector declined steadily since FY/16, with a pronounced decline of 12.8% and 12.4% in FY/20 and FY/21 with the onset of COVID-19 and the devastating impact it had on the burgeoning film industry. While the sector grew an estimated 6% in FY/22 and is expected to grow another 6.5% in FY/23, growth slows in the outer years and employment is not expected to reach pre-pandemic levels of near 8,000 within the forecast period. Employment is expected to peak at 5,600 by FY/27.

<u>Arts, Entertainment and Recreation</u>

This is a relatively small sector with 1.3% of MSA employment, a slight increase from the pre-pandemic level 1.2%. It includes artists, entertainers, spectator sports, and recreation facilities such as bowling alleys and fitness centers, most of whom were significantly impacted by the pandemic. In FY/19, this sector showed strong growth of 6.3% but this was cut short during the pandemic, with declines of 11.9% and 27.5% in FY/20 and FY/21, respectively. Despite a 47.1% rebound in growth for FY/22, employment still remained about 300 jobs below the pre-pandemic high of about 5,000 jobs. In FY/23, growth is expected to decline again, before returning to more historical growth levels from FY/24 through the end of the forecast period. Employment levels in this sector are expected to reach the pre-pandemic high of about 5,000 by FY/27.



<u>Construction</u>

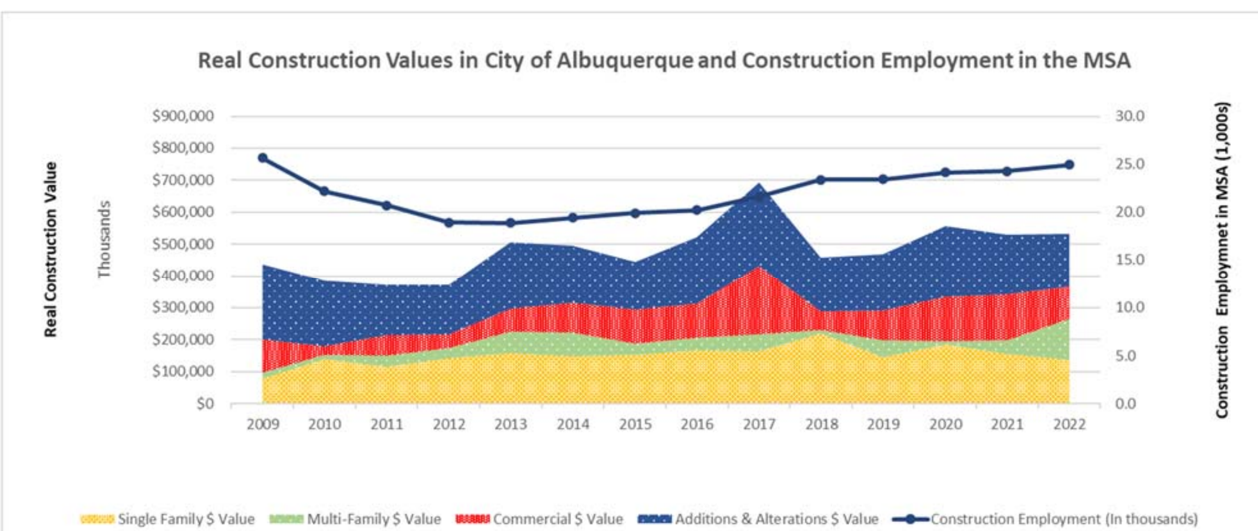
Construction is typically cyclical, with significant swings in building and employment. Construction is an important sector and has an impact on the economy larger than its employment share of 6.6%. This sector lost 12,000 jobs from FY/07 to FY/13. After falling consistently from FY/07, employment in construction began increasing at the end of FY/13 and continued to grow rapidly through FY/18. The sector began to level off in FY/19, prior to the onset of the pandemic. However, this sector began FY/20 with very substantial growth and maintained much of the momentum despite the health crisis as this sector was deemed essential during the peaks of the crisis. Despite the pandemic, the sector grew nearly 3% in FY/20 and only declined an estimated 0.6% in FY/21. For FY/22 growth resumed to nearly 3%; however, growth is expected to slow in FY/23 and even decline in FY/24 as efforts to slow demand and curb inflation take hold. In some cases, public sector construction could fill the gaps in the private sector; however, those projects could prove more impactful at the State level rather than local. A modest recovery is expected beginning in FY/25 through FY/27. At just over 25,000 jobs in FY/23, the sector is still substantially below the nearly 31,000 jobs in FY/07.

Construction permits typically show the trends in construction and the types of construction. The graph following this section shows the real values of building permits after adjusting for inflation. Construction is categorized as new construction or additions, alterations, and repairs.

Total housing permits declined -47.6% in the 2008 recession, with the split being roughly equal between single-family units and multi-family units. Growth was somewhat steady through FY/16 and FY/17. Accounting for inflation, real construction growth slowed in FY/18 and FY/19 but then grew in FY/20 and stayed relatively elevated despite the impacts of the pandemic, including significant issues around supply chains and rising costs of materials.

Building permits only tell part of the construction story. Non-building construction such as roads and storm drainage are not captured in the permit numbers. Large construction projects for the State, such as University Hospital, are permitted by the State rather than the City. Employment in the construction sector gives a picture of growth in the entire MSA. The rapid growth in construction employment in 2017 coincides with a large increase in building permits. In 2018, construction employment showed continued increases while building permit values declined substantially. This was due primarily to two factors: first, the City experienced a very large increase in commercial construction in 2017, and as of 2018, APS no longer obtains building permits from the City. Instead, APS now obtains permits from the State, as UNM does. Secondly, Facebook had a very large construction project in Los Lunas that employed 800 to 1,000 construction workers; however, this also does not generate building permits in the City.

As shown in the chart below, construction employment moves similarly to permit values, but differences occur. Some of this is due to projects outside the City as well as non-building projects.



Government

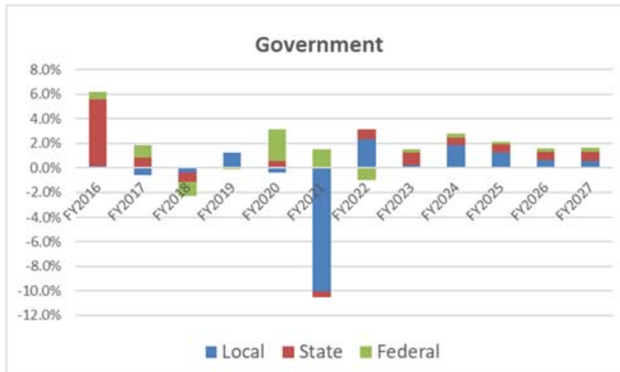
The government sector makes up almost 19.7% of the Albuquerque MSA employment, with the largest part of State and Local government being education. Local government includes public schools and State government includes the University of New Mexico and Central New Mexico Community College. The local sector also includes Native American enterprises. Federal government makes up 3.9% of Albuquerque MSA employment but only about 1.9% of national employment. Note this does not include military employment, which is counted separately, or employment at the national labs which is included in professional and business services.

Active military is around 6,000 or about 1.6% of the total non-agricultural employment. Nationally, military is 1% of total non-agricultural employment.

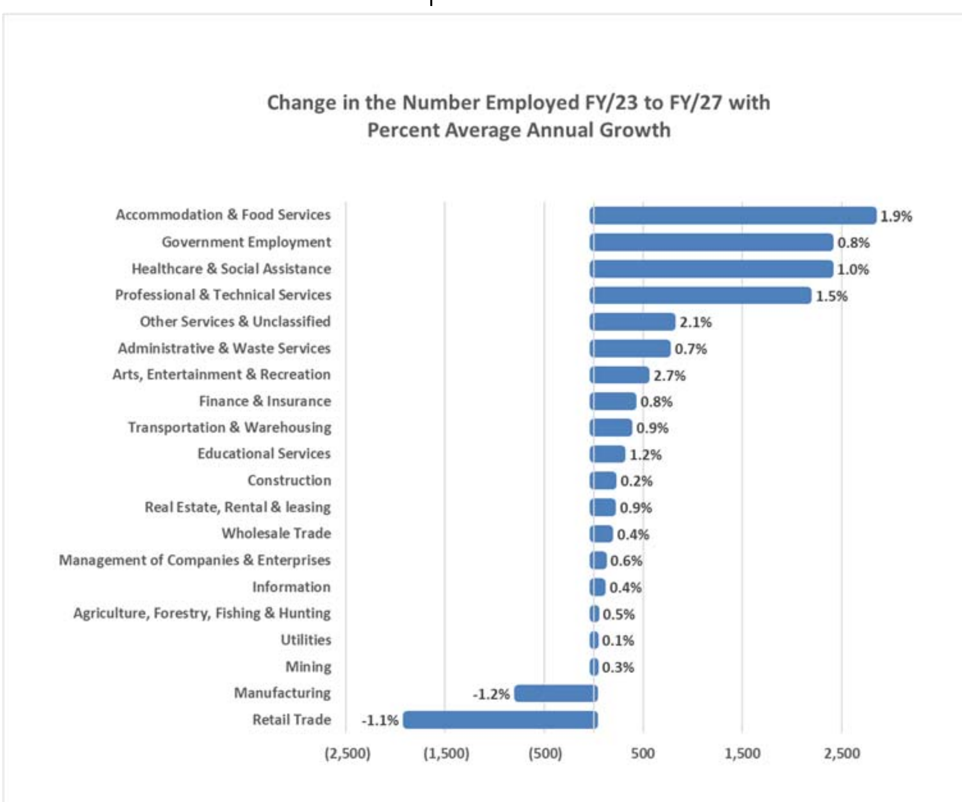
The major sources of state and local jobs are education, though the Labor Department does not keep individual counts for these jobs at the local level for Albuquerque. Local government declined in FY/14 through FY/18. It recovered slightly in FY/19, only to be impacted again with a decline of 10.1% due to the pandemic, largely due to jobs associated with native businesses, such as casinos. Local government lost an estimated 4,272 jobs in FY/21 and isn't expected to recover all of those jobs until beyond the current forecast period.

Federal government increased in FY/20 and FY/21 despite the pandemic due to the U.S. Census. Consequently, in FY/22 there was a slight compensating decrease. Growth is expected to be nearly flat for the remainder of the forecast period.

In FY/22, State government jobs recouped the losses from the pandemic. Growth in this sector, fueled largely by UNM and CNM, continues at a slow but steady rate just under 1% throughout the forecast period.

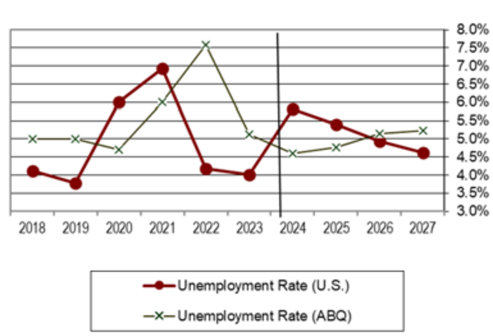


The following charts and tables present more information on the Albuquerque economy and its comparison to the U.S.

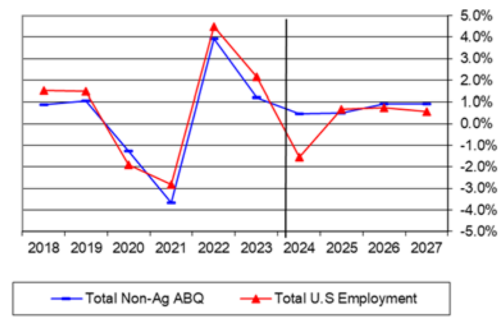


Albuquerque MSA and Comparisons to the U.S -- Fiscal Year December 2022

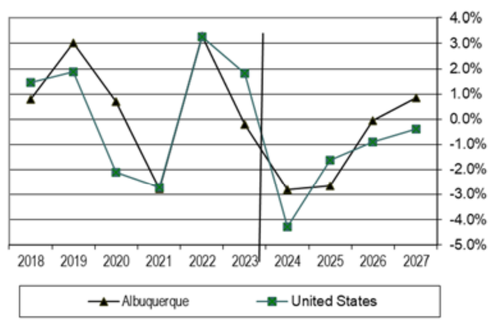
Albuquerque MSA vs. U.S. Unemployment Rates



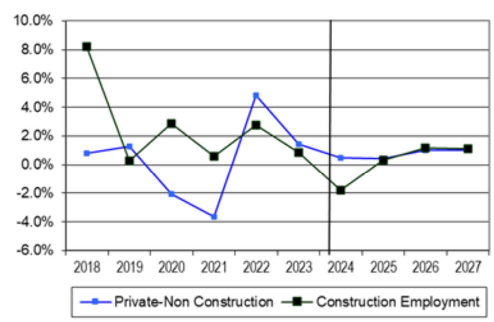
Albuquerque MSA vs. U.S. Employment Growth



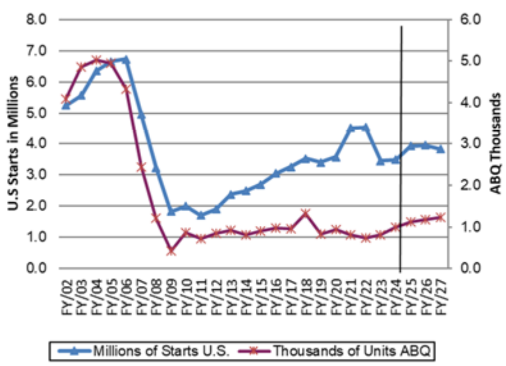
Albuquerque MSA vs. U.S. Manufacturing Employment Growth



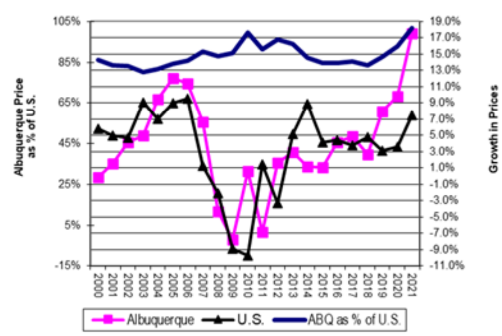
Albuquerque MSA Construction and Private Non-Construction Employment Growth



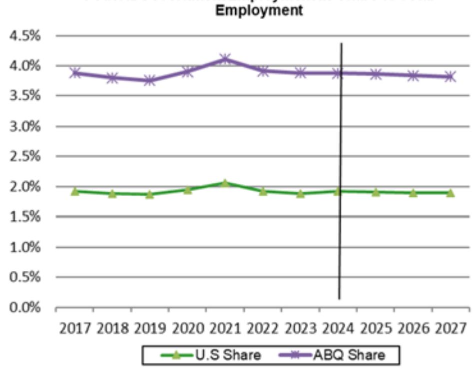
Single Family Construction



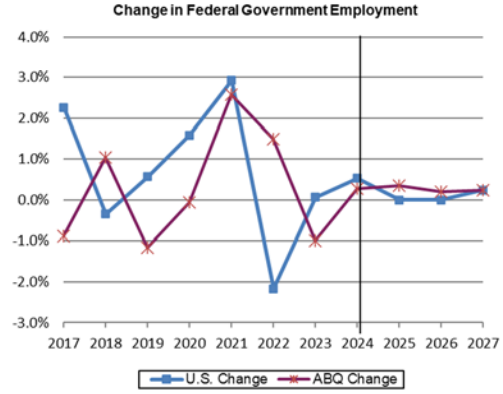
Comparison of Growth in Existing Home Sales Price by Calendar Year (history only)



Federal Government Employment as Share of Total Employment



Change in Federal Government Employment



Economic Variables Underlying the Forecast by Fiscal Year

Fiscal Year	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
	Historical						Forecast			
National Variables										
Real GDP Growth	2.8%	2.4%	-0.7%	2.3%	4.0%	0.1%	0.3%	1.7%	2.1%	1.8%
Federal Funds Rate	1.4%	2.2%	1.3%	0.1%	0.3%	3.6%	4.5%	3.3%	2.6%	2.6%
10 Year US Bonds	2.6%	2.7%	1.4%	1.1%	1.9%	3.7%	3.4%	3.2%	3.2%	3.2%
CPI-U	2.2%	2.1%	1.6%	2.3%	7.2%	6.5%	2.9%	2.4%	2.2%	2.2%
Unemployment Rate (U.S.)	4.1%	3.8%	6.0%	6.9%	4.2%	4.0%	5.8%	5.4%	4.9%	4.6%
Total U.S. Employment	1.5%	1.5%	-1.9%	-2.8%	4.5%	2.2%	-1.5%	0.7%	0.8%	0.6%
Manufacturing Employment	1.4%	1.9%	-2.1%	-2.7%	3.3%	1.8%	-4.3%	-1.6%	-0.9%	-0.4%
Consumer sentiment index--University of Michigan	97.7	97.3	90.4	80.3	66.4	54.3	63.1	84.7	94.1	96.7
Exchange Rates	1.2%	4.0%	1.7%	-5.9%	3.7%	13.4%	-2.7%	-6.1%	-4.9%	-3.4%
Current Trade Account (billions $)	(362.6)	(482.4)	(471.2)	(755.1)	(984.8)	(778.8)	(691.4)	(794.7)	(820.9)	(784.3)
Change in output per hour	1.5%	1.5%	2.4%	4.1%	-0.1%	-1.6%	2.1%	1.0%	1.4%	1.4%
West TX Intermediate (dollars per bbl)	58.6	60.82	46.72	51.83	87.81	86.61	82.44	84.27	83.96	85.17
Wage Growth	2.8%	3.1%	3.0%	3.0%	5.0%	5.4%	5.1%	5.1%	4.3%	3.8%
Natural Gas-Henry Hub $ per MCF	2.90	3.05	2.10	2.76	5.32	7.37	4.51	4.24	4.78	5.26
Albuquerque Variables										
Employment Growth and Unemployment in Albuqueruqe MSA										
Total Non-Ag ABQ	0.9%	1.1%	-1.3%	-3.7%	3.9%	1.2%	0.5%	0.5%	0.9%	0.9%
Private-Non Construction	0.8%	1.3%	-2.1%	-3.6%	4.8%	1.4%	0.5%	0.4%	1.0%	1.0%
Construction Employment	8.2%	0.2%	2.9%	0.6%	2.7%	0.9%	-1.8%	0.3%	1.2%	1.1%
Manufacturing	0.8%	3.0%	0.7%	-2.8%	3.3%	-0.2%	-2.8%	-2.6%	-0.1%	0.8%
Government	-0.7%	0.6%	0.4%	-5.0%	1.2%	0.5%	1.2%	0.8%	0.6%	0.6%
Unemployment Rate (ABQ)	6.1%	5.0%	4.7%	6.0%	7.6%	5.1%	4.6%	4.8%	5.1%	5.2%
Growth in Personal Income	2.7%	3.9%	7.8%	8.2%	1.9%	3.9%	4.5%	4.7%	4.8%	4.7%
Construction Units Permitted in City of Albuquerque										
Single-Family Permits	1,468	1,666	1,061	1,607	2,311	1,194	1,489	1,629	1,699	1,775
Multi-Family Permits	1,318	827	935	816	741	818	1,002	1,117	1,178	1,240
Total Residential Permits	150	839	126	791	1,570	377	487	512	521	535

Sources: IHS Global Insight Oct 2022 and FOR-UNM Oct 2022 Baseline Forecasts

Albuquerque MSA Employment in Thousands

	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027
Total Employment	376.0	380.1	375.3	361.6	375.8	380.3	382.1	384.0	387.6	391.2
Private Employment	299.7	303.3	298.2	288.4	301.7	305.9	306.8	308.1	311.3	314.4
Agriculture, Forestry, Fishing & Hunting	0.6	0.5	0.5	0.6	0.7	0.7	0.7	0.7	0.7	0.7
Mining	0.3	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Utilities	1.1	1.0	1.0	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Construction	23.4	23.5	24.1	24.3	24.9	25.1	24.7	24.8	25.0	25.3
Manufacturing	15.7	16.2	16.3	15.9	16.4	16.4	15.9	15.5	15.5	15.6
Wholesale Trade	11.5	11.5	11.3	10.7	10.8	10.9	10.8	10.9	11.0	11.0
Retail Trade	41.6	41.3	39.7	40.4	41.3	41.9	41.7	40.5	40.1	40.0
Transportation & Warehousing	8.3	8.5	8.5	8.7	10.0	9.6	9.7	9.8	9.9	10.0
Information	7.2	6.5	5.6	4.9	5.2	5.6	5.4	5.5	5.6	5.7
Finance & Insurance	12.3	12.6	12.8	12.7	12.6	12.7	12.7	12.9	13.0	13.1
Real Estate, Rental & leasing	5.4	5.5	5.5	5.1	5.2	5.2	5.2	5.3	5.3	5.4
Professional & Technical Services	30.6	31.6	32.9	32.9	33.4	34.0	34.6	35.1	35.7	36.2
Management of Companies & Enterprises	3.7	3.8	3.8	3.6	3.7	3.8	3.8	3.8	3.9	3.9
Administrative & Waste Services	24.9	25.3	24.7	23.2	24.3	24.8	24.5	24.4	25.0	25.6
Educational Services	5.1	5.2	5.0	4.8	5.4	5.5	5.6	5.7	5.7	5.8
Healthcare & Social Assistance	54.6	55.7	56.3	56.1	56.6	57.8	58.4	59.4	59.8	60.2
Arts, Entertainment & Recreation	4.7	5.0	4.4	3.2	4.7	4.6	4.7	4.8	5.0	5.1
Accommodation & Food Services	38.9	39.3	36.0	31.1	35.8	36.7	37.4	38.1	38.9	39.5
Other Services & Unclassified	9.8	10.0	9.4	8.8	9.2	9.3	9.4	9.6	9.9	10.1
Government Employment	76.3	76.8	77.1	73.2	74.1	74.4	75.3	75.9	76.4	76.8
Local Government	39.4	39.9	39.7	35.7	36.5	36.6	37.3	37.7	38.0	38.2
State Government	22.7	22.6	22.8	22.7	22.8	23.1	23.2	23.4	23.5	23.7
Federal Government	14.3	14.3	14.6	14.9	14.7	14.7	14.8	14.8	14.9	14.9
Military Employment	5.7	5.8	5.9	5.9	5.9	5.8	5.8	5.8	5.8	5.9
Other Variables										
Personal Income, $Billions	37.9	39.4	42.4	45.9	46.8	48.6	50.8	53.2	55.8	58.4
Labor Force, NSA, Thousands	433.7	437.7	435.0	435.4	441.4	443.2	447.5	450.3	453.1	455.9
Total Housing Units Authorized, Thousands (City of Abq Only)	1.5	1.7	1.1	1.6	2.3	1.2	1.5	1.6	1.7	1.8
Single-Family Housing Units, Thousands	1.3	0.8	0.9	0.8	0.7	0.8	1.0	1.1	1.2	1.2
Multi-Family Housing Units, Thousands	0.2	0.8	0.1	0.8	1.6	0.4	0.5	0.5	0.5	0.5
Unemployment Rate, NSA	5.0	4.7	6.0	7.6	5.1	4.6	4.8	5.1	5.2	5.3
Growth Rates										
Total Employment	0.9%	1.1%	-1.3%	-3.7%	3.9%	1.2%	0.5%	0.5%	0.9%	0.9%
Private Employment	1.4%	1.2%	-1.7%	-3.3%	4.6%	1.4%	0.3%	0.4%	1.0%	1.0%
Agriculture, Forestry, Fishing & Hunting	2.4%	-13.4%	-1.1%	23.3%	11.6%	-1.7%	0.1%	0.4%	0.9%	0.5%
Mining	-0.1%	-0.3%	-8.4%	-2.3%	5.5%	1.7%	0.0%	0.1%	0.6%	0.5%
Utilities	1.4%	-9.1%	0.3%	4.4%	0.8%	1.7%	0.0%	0.0%	0.2%	0.4%
Construction	8.2%	0.2%	2.9%	0.6%	2.7%	0.9%	-1.8%	0.3%	1.2%	1.1%
Manufacturing	0.8%	3.0%	0.7%	-2.8%	3.3%	-0.2%	-2.8%	-2.6%	-0.1%	0.8%
Wholesale Trade	-0.6%	0.2%	-1.6%	-5.8%	1.5%	0.6%	-0.6%	0.8%	0.6%	0.7%
Retail Trade	-0.1%	-0.7%	-4.0%	1.9%	2.2%	1.3%	-0.3%	-3.0%	-1.0%	-0.3%
Transportation & Warehousing	1.2%	2.8%	-0.1%	2.2%	15.6%	-4.3%	1.0%	1.1%	0.9%	0.6%
Information	-8.2%	-9.6%	-12.8%	-12.4%	6.0%	6.5%	-2.4%	1.4%	2.1%	0.3%
Finance & Insurance	2.3%	2.4%	1.1%	-0.8%	-0.5%	0.3%	0.6%	1.1%	0.9%	0.5%
Real Estate, Rental & leasing	2.4%	2.7%	-0.7%	-6.6%	2.0%	0.0%	0.5%	1.4%	0.6%	0.9%
Professional & Technical Services	2.5%	3.4%	3.9%	-0.1%	1.6%	1.9%	1.8%	1.3%	1.7%	1.4%
Management of Companies & Enterprises	2.9%	2.2%	1.3%	-4.2%	1.5%	2.0%	0.6%	0.8%	0.5%	0.4%
Administrative & Waste Services	3.6%	1.6%	-2.5%	-5.8%	4.7%	2.1%	-1.3%	-0.6%	2.4%	2.4%
Educational Services	-2.2%	1.4%	-3.1%	-3.6%	10.7%	3.2%	1.3%	1.2%	1.4%	1.1%
Healthcare & Social Assistance	0.2%	2.1%	1.1%	-0.5%	1.0%	2.2%	1.0%	1.7%	0.7%	0.7%
Arts, Entertainment & Recreation	-0.3%	6.3%	-11.9%	-27.5%	47.1%	-3.4%	3.3%	2.6%	2.9%	2.2%
Accommodation & Food Services	1.6%	0.9%	-8.3%	-13.6%	15.1%	2.4%	1.8%	1.9%	2.2%	1.6%
Other Services & Unclassified	0.7%	1.4%	-5.5%	-6.3%	4.5%	0.6%	1.9%	2.2%	2.2%	2.0%
Government Employment	-0.7%	0.6%	0.4%	-5.0%	1.2%	0.5%	1.2%	0.8%	0.6%	0.6%
Local Government	-0.4%	1.3%	-0.4%	-10.1%	2.3%	0.2%	1.8%	1.2%	0.6%	0.6%
State Government	-0.7%	-0.1%	0.5%	-0.4%	0.8%	1.0%	0.6%	0.7%	0.7%	0.7%
Federal Government	-1.2%	-0.1%	2.6%	1.5%	-1.0%	0.3%	0.3%	0.2%	0.2%	0.4%
Military Employment	0.5%	2.0%	1.0%	1.5%	-1.5%	-0.4%	0.1%	0.1%	0.1%	0.1%
Other Variables										
Personal Income, $Billions	2.7%	3.9%	7.8%	8.2%	1.9%	3.9%	4.5%	4.7%	4.8%	4.7%
Labor Force, NSA, Thousands	0.3%	0.9%	-0.6%	0.1%	1.4%	0.4%	1.0%	0.6%	0.6%	0.6%
Total Housing Units Authorized, Thousands (City of Albuquerc	-17.6%	13.5%	-36.3%	51.5%	43.8%	-48.3%	24.7%	9.4%	4.3%	4.5%
Single-Family Housing Units, Thousands	37.7%	-37.3%	13.1%	-12.7%	-9.2%	10.3%	22.6%	11.5%	5.4%	5.3%
Multi-Family Housing Units, Thousands	-81.8%	459.3%	-85.0%	527.8%	98.5%	-76.0%	29.2%	5.2%	1.9%	2.5%

REVENUE OUTLOOK

Overview

The following forecast of revenues is presented in tables following this section. They rely on the October 2022 IHS Global Insights (IHS) and October 2022 University of New Mexico Bureau of Business and Economic Research (BBER) baseline forecasts. The presentation provides audited FY/22 receipts, the FY/23 budget and revised estimates for FY/23, and the baseline forecast receipts for FY/24 through FY/27. In all cases, the figures reflect the accrual of revenues required for compliance with the tax revenue standard of the Governmental Accounting Standards Board. The growth rates in the table are in many cases based on the economic forecast assumptions summarized in the previous sections on the economy.

GRT revenue for FY/23 is expected to increase by 4%, or about $20.5 million, from FY/22 actual revenue. This is $5.9 million, or 1.1% below the FY/23 approved budget. The downward adjustment reflects significant uncertainties that persist in the economy, including a potential modest recession taking hold in the next six to 12 months. Nevertheless, ongoing strength in the economic recovery—as well as ongoing inflation—result in a relatively robust rate of growth for FY/23, despite the elevated risks.

In FY/22, changes at the State level allowed local government tax increments to be applied to internet sales for the first time. These changes resulted in dramatic changes to local government tax bases, largely for the good, but with some unintended consequences. Tax filers are still learning and adjusting to the changes and amended returns continue to shift revenues in unforeseen ways. It will likely be a few years before it is completely understood how these changes impact local tax bases.

In FY/23, recurring revenue is expected to increase 5.6%, or $40 million, over FY/22 actual revenue in the baseline scenario. In addition to increased GRT, contributing to this growth are increases in property tax and franchise revenue. Countering these increases somewhat are decreases in building permit revenue, charges for service, and transfers from other funds.

Total revenue for FY/23 increases 3.8%, or $28 million over FY/22. In FY/22, the City received a one-time $12.3 million settlement which elevated total revenue for the year. One-time revenue in FY/23 is currently estimated at $3.3 million, which reflects food and medical hold harmless revenue the City will receive in FY/23 but will phase out in FY/24.

Food and medical hold harmless distributions, phased-out to 49% and 42% in FY/23 and FY/24, respectively, continue to be volatile and somewhat difficult to project. For FY/23 alone, the total estimated revenue loss is $28.3 million as the State continues the 15-year phase-out that began in FY/16.

Employment has largely recovered somewhat from the initial impact of the pandemic. The Albuquerque unemployment rate dropped to 3.7% in October 2022—the lowest in recent memory. Of the City's traditional peers, only Salt Lake City and Oklahoma City had lower unemployment rates for the month. While it varies depending on the specific month, overall, Albuquerque employment remained about 800 jobs below the pre-pandemic November 2019 high.

Total employment for FY/22 is expected to show an increase of 3.9%, once final data is available, with additional increases of 1.2% and 0.5% in FY/23 and FY/24, respectively. This follows pandemic-related declines of 1.3% and 3.7% in FY/20 and FY/21, respectively. As mentioned, most employment sectors have largely recovered; leisure and hospitality, one of the hardest sectors, is currently still down about 600 jobs below its November 2019 high.

For many of the sectors most affected by the health crisis such as arts, entertainment and recreation, accommodation and food services, other services and unclassified, and information, full recovery is not expected until FY/27 or later, in part due to expected declines in employment resulting from Federal Reserve actions to slow a heated economy and inflation.

For FY/22, new commercial permit values decreased by 24% while new residential values decreased 6%. Multi-family permits declined 228%. When accounting for inflation, the declines are more pronounced. Commercial renovations and adds (8%) outpaced those for residential, which declined 28%. GRT revenue for construction stayed relatively strong through the pandemic and FY/21 ended 2.5% over FY/20, which itself was a strong year. GRT construction in FY/22 grew an additional 17.1% over FY/21. However, with the expected softening of the economy, building permits and permit revenue are expected to decline in FY/23 and recover only slightly in FY/24. While the year-to-date number of FY/23 building permits are up 1.4%, total permit values have cooled halfway through FY/23 and are 22% below FY/22 for the same period as of December 2021.

Building permit revenue dropped substantially several years ago following the Albuquerque Public Schools (APS) decision to employ the State Construction Industries Division to issue permits rather than the City; however, this change does not affect GRT revenue from APS construction projects.

Property tax revenue in FY/23 is expected to grow 3.2% over FY/22, although slightly less than projected in the approved budget. Yield control is based on inflation and could become more of a limiting factor in the current forecast as it was from FY/16 to FY/18.

The long-term baseline forecast anticipates General Fund recurring revenue growth at 5.6%, 2.4%, 0.7%, 1.7%, and 2.2%, in FY/23 FY/24, FY/25, FY/26 and FY/27, respectively.

More detail on GRT revenues and other General Fund sectors is presented in the following text.

General Fund Revenue Estimates

<u>Gross Receipts Tax</u>

The GRT revenues for FY/22 were $66.4 million, or 14.9% above the amount estimated in the approved FY/22 budget process. This proved much higher than earlier estimates for the pandemic recovery as well as estimated revenue following tax changes at the State level that allowed for local tax increments on internet sales for the first time. Final revenue for FY/22 is 21.6%, or $91 million, over the FY/22 original budget. It is estimated that $15.3 million of this is one-time revenue, of which about $12.3 million was due to a one-time settlement between the City and the State Taxation and Revenue Department. The remainder was due to the phase-out of medical and food hold harmless payments that began in FY/16. The phase-out decreases to 49% in FY/23 and drops to 42% in FY/24.

In FY/22, the City also began receiving State-shared excise tax revenue for recreational cannabis sales which officially began in April 2022. Total cannabis revenue received in FY/22 was $828.8 thousand; however, due to an accounting error at the City, only $295.6 thousand was recognized in FY/22. The remaining $524.1 thousand is recognized in FY/23; consequently, the growth rate for cannabis in FY/23 is overstated and in FY/24, understated. Each municipality receives an amount equal to 33.3% of the net receipts attributable to the cannabis excise from cannabis retailers within the municipality. For FY/23, the City estimates about $4 million in cannabis excise revenue (including the $524.1 thousand not recognized in FY/22). In FY/24, the estimate is for just $3.5 million, recognizing the overstatement in FY/23 and a very modest growth rate due to the lack of data at this early stage in the industry.

The City also receives GRT on the total of both cannabis sales gross receipts and the excise tax. While the State does not provide data for GRT on cannabis sales directly, the City includes its own estimates for GRT in the forecast, although this is not included in a separate line item. For FY/23, GRT revenue on cannabis sales and excise tax is expected to be around $2.5 million, with growth in FY/24 set at a conservative 1%.

In addition to historical local increments and State-shared GRT, the City also receives compensating tax (CMP), which helps protect New Mexico businesses from unfair competition from out-of-state businesses, and interstate telecommunications tax (ITG), which applies to businesses providing interstate telecommunications services (other than mobile telecom services) in New Mexico. Combined, these revenues are estimated at about $10 million for the City annually, with the vast majority being CMP.

GRT growth for FY/23 has had a solid start, with cumulative growth as of October at around 4.7% over the same period last year. Due to ongoing economic uncertainties and the threat of a modest downturn within the next 6 to 12 months, the projection for FY/23 GRT is slightly lower than the 5.7% estimate upon which the FY/23 original budget was built. Base growth as measured by the State shared 1.225% increment is estimated to be 4% for FY/23.

For FY/24, GRT growth is expected to slow to 2.4%, reflecting an expected modest economic slowdown, characterized by continued higher interest rates, higher unemployment, and a pullback in both consumer spending and business investment.

Deductions for the Tax Increment Development Districts (TIDDs) largely stalled in FY/20 and FY/21 due to delayed construction amid business uncertainties due to COVID-19. However, renewed development in the Winrock and Mesa Del Sol TIDDs, as well as a new TIDD located in the UNM South Campus, are expected to increase these deductions from about $2.5 million in FY/22 to $3.3 million in FY/23 to nearly $14 million by FY/27.

Adjustments to GRT Growth

Growth without adjustments in the GRT is estimated using forecasts of economic activity. Adjustments are then made for known or expected changes. In this forecast, adjustments are made for TIDDs, changes in the food and medical hold harmless distributions, and adjustments for cannabis revenue.

A full explanation of deductions is included in a later section on estimating Gross Receipts Taxes.

<u>Property Tax</u>

FY/22 actual revenues were $897 thousand, or 1%, below the FY/22 estimate, and about 0.7% below the approved budget. Delinquent property taxes declined for the year while current property taxes grew less than projected.

The Bernalillo County Assessor reported the total net taxable property values for Bernalillo County experienced an increase from $18.4 billion in 2021 to $19.3 billion in 2022, or growth of 4.9%. There tends to be a lag in property valuations and property tax revenues for the City; consequently, for FY/23, revenues are projected to rebound somewhat to 3.2% growth. Yield control could be a factor in FY/23, muting the actual growth in property values.

<u>Franchise Taxes</u>

Recurring FY/22 franchise tax revenues were $572 thousand, or 1.6% below the estimate, largely due to the electricity franchise. In FY/21, the electricity franchise rate increased from 2% to 3% which was expected to increase revenues by about $4.6 million; however, the franchise also experienced stronger than anticipated growth during the year, likely due to impacts from fuel costs and the pandemic. However, in FY/22, those gains were not sustained and revenues returned more or less to the baseline with the exception of the increased rate.

The gas franchise was just over $1 million, or about 23% over the estimate for FY/22. The New Mexico Gas Company reported it experienced a 36% hike in the cost of gas purchased on behalf of their customers in 2021 due to rising worldwide prices for natural gas, a trend that has continued for a third straight year. Additionally, there was increased demand due to extremely cold weather.

The water franchise increased $599 thousand, or about 7.4% over the estimate largely the result of demand as there was no rate hike for the year. The telephone and cable franchises were nearly flat with the projections.

For FY/23, the electric franchise is projected to grow 13.2% on the possibility of higher fuel prices and a potential rate hike. However, the utility's requested rate hike is still in conflict with a case in the State Supreme Court over whether the utility should lower customer bills after closing a coal-fired power station. For FY/24, a slight 1.3% decline is expected as fuel prices stabilize.

The water franchise is increased a total of 5.3% in FY/23 due to an approved 5% rate hike. Residential customers began to see an estimated $2.49 per month increase in their bills beginning in August 2022. Revenue is expected to remain flat in FY/24.

New Mexico Gas Company was granted a request to raise rates by 4.3% effective January 1, 2023. The bill for an average residential customer is estimated to increase by $2.67 per month. With the rate increase and the expectation of continued high natural gas prices, FY/23 growth is projected at 10.8%. In FY/24, growth moderates somewhat at 4% growth.

Estimates for telecom and telephone are essentially flat to slightly negative for FY/23. In FY/24, there are no additional rate impacts at this time; in general, projected growth rates are consistent with rate case announcements, estimated fuel costs and population growth estimates.

<u>Payments-In-Lieu-Of-Taxes (PILOT)</u>

PILOT revenues are maintained at the FY/23 budgeted level. FY/24 is forecasted at the base level near population growth; however, this could be revised upward for the final FY/24 budget.

<u>Building Permits</u>

FY/20 and FY/21 building permit revenue remained relatively strong despite the impacts of the pandemic. In FY/22, revenue expectations were adjusted downward slightly to account for the cancellation of the Orion project; however, construction and housing starts remained relatively strong. Final FY/22 revenue finished $369 thousand, or about 4% over the estimate, which was about 1% over the FY/22 approved budget.

However, with expectations of a slowing economy, including housing starts and demand for other construction, building permit revenue for FY/23 was adjusted downward by 23.6%. Year-to-date building permit revenue appears to bear this out. As of December 2022, permit revenue is 22% below FY/22 and FY/21 for the same period.

As a note, major construction projects planned by the State (now to include APS) or the federal government, or road projects do not fall under the City's permitting process and the City receives no permit revenue. However, GRT is paid both by the State and the Federal governments on construction projects.

<u>Other Licenses/Fees</u>

Included in this category are revenues from permits and licenses for restaurant inspections, animal control, liquor establishments, business registrations, use of the City right of way, and other miscellaneous fees. FY/22 finished $915 thousand over the estimate and $34 thousand, or 0.8% below the original budget. This reflects a recovery from depressed demand in business-requested City services seen in FY/21. For FY/23, growth is estimated at 6.5% on the assumption that these revenues will continue a modest return closer to the baseline, which was about $5 million in FY/19. For FY/24, growth is expected to ease back to 1.2%, closer to historic averages.

Other Intergovernmental Assistance

Other intergovernmental assistance includes State shared revenues (excluding GRT), grants and county shared revenues. This category had declined in recent years due to changes in State policy and the manner in which grant revenue is received. Revenue for FY/22 was $707 thousand, or 13.5%, below the estimate. Revenues for motor vehicle licenses and State-shared Municipal Road Gas Tax revenue were all below expectations. The FY/23 estimate is left at the budgeted level. Year-to-date revenues appear on track for vehicle registrations and Municipal Road Gas Tax revenues are trending modestly higher.

For FY/24 and the remainder of the forecast, it is assumed that revenues will resume historical growth averages consistent with population growth and moderated gas prices.

Charges for Services

For FY/22, this category appears to have fully recovered to pre-pandemic levels. Categories for City aquarium and garden and zoo admissions all performed well. Many fees that had completely fallen off during the pandemic also recovered, such for community center activities and services. Other items such as reimbursement for ambulance, engineering fees and fees for child care services also increased. One area that performed especially well during the latter part of the pandemic but did experience a decline in FY/22 was golf green fees. While still generating $5.6 million for the year, this was nearly $500 thousand less than in FY/21. Some off-duty police and other police service charges declined in FY/22 as well.

For FY/23, charges for service expectations are scaled back about 2.5% as a conservative measure. The potential of a modest recession poses risks to consumer and business spending. FY/24 revenues are increased by 0.5%, more consistent with population growth and historical growth patterns.

Internal Service

FY/23 revenues are kept at the budgeted level. FY/24 revenues through the remainder of the forecast are expected to increase with the rate of wage and salary compensation as forecasted by IHS.

Indirect Overhead

Indirect overhead in FY/23 is kept at the budgeted amount. FY/24 through the remainder of the forecast is increased at the rate of wage and salary compensation forecasted by IHS.

CIP-Funded Positions

FY/23 is kept at the budgeted level and FY/24 through the remainder of the forecast increases at the rate of wage and salary compensation forecasted by IHS.

Miscellaneous

This includes fines, rental of City property and “other miscellaneous” revenues. Revenues in FY/22 were nearly 210% over the approved budget due in part to $12.3 million in one-time revenue from the settlement of a multi-year lawsuit between the City and the State over discrepancies with GRT distributions. Additional increases include $2.7 million in rental revenues from the City’s newly acquired Gibson Center.

Miscellaneous FY/23 revenues are decreased due to the one-time nature of the $12.3 million settlement the prior year. The out-years are increased at the approximate level of population growth pending other significant changes. Consistent with the category name, this revenue source is often unpredictable.

Interest Earnings

Equity markets were extremely volatile in FY/22, and the impact on City investments was equally dramatic. In FY/22, interest earnings experienced a $10.4 million unrealized loss. This outcome was in stark contrast to FY/20, during which strong markets pushed interest earnings up to $2.2 million. Because this City holds such investments to maturity, it is assumed that forecasted earning do not reflect the adjustment for unrealized losses.

For FY/23, earnings growth is left at the budgeted amount of $885 thousand; however, since FY/23 earnings revenues are also currently tracking in the negative, this estimate will likely be adjusted downward as the FY/24 budget is built. Normally, the out-year growth rates for this category are set with the projected interest rates on two-year treasuries as forecasted by IHS; however, rapidly changing market conditions will likely necessitate a more conservative stance in the near future.

Interfund Transfers

Interfund transfers are kept at the budgeted amount for FY/23. FY/24 through the remainder of the forecast increase at the rate of wage and salary compensation forecasted by IHS; however, revenues will be re-evaluated as the FY/24 budget is developed.

PROJECTED REVENUES FOR FISCAL YEARS 2023 TO 2027

	Audited	Budget	Five year					Growth				
	FY/22	FY/23	FY/23	FY/24	FY/25	FY/26	FY/27	FY/23	FY/24	FY/25	FY/26	FY/27
GRT												
State Shared 1.225%	255,359	269,164	265,507	272,502	274,307	280,038	287,822	4.0%	2.6%	0.7%	2.1%	2.8%
Local GRT (w/o public safety)	118,830	122,687	123,169	125,825	126,094	128,110	131,026	3.7%	2.2%	0.2%	1.6%	2.3%
GRT 1/4 Public Safety	52,869	55,593	54,938	56,337	56,664	57,797	59,350	3.9%	2.5%	0.6%	2.0%	2.7%
Penalty and Interest	2,525	2,382	2,626	2,716	2,755	2,834	2,936	4.0%	3.4%	1.4%	2.9%	3.6%
3/8th Hold Harmless	73,585	77,412	76,912	79,556	80,676	83,012	85,996	4.5%	3.4%	1.4%	2.9%	3.6%
CMP	9,361	8,867	9,737	10,072	10,214	10,509	10,887	4.0%	3.4%	1.4%	2.9%	3.6%
ITG	88.939	83	93	96	97	100	103	4.0%	3.4%	1.4%	2.9%	3.6%
Cannabis Excise	296	3,135	3,981	3,491	3,526	3,561	3,597	1246.8%	-12.3%	1.0%	1.0%	1.0%
Total GRT	512,913	539,323	536,962	550,597	554,334	565,961	581,719	4.7%	2.5%	0.7%	2.1%	2.8%
TIDDs & Incentives	(2,531)	(3,094)	(3,531)	(4,404)	(6,920)	(10,898)	(13,546)	39.5%	24.7%	57.1%	57.5%	24.3%
Total GRT	**512,912.910**	**539,323**	**533,430**	**546,193**	**547,413**	**555,063**	**568,173**	**4.0%**	**2.4%**	**0.2%**	**1.4%**	**2.4%**
Property Taxes	94,021	97,514	97,030	99,941	102,758	106,193	109,452	3.2%	3.0%	2.8%	3.3%	3.1%
Telephone	1,021	1,025	1,006	1,001	1,001	1,001	1,001	-1.5%	-0.5%	0.0%	0.0%	0.0%
Electric	14,362	16,916	16,264	16,056	16,329	16,747	17,157	13.2%	-1.3%	1.7%	2.6%	2.4%
Gas	5,640	4,789	6,247	6,498	6,683	6,846	6,992	10.8%	4.0%	2.9%	2.4%	2.1%
Cable TV	4,151	4,096	4,163	4,175	4,188	4,196	4,205	0.3%	0.3%	0.3%	0.2%	0.2%
Water Authority Franchise	8,738	8,546	9,201	9,201	9,661	9,661	10,144	5.3%	0.0%	5.0%	0.0%	5.0%
Telecommunications	468	358	468	468	468	468	468	0.0%	0.0%	0.0%	0.0%	0.0%
Franchise (subtotal)	**34,379**	**35,730**	**37,349**	**37,399**	**38,330**	**38,920**	**39,967**	**8.6%**	**0.1%**	**2.5%**	**1.5%**	**2.7%**
Other Intergov'l	4,521.160	4,968	4,968	4,983	4,998	5,008	5,018	9.9%	0.3%	0.3%	0.2%	0.2%
Building Permits	9,820	8,880	7,502	8,548	9,105	9,479	9,876	-23.6%	13.9%	6.5%	4.1%	4.2%
Other Licenses/Fees	4,165	4,410	4,436	4,489	4,556	4,602	4,648	6.5%	1.2%	1.5%	1.0%	1.0%
Charges for Services	29,164	26,017	28,435	28,577	28,720	28,778	28,835	-2.5%	0.5%	0.5%	0.2%	0.2%
Fines and Penalties	413	101	380	382	382	382	382	-7.9%	0.5%	0.0%	0.0%	0.0%
Interest on Invest	(10,270)	885	885	919	948	976	1,005	0.0%	3.9%	3.1%	3.0%	3.0%
Other Miscellaneous	18,122	5,347	5,808	5,825	5,843	5,860	5,878	-68.0%	0.3%	0.3%	0.3%	0.3%
Interfund Transfers	2,572	2,636	2,636	2,644	2,652	2,657	2,662	2.5%	0.3%	0.3%	0.2%	0.2%
PILOT	2,395	2,348	2,348	2,355	2,362	2,367	2,372	-2.0%	0.3%	0.3%	0.2%	0.2%
Indirect Overhead	17,941	22,561	22,561	23,714	23,706	24,736	24,610	25.8%	5.1%	5.1%	4.3%	3.8%
Internal Service	158	161	161	169	169	177	176	1.9%	5.1%	5.1%	4.3%	3.8%
Transfers for CIP-Funded Positions	9,922	10,345	10,345	10,874	10,870	11,342	11,285	4.3%	5.1%	5.1%	4.3%	3.8%
Total Revenue	**730,236**	**761,228**	**758,275**	**777,013**	**782,813**	**796,540**	**814,337**	**3.8%**	**2.5%**	**0.7%**	**1.8%**	**2.2%**
Non-Recurring Revenue	**15,262**	**3,079**	**3,265**	**3,663**	**3,763**	**3,901**	**4,050**	**-78.6%**	**12.2%**	**2.7%**	**3.7%**	**3.8%**
Recurring Revenue	**714,974**	**758,149**	**755,010**	**773,351**	**779,050**	**792,639**	**810,288**	**5.6%**	**2.4%**	**0.7%**	**1.7%**	**2.2%**

Top Golf		(250)	(250)	(250)	(250)	(250)	(250)
Winrock	(1,483)	(900)	(1,602)	(1,666)	(1,713)	(1,760)	(1,808)
Mesa Del Sol (MDS)	(1,048)	(526)	(1,132)	(1,177)	(1,210)	(1,243)	(1,278)
UNM South Campus			(548)	(1,311)	(3,747)	(7,645)	(10,210)
Total for TIDDS & Incentives	(2,531)	(1,676)	(3,531)	(4,404)	(6,920)	(10,898)	(13,546)

The economic models that forecast GRT use information about the economy from the national IHS forecast and the UNM BBER forecast of the local economy. Gross receipts from construction are estimated separately from gross receipts from all other sources. This is designed to account for the volatile nature and the differing factors that affect construction.

Local employment and incomes are major indicators of the level of non-construction gross receipts. These are proxies for the money that can be spent by local residents. Additionally, seasonality has a major impact along with changes in employment or income. For example, Christmas spending makes the receipts accrued to December and January (November and December spending) the largest of the year. The models also estimate the impact of changes in State taxation policy.

Due to changes and erratic behavior of the hold harmless distributions, GRT is estimated without these distributions included. However, this limits the GRT data to 2004 when the hold harmless was first instituted. Prior to this, data was used back to 1990.

Food hold harmless distributions were looked at historically and found to largely track inflation for food consumed at home and for population growth. Medical hold harmless revenues have stabilized in the past year, and for future years it is assumed to grow conservatively at the rate of inflation.

The construction GRT model is based on housing construction and construction employment. It uses the full GRT data available back to 1990. Care is taken to account for differences due to large construction projects, such as the Big I and the Coors & I-40 re-construction, which had large impacts on GRT revenues for short periods. There are also adjustments for large projects in the metro area that are not within the City. These include the large hospitals in Rio Rancho, and the Facebook project in Los Lunas.

Adjustments to the Estimates

Estimates of GRT are determined using the models described above, but often there are known future changes to State GRT statutes or other changes to the economy that were not in place in the historical period. To account for these factors, changes are made outside the econometric models.

Food and Medical Hold Harmless

The first year of the phased-out reduction in food and medical hold harmless distributions was FY/16. The distribution is reduced by 6% in FY/16 and an additional 6% in each of the following years through FY/20. From FY/21 through the complete phase out, the additional phase-out is 7%. The estimated total revenue for phase out is based on the total estimate before phase out in FY/18. The total before phase out calculations actually shrunk in FY/17 and FY/18, making the impact to the City smaller than originally estimated. The actual impact to the General Fund in terms of growth is a decrease of approximately 0.6% to 0.7% in the GRT growth rate.

Tax Increment Development Districts and Other Incentives

Revenue estimates of GRT were made using the tax base excluding distributions made to the TIDDs and penalty and interest payments. For future impacts, distributions to the TIDDs are directly taken out; however, in FY/15 there was a $1.7 million pay back of GRT that had been incorrectly distributed to the Winrock TIDD. The distributions now made to the TIDD by TRD are correct. Winrock has developed a plan associated with bonds that were issued in the fall of 2015 for expansion of Winrock and a change in the base year from 2007 to 2009. While some of the construction was scaled back due to the impact of the pandemic, new construction has finally taken place in earnest. It is assumed that TIDDs will reduce GRT in FY/23 by $3.5 million and $4.4 million in FY/24.

A new UNM South Campus TIDD is currently under review, and if construction goes according to current plans, FY/23 would be impacted by about $548 thousand, increasing to $1.3 million in FY/24. Impacts to the City could approximately double in the out-years. Current projections are based on developer estimates.

It is further assumed that construction revenues are not a net loss to the General Fund, but retail sales revenues are a net loss to the General Fund. Estimates of TIDD revenues to Mesa del Sol are also estimated and deducted from General Fund revenue. Mesa del Sol revenues have been smaller in the recent past but the community is in a position to grow in the next few years.

At this time the only other GRT incentive currently in place is the payment to TopGolf through the Local Economic Development Act (LEDA). It is assumed that additional employment and GRT impact of the project, if any, is already included in the BBER and GRT forecasts. The revenue reductions are estimated at $250 thousand per year for FY/22 to FY/25. The positive impact on revenue and the cost in incentives for other LEDA projects are not explicitly included in this report.

EXPENDITURE OUTLOOK

The process for estimating the appropriations of the General Fund and funds subsidized by the General Fund is relatively straightforward. The forecast period covers FY/23 through FY/27. For the current fiscal year ending June 30, 2023, expenses are projected using the original appropriation as a base. The base is then adjusted to account for subsequent appropriations by the City Council including $15.1 million in re-appropriated encumbrances. It is assumed that departments will spend their full appropriations by the end of FY/23.

FY/24 estimated costs are, for the most part, derived independently of FY/23 estimates. The FY/24 forecast is compiled using the latest available information, including actual position information updated in December with vacant positions assumed to be fully funded at the City's interim salary structure non-probationary step. Additionally, all subsidized funds and other funds receiving transfers from the General Fund are analyzed independently before adjustments are made for this General Fund forecast to reflect the associated impacts. The FY/24 expenditure estimates do not yet reflect any administrative initiatives to balance expenditures to projected revenues. Projections for the current fiscal year will be updated prior to next year's budget being finalized. Any reversions identified at that time will be used for one-time costs in the subsequent fiscal year.

The forecast beyond FY/24 is largely driven by inflationary factors applied to the FY/24 through FY/27 numbers as the base. Those factors, detailed in Table A, are taken from the national forecast scenarios of IHS Global Insight except for some changes made to selected rates to better reflect local costs. Three separate scenarios of national and local economic activity are factored into the methodology to present baseline, optimistic, and pessimistic scenarios of anticipated expense activity. Table B includes the expenditure and revenue outlook together in a fund balance table for the General Fund. Table C summarizes those expenses by major category showing the percentage change in each.

TABLE A BASELINE SCENARIO FACTORS	SHORT NAME	FACTORS FY/24	FY/25	FY/26	FY/27
CPI - All Urban Consumers, All Items	CPI-U	2.9%	2.4%	2.2%	2.2%
EMPLOYMENT COST INDEX - Wages & Salary, Private Nonfarm	WAGES	5.1%	5.1%	4.3%	3.8%
Price Index Consumer Exp Medical Care	MEDICAL	3.6%	3.2%	3.0%	2.9%
PRICE INDEX - Consumer Expenditures, New Cars	NEWAUTO	-8.1%	-6.6%	-4.2%	-1.7%
PRICE INDEX - Consumer Exp, Transportation Services	AUTOREP	4.0%	2.9%	2.4%	2.1%
PRICE INDEX - Consumer Exp, House Oper, Natural Gas	NATGAS	-19.4%	-3.0%	6.4%	4.9%
PRICE INDEX - Consumer Exp, Gasoline & Oil	FUEL	-4.6%	3.5%	2.0%	2.2%
PPI - Fuels & Related Products, Electric Power	ELECT	-1.6%	1.4%	2.4%	2.2%
PRICE INDEX - Govt Consumption, Noncompensation	GOVT	3.6%	2.7%	2.8%	2.8%
PRICE INDEX - Cons Exp, Tires/Tubes/Accessories/Parts	TIRES	-1.9%	-2.0%	-1.0%	1.2%
Growth of Gross Receipts Tax Revenue	GRT	2.6%	0.7%	2.1%	2.8%

TABLE B
FIVE YEAR FORECAST
GENERAL FUND - BASELINE SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
($000's)

($000's)	AUDITED ACTUAL FY/22	REVISED BUDGET FY/23	FORECASTS FY/24	FY/25	FY/26	FY/27
RESOURCES:						
Recurring Revenue	714,974	755,010	773,351	779,050	792,639	810,288
% Change Recurring Revenue		5.6%	2.4%	0.7%	1.7%	2.2%
Total Non-recurring	15,262	3,265	3,663	3,763	3,901	4,050
TOTAL REVENUES	730,236	758,275	777,013	782,813	796,540	814,337
% Change Total Revenue		3.8%	2.5%	0.7%	1.8%	2.2%
BEGINNING FUND BALANCE	196,871	218,933	96,691	24,910	(118,214)	(271,618)
TOTAL RESOURCES	927,107	977,208	873,705	807,723	678,326	542,719
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	640,632	765,262	813,579	892,567	916,574	947,703
% Change Recurring Appropriation		19.5%	6.3%	9.7%	2.7%	3.4%
Non-recurring Exp/App:						
One-time Items	67,542	115,254	35,215	33,370	33,370	33,370
TOTAL EXPEND/APPROP	708,174	880,516	848,794	925,937	949,944	981,073
UNADJUSTED FUND BALANCE	218,933	96,691	24,910	(118,214)	(271,618)	(438,353)
ADJUSTMENTS:						
Encumbrances	(16,560)	0	0	0	0	0
Warehouse Closure						
Unrealized (Gain)/Loss on Investments	13,144	13,144	13,144	13,144	13,144	13,144
Other Accounting Adjustments	(116)	(116)	(116)	(116)	(116)	(116)
TOTAL ADJUSTMENTS	(3,532)	13,028	13,028	13,028	13,028	13,028
ADJUSTED FUND BALANCE	215,401	109,720	37,939	(105,186)	(258,590)	(425,325)
RESERVES:						
1/12th Operating Reserve	59,543	71,355	70,733	77,161	79,162	81,756
Wage Adj. Designated Job Codes	0	445	0	0	0	0
EDA DownTown Valley Project*	0	8,000	0	0	0	0
GRT Bond Debt Service	0	4,000	0	0	0	0
Misc	0	0	0	0	0	0
TOTAL RESERVES	59,543	83,800	70,733	77,161	79,162	81,756
AVAILABLE FUND BALANCE	155,858	25,920	(32,794)	(182,347)	(337,752)	(507,081)
1/12th Operating Reserve	59,015	73,376	70,733	77,161	79,162	81,756
Recurring Surplus/(Deficit)	74,342	(10,698)	(40,229)	(113,517)	(123,935)	(137,415)

* Pending legislation (R-22-91) to repurpose for Personnel Wage Equity Initiatives.

TABLE C
GENERAL FUND
EXPENSES BY MAJOR CATEGORY
($000's)

	ACTUAL FY/22	REVISED BUDGET FY/23	FY/24	% Change	FY/25	% Change	FY/26	% Change	FY/27	% Change
PERSONNEL	377,519	523,523	544,892	4.1%	568,723	4.4%	589,987	3.7%	609,632	3.3%
OPERATING	174,321	199,145	167,827	-15.7%	171,950	2.5%	176,569	2.7%	181,308	2.7%
CAPITAL	3,892	8,972	2,335	-74.0%	2,077	-11.1%	2,126	2.3%	2,179	2.5%
TRANSFERS	152,442	124,619	119,093	-4.4%	127,287	6.9%	128,239	0.7%	135,493	5.7%
ADDITIONAL ITEMS FACTORED	0	24,256	14,647	-39.6%	55,900	281.6%	53,024	-5.1%	52,460	-1.1%
GRAND TOTAL	708,174	880,515	848,794	-3.6%	925,937	9.1%	949,944	2.6%	981,073	3.3%

This forecast does not assume any reductions in recurring expenses for FY/24 which drives a recurring gap between revenues and expenses. As shown in Table B, the total increase in expenses peaks in FY/27, mostly due to wages and benefits, assumed cost increases for medical, public safety needs, pension obligations, and estimated operational costs to support the completion of capital projects.

Labor costs make up the majority of overall costs to bring new or expanded facilities on-line. That said, a 2% wage increase for all employees is included in the personnel section in Table C for FY/24. The out-years grow at a larger rate because they increase at the Employment Cost Index factor shown in Table A above.

Some non-recurring items are included for the entire forecast period. The availability of one-time funds depends on prior year reversions and additional revenue. Non-recurring items are assumed to be discretionary and will most likely be the first options for reductions given that non-recurring revenue is not available. The table below shows what is included as the potential non-recurring appropriation for FY/24.

Non-Recurring Items for FY/24 ($000's)

Department	Purpose	Amount ($000’s)
Animal Welfare	Animal Protection of NM	40
	Lucky Paws Lease Agreement	29
	Preventative Clinic Lease Agreement	100
	Promotion, outreach, and communication	30
	Safety Net/Dog House-Straw	30
	Street Cat Hub	175
Arts & Culture	One Time Sponsored Events Contracts*	1,391
	Explora	250
	Library IT / Public Library Automation	350
	Promotions, Outreach, Communications	60
	Special Events	100

Non-Recurring Items for FY/24 ($000's)		
Department	Purpose	Amount ($000's)
Civilian Police Oversight Agency	Branding Material for CPC	25
	Contractual Mediation Services	25
	Translation Services (Written, Interview, Brochures)	30
Community Safety	Contractual Services and Capacity Building	500
Council Services	Community Bike Program	6
	Criminal Justice Coordinating Council	60
	El Prado, DBA Fraction Farms	10
	Girl Scouts of America	15
	HAWKS Athletic Club	30
	LifeQuest, USA	25
	Multicultural Festival at Singing Arrow Park	20
	Sparks Antonio Lorenzo Scholarship	30
	Touch a Truck Public Safety Awareness	2
	Trumbull Homeless Services	10
	Watermelon Ranch, Cottonwood Mall	15
	Way Out West Film Fest/SW Gay & Lesbian FF	5
Economic Development	3 Sisters Kitchen	20
	ABQID	50
	AED and Albuquerque Economic Development	100
	African American Chamber of Commerce	40
	Asian Business Collaborative	30
	Barelas Mainstreet	60
	Downtown Mainstreet	60
	ED promo, digital marketing and related contracts	80
	Job Training Albuquerque	500
	Native American Film Makers	10
	Nob Hill Mainstreet	60
	Southeast Economic Development Center	20
	Southwest Women's Collaborative	50
	West Central Community Development Group	13
	West Fest	20
Environmental Health	Prosperity Works	40
Family & Community Services	Sponsored Initiatives	2,343
	Affordable Housing Vouchers	2,000
	Assisted Outpatient Treatment - AOT	736
	Behavioral Health Software	500
	Collective Impact Project (Intimate Partner Violence)	50

Non-Recurring Items for FY/24 ($000's)		
Department	Purpose	Amount ($000's)
	Gateway Ph 1 and Engagement Center at Gibson Health Hub	1,200
	Mayor' Taskforce on Domestic Violence Housing Voucher	100
	Med Respite at Gibson Health Hub	700
	Safe Outdoor Spaces	375
	Sanctioned Encampments Operational Cost	200
	School based VIP Case management	80
	WEHC Operations	1,197
Finance and Administrative Services	Communication Services	60
Fire	ALS Expansion Pilot program	11
	Behavioral Health program	50
	Equipment EMS / Fleet Operations - Supplies	5
	Fleet Operations - Utilities	100
Human Resources	Bilingual Testing	8
	Labor Negotiations	50
	Promote Employment Opportunities with City	20
Legal	Citizenship Program	25
Municipal Development	Transfer to Fund 305 for West Gate Community	200
Office of Internal Audit	Tech Review and Outside Legal Services	23
Office of Inspector General	Supplies/Operating Costs	20
Parks & Recreation	Aquatics- Los Altos HVAC system	50
	Cycling USAC Masters Championship	350
	Dakota Tree Project	100
	Encampment Crews	12
	Forestry	517
	Mondo Indoor Track (ACC Rental Fees + Accelerated Disassembly)	320
	New Mexico Games	25
	Park Ranger PSA	500
	Park Security	200
	Reforestation Program	50
	Trails and Park Maintenance	200
	Umpire, Site Supervisor & Other Sport Referees Pay Increase	159
	UNM Summer Camp	40
	Youth Connect Summer Recreation Programs	149

Non-Recurring Items for FY/24 ($000's)		
Department	Purpose	Amount ($000's)
Planning	ADAPT Program	300
	Streamline DRB processes	170
Police	Crimes Against Children Unit / Equip	135
	Drag Racing Tactical Plans	50
	Electronic Control Weapon Lease	986
	Independent Monitor DOJ Contract	800
	Student Loan Forgiveness Program	50
	Use of Force Review Consultant	1,300
Senior Affairs	Coffee at Senior Centers	50
	Food Costs Increase	350
	Security	225
Technology and Innovation	5 Finesse License	3
	Call Center Script for 311	10
	Cisco UCS	50
	DocuSign - Docusign subscription	25
	ESRI in support of APD	90
	Mythics PAAS Credits	50
	PeopleSoft Licensing	45
	Trendmicro additional function	50
Transit	GF Subsidy for zero fare extension	3,000
All Departments	Risk Recovery	7,040
	Vehicle Fuel	1,350
	2-Day Accrual - FY/24 Leap Year	1,845
	TOTAL	35,215

A capital project, whether it is a new structure or an expansion of an existing footprint, most often requires additional costs to operate. The most significant cost increase shown in this forecast is due to Capital Implementation Projects (CIP) coming-on-line. The table below shows a detailed list of capital projects and the estimated costs to operate those projects. The estimates were calculated by the respective departments managing those facilities. In many situations, the needs always exceed available resources. Many of the previous year's items have been adjusted in FY/24 to provide an accurate estimation for the upcoming budget year. The General Fund estimates for FY/25 through FY/27 are $20.9 million, $24.3 million, and $24.6 million, respectively. (Note: The costs shown below are in total dollars and are independent of each other, meaning they are not compounded with the inflation factors in Table A.)

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category *Department/Division*	Opening Date	FY 23 Budget	FY 24	FY 25	FY 26	FY 27
-						
Animal Welfare						
Kennel D Project Phase II remodel Bldg operation costs: utilities & supplies (1872sf)	July 2019	-	-	17,000	17,000	17,000
Mobile Clinic -Supplies	March 2020	-	-	5,000	5,000	5,000
Mobile Clinic -Supplies Operating (Microchips)	March 2020	-	-	40,000	40,000	40,000
Mobile Clinic- Vehicle Fuel	March 2020	-	-	10,000	10,000	10,000
Mobile Clinic- Vehicle Maintenance	March 2020	-	-	12,500	12,500	12,500
Mobile Clinic -Veterinarian Drugs & Medicine (DHLP,FVRCP,Rabies)	March 2020	-	-	8,000	8,000	8,000
Mobile Clinic-Veterinary Supplies	March 2020	-	-	4,000	4,000	4,000
Two (2) Veterinary Clinic Assistants (cleaning)	July 2019	-	-	120,390	124,001	127,722
Total Animal Welfare Department		*$0*	*$0*	*$216,890*	*$220,501*	*$224,222*
-						
Arts & Culture Department						
Bio Park Exhibits						
Asia	Aug 2023	-	-	1,111,000	1,111,000	1,111,000
Australia	Aug 2023	-	-	495,000	495,000	495,000
Farm	Oct 2023	-	-	400,000	400,000	400,000
Americas/Africa	July 2025	-	-	1,500,000	1,500,000	1,500,000
Museums		-	-	-	-	-
Albuquerque Museum Education Center	July 2026	-	-	-	340,000	680,000
BioPark Tram Operations	Jan 2023	242,956	-	330,000	330,000	330,000
Total Arts & Culture Department		*$242,956*	*$0*	*$3,836,000*	*$4,176,000*	*$4,516,000*
Community Safety Department						
New Community Safety Building	July 2024	-	-	-	-	-
Operating cost for Community Safety Building- Utilities- Recurring		-	-	500,000	500,000	500,000
Equipment and other items- non-recurring		-	-	250,000	-	-
Old Fire Station 14	July 2023	-	-	-	-	-
Operating cost for Utilities- Recurring		-	-	35,000	35,000	35,000
Equipment, renovations and other items- non-recurring		-	-	250,000	250,000	-
Trauma Recovery Center- VIP	July 2023	-	-	-	-	-
Operating cost for Utilities- Recurring		-	-	35,000	35,000	35,000
Equipment and other items- non-recurring		-	-	-	-	-
VIP Personnel (1 Clinical supervisor, 1 clinician or MSW, 1 Assertive outreach supervisor, 2 substance abuse/certified peer support worker (CPSW), 1 administrative support		-	-	307,500	-	-
Total Community Safety Department		*$0*	*$0*	*$1,377,500*	*$820,000*	*$570,000*
Economic Development		-	-	-	-	-

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category *Department/Division*	Opening Date	FY 23 Budget	FY 24	FY 25	FY 26	FY 27
Metropolitan Redevelopment		-	-	-	-	-
Property Acquisition and Development		-	-	-	-	-
Total Economic Development Department		*$0*	*$0*	*$0*	*$0*	*$0*
Family and Community Services						
Assisted Outpatient Treatment - AOT	Jan 2023	736,200	981,600	1,051,293	1,125,935	1,250,876
Gateway Ph 1 and Engagement Center at Gibson Health Hub	2023	2,400,000	2,400,000	2,400,000	2,400,000	2,400,000
Med Respite at Gibson Health Hub	2023	2,050,000	1,050,000	2,050,000	2,050,000	2,050,000
New Singing Arrow CC Coming Online	July 2022	194,199	-	194,199	194,199	194,199
New Westgate Coming Online	July 2022	324,199	-	324,199	324,199	324,199
Sobering Center at Gibson Health Hub	July 2023	730,000	1,000,000	1,563,660	1,674,680	1,793,582
Trauma Recovery Center – TRC	July 2023	807,000	250,000	807,000	807,000	807,000
Trumbull Child Development Center	July 2023	340,474	-	340,474	340,474	340,474
Total Family and Community Services Department		*$7,582,072*	*$5,681,600*	*$8,730,825*	*$8,916,487*	*$9,160,330*
Finance and Administrative Services						
Budget System Implementation Support		100,000				
Total Finance and Administrative Services Department		*$100,000*	*$0*	*$0*	*$0*	*$0*
Fire						
Old FS 9- Relocation of HEART Division		-	-	-	-	-
Operating cost for Building - utilities and data		-	-	25,000	25,000	25,000
New Fleet Building		-	-	-	-	-
Operating cost for Fleet Building- utilities		-	-	105,000	105,000	105,000
Paramedic expansion to address call volume - Medic 11 & 12 (Personnel & Equip), Medic 5 (Equip)		2,409,508	-	-	-	-
SW Mesa Station - Engine 23- (1 Captain, 3 Suppression Lt, 4 Suppression Driver, 11 Firefighter, 3 Deputy Chief positions) Recurring		-	-	2,583,630	2,661,139	2,740,973
Operating cost for Engine 23		-	-	33,765	33,765	33,765
SW Mesa Station Rescue 23 - (4 Paramedic Lt, 4 Paramedic Driver positions) Recurring		-	-	993,183	1,022,978	1,053,667
Operating cost for Rescue 23		-	-	33,765	33,765	33,765
SW Mesa Fire Station non-recurring (GO Bond purchase)		-	-	-	-	-
Operating cost for SW Mesa Station		-	-	100,000	100,000	100,000
Airboat Facility Addition		-	-	-	-	-
Operating cost for Airboat Facility- utilities		-	-	50,000	50,000	50,000
Addition of Battalion at FS18		-	-	-	-	-
Operating cost for of Battalion at FS18- utilities		-	-	25,000	25,000	25,000

EXPENDITURE ESTIMATING METHODOLOGY

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category *Department/Division*	Opening Date	FY 23 Budget	FY 24	FY 25	FY 26	FY 27
Bunk room Expansion FS 16		-	-	-	-	-
Operating cost for Addition of Bunkroom for FS 16- utilities		-	-	25,000	25,000	25,000
Addition of Burn Room at Academy		-	-	-	-	-
Operating cost for Addition of Burn Room- utilities		-	-	20,000	20,000	20,000
Volcano Vista Fire Station non-recurring (GO Bond purchase)		-	-	-	-	-
Volcano Vista Station - Engine 24- (1 Captain, 3 Suppression Lt, 4 Suppression Driver, 11 Firefighter positions) Recurring		-	-	-	1,967,045	2,026,057
Operating cost for Engine 24		-	-	100,000	133,765	133,765
Volcano Vista Station Rescue 24 - (4 Paramedic Lt, 4 Paramedic Driver positions) Recurring		-	-	-	1,022,110	1,052,774
Operating cost for Rescue 24		-	-	100,000	133,765	133,765
Total Fire Department		*$2,409,508*	*$0*	*$4,194,343*	*$7,358,333*	*$7,558,531*
General Services Department						
Security Vehicles		375,400	-	-	-	-
Transit Security		-	-	-	-	-
Total General Services Department		*$375,400*	*$0*	*$0*	*$0*	*$0*
Municipal Development Department						
DMD/Roadways/ Traffic Engineering						
Albuquerque Traffic Management System/Intelligent Traffic Systems (unfunded in the GO Bonds)		-	-	-	-	-
Street Light maintenance & marking/signage		-	-	-	-	-
Increase to Dalkia Service		360,000	-	-	-	-
Total Municipal Development Department		*$360,000*	*$0*	*$0*	*$0*	*$0*
Parks & Recreation						
Aquatics - Splash Pads		-	-	77,000	79,000	82,000
New Park Development & Land Acquisition		-	-	62,120	62,120	62,120
Recreation Los Altos Softball Complex (5 fields)		-	-	450,000	460,000	470,000
Aquatics - Los Altos HVAC system (As shown on FY23 CAO Summary)		50,000	-	50,000	50,000	50,000
Trails Improvement		95,000	-	120,000	420,000	430,000
United Soccer Field		-	-	100,000	100,000	100,000
Total Parks & Recreation Department		*$145,000*	*$0*	*$859,120*	*$1,171,120*	*$1,194,120*
-						
Planning						
Eplan Software License/Maintenance Fees (DRB, DRC, EPC, ZHE, Board of Appeals)	Open	-	-	-	-	-
IDO requirements to do Annual Community Planning Area Assessments	Open	-	-	-	-	-
Posse additional maintenance fees (10% per year)	Open	-	-	-	-	-
Route 66 Wayfinding signs	Open	-	-	-	-	-
Total Planning Department		*$0*	*$0*	*$0*	*$0*	*$0*
Police						

EXPENDITURE ESTIMATING METHODOLOGY

5-Year Forecast CIP Coming-On-Line Estimates							
Funding Allocation Category *Department/Division*	Opening Date	FY 23 Budget		FY 24	FY 25	FY 26	FY 27
Southeast Area Command: Phase I		-		-	-	-	-
Utilities		-		-	100,000	100,000	100,000
Furniture		-		-	-	-	-
Southeast Area Command: Phase II		-		-	-	-	-
Utilities		-		-	-	100,000	100,000
Furniture		-		-	-	250,000	-
Rosenwald:		-		-	-	-	-
Utilities		-		-	6,000	6,000	6,000
City Church:		-		-	-	-	-
Utilities		-		-	150,000	150,000	150,000
Furniture		-		-	-	-	-
Computers		-		-	-	-	-
2nd Floor APD Main Phase 1		-		-	-	-	-
Furniture		-		-	328,912	-	-
Computers		-		-	20,000	-	-
3rd Floor APD Main		-		-	-	-	-
Furniture		-		-	165,278	-	-
Computers		-		-	15,000	-	-
RTCC/RTMC		-		-	-	-	-
Utilities		-		-	75,000	75,000	75,000
Furniture/computer (monitors)		-		-	-	-	-
Total Police Department		*$0*		*$0*	*$860,191*	*$681,000*	*$431,000*
Senior Affairs							
Martinez Town (226.5K recurring, $93.5k non-recurring)		-		-	301,500	376,500	451,500
Total Department of Senior Affairs		*$0*		*$0*	*$301,500*	*$376,500*	*$451,500*
Technology and Innovation							
Infrastructure							
5 Finese License support & maintenance		2,700		-	5,400	5,400	5,400
Cisco UCS		50,000		-	50,000	50,000	50,000
HPE Nimble Storage		20,000		-	20,000	20,000	20,000
Mythics PAAS Credits		50,000		-	50,000	50,000	50,000
Transcepta contract escalator 7%		7,700		-	7,700	7,700	7,700
TrendMicro (additional function due to insurance requirements)		50,000		-	50,000	50,000	50,000
Veeam backup expansion		11,000		-	-	-	-

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category *Department/Division*	Opening Date	FY 23 Budget	FY 24	FY 25	FY 26	FY 27
Applications		-	-	-	-	-
DocuSign (CARES initial funding)		25,000	-	25,000	25,000	25,000
ESRI increase to support APD		90,000	-	90,000	90,000	90,000
Survey Monkey subscription		-	-	16,000	16,000	16,000
Westwind Cloud storage		-	-	-	59,000	59,000
HR GT E-Forms		-	-	15,000	15,000	15,000
ERP		-	-	-	-	-
PeopleSoft Licensing increase		45,000	-	45,000	45,000	45,000
CitizenServies		-	-	-	-	-
Call Center script for 311		10,000	-	10,000	10,000	10,000
Digital and online service tools escalator		100,000	-	100,000	100,000	100,000
Total Technology and Innovation Department		*$461,400*	*$0*	*$484,100*	*$543,100*	*$543,100*
Total General Fund Departments CIP Coming-On-Line	-	$11,676,336	$5,681,600	$20,860,468	$24,263,041	$24,648,802
Transit						
Annual ART Operations - MCO Drivers	Nov 2019	-	2,400,000	2,520,000	2,646,000	2,778,300
Westgate Community Park and Ride		-	134,000	147,400	162,140	178,350
University BRT		-	-	2,027,544	2,230,298	2,453,327
Planning Grant Staff		-	3,610,427	3,790,948	3,980,495	4,179,520
Total Transit Department Subsidy		*$0*	*$6,144,427*	*$8,485,892*	*$9,018,933*	*$9,589,497*
Total GF Subsidized CIP Coming-On-Line		$0	$6,144,427	$8,485,892	$9,018,933	$9,589,497
-	-	-	-	-	-	-
Total CIP Coming-On-Line	-	$11,676,336	$11,826,027	$29,346,360	$33,281,974	$34,238,299

REVENUES AND EXPENDITURES UNDER ALTERNATIVE SCENARIOS

Alternative scenarios help us understand how unanticipated events can influence the local economy and the City's budget. The local economy has a strong direct impact on Gross Receipts Tax (GRT) and construction related revenues.

The alternative scenarios are based on October 2022 forecasts from the UNM Bureau of Business and Economic Research (BBER) and IHS Global Insight (IHS). IHS prepares an optimistic and a pessimistic scenario which form the basis for the City scenarios. BBER uses the results from the IHS alternatives to estimate the impact to Albuquerque and New Mexico. Previous sections were based on the baseline scenario, which is assigned a probability of 50%.

The sections presented below provide revenue and expenditure estimates in separate sections for the optimistic and pessimistic scenarios.

The expenditures in these scenarios differ from the baseline in the use of the alternative inflation factors. The differences in the scenarios on the expense side are relatively small compared to the differences in revenue. Additionally, expenses generally increase faster in the optimistic case, offsetting some of the gain in revenue. Likewise, in the pessimistic scenario expenses may grow more slowly, offsetting some of the losses in revenue.

The changes in revenue are more substantial as the changes in employment have a large impact on the GRT revenue. The effects on available fund balance as shown in the following table are substantial.

Available Fund Balance by Scenario
($000's)

	FY/24	FY/25	FY/26	FY/27
Baseline	(32,794)	(182,347)	(337,752)	(507,081)
Optimistic	(31,581)	(173,699)	(320,287)	(480,056)
Pessimistic	(57,802)	(226,164)	(396,592)	(575,837)

The following sections provide fund balance tables and revenue and expense summaries for the alternative scenarios.

The final section contains a summary of IHS assumptions, detail on employment and other variables used in the forecast, and a table comparing growth rates by scenario for various economic variables.

IHS assigns the optimistic scenario a 15% probability of occurring. The optimistic scenario assumes stronger growth in consumer spending and productivity relative to the baseline thanks to prior stimulus, moderating energy prices and less risk aversion. The scenario also assumes the impact of the Infrastructure Investment and Jobs Act (IIJA) is more robust. GDP is slightly higher than the baseline through FY/24, but then equals the baseline in FY/25 and FY/26. In FY/27 it dips slightly below the baseline.

In the optimistic scenario, Albuquerque employment grows incrementally slower than the baseline in FY/24, incrementally higher in FY/25 and FY/26, before dipping below the baseline again in FY/27. There is very little difference between the two over the course of the projection period. Construction employment growth shows a similar trend with scant variance between the scenarios. For FY/23, residential housing permits are projected to be substantially below the previous year in every scenario. The unemployment rate averages 0.2% lower in each year relative to the baseline. The moderately improved economic indicators in this scenario result in a slightly lower GRT rate for FY/23, rebounding to a nearly 1% growth advantage in FY/24. The advantage shrinks to an average of 0.3% through the remainder of the forecast.

Note: Even in the optimistic scenario, growth in revenue does not equal growth in expenditures and available fund balance is negative for all four out-years of the forecast. The available fund balance in this scenario is negative $31.6 million in FY/24 and compounds to a negative $480.1 million in FY/27.

A table comparing the growth rates by scenario for other economic variables is included at the back of this section.

OPTIMISTIC SCENARIO INFLATION FACTORS

GLOBAL INSIGHT OPTIMISTIC SCENARIO	2021	2022	2023	2024	2025	2026	2027
CPI U All Items	2.3%	7.2%	5.9%	3.5%	2.5%	2.3%	2.3%
Employment Cost Index-Wages & Salary	3.0%	5.0%	5.2%	5.1%	5.2%	4.4%	3.9%
Medical Care	3.0%	2.3%	2.8%	4.0%	3.4%	3.1%	3.0%
Core CPI	2.1%	5.4%	5.4%	3.5%	2.5%	2.3%	2.3%
New Cars	1.8%	10.6%	4.7%	-7.9%	-6.5%	-4.1%	-1.5%
Trasportation	0.0%	8.6%	10.8%	4.4%	3.0%	2.5%	2.2%
Natural Gas	15.7%	46.4%	19.2%	-19.4%	-2.9%	6.5%	5.0%
Gasoline & Oil	1.4%	45.5%	1.4%	-2.4%	4.0%	2.1%	2.3%
Electricity Chained Price Index	2.0%	8.5%	12.3%	-0.7%	1.6%	2.4%	2.3%
Govt Consumption Noncompensation	3.3%	7.0%	7.2%	3.8%	2.7%	2.8%	2.8%
Tires/Tubes/Accessories/Parts	1.2%	9.3%	7.5%	-1.8%	-1.9%	-1.0%	1.3%

General Fund Revenues

(In Thousands of Dollars)

	Audited	Budget	Five Year Forecast					Growth				
	FY/22	FY/23	FY/23	FY/24	FY/25	FY/26	FY/27	FY/23	FY/24	FY/25	FY/26	FY/27
Total Gross Receipts	512,913	539,323	530,725	547,459	550,959	560,440	574,796	3.5%	3.2%	0.6%	1.7%	2.6%
Taxes	130,796	135,592	136,658	140,213	144,511	148,594	152,954	4.5%	2.6%	3.1%	2.8%	2.9%
Shared	4,521	4,968	4,968	4,988	5,003	5,013	5,023	9.9%	0.4%	0.3%	0.2%	0.2%
Permits	13,984	13,290	11,970	13,208	13,828	14,296	14,801	-14.4%	10.3%	4.7%	3.4%	3.5%
Charges for Services	29,164	26,017	29,689	29,838	29,987	30,047	30,107	1.8%	0.5%	0.5%	0.2%	0.2%
Intra City	20,672	25,358	25,358	26,519	26,559	27,581	27,508	22.7%	4.6%	0.2%	3.8%	-0.3%
Misc	8,264	6,333	7,140	7,197	7,246	7,294	7,342	-13.6%	0.8%	0.7%	0.7%	0.7%
CIP Funded	9,922	10,345	10,345	10,869	10,883	11,346	11,311	4.3%	5.1%	0.1%	4.3%	-0.3%
Total Revenue	**730,236**	**761,228**	**756,855**	**780,291**	**788,976**	**804,611**	**823,842**	3.6%	3.1%	1.1%	2.0%	2.4%

TABLE B
FIVE YEAR FORECAST
GENERAL FUND - OPTIMISTIC SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
($000's)

($000's)	AUDITED ACTUAL FY/22	REVISED BUDGET FY/23	FORECASTS FY/24	FY/25	FY/26	FY/27
RESOURCES:						
Recurring Revenue	714,974	753,650	776,637	785,210	800,702	819,778
% Change Recurring Revenue		5.4%	3.1%	1.1%	2.0%	2.4%
Total Non-recurring	15,262	3,205	3,654	3,766	3,910	4,064
TOTAL REVENUES	730,236	756,855	780,291	788,976	804,611	823,842
% Change Total Revenue		3.6%	3.1%	1.1%	2.0%	2.4%
BEGINNING FUND BALANCE	196,871	218,933	95,272	26,173	(109,661)	(254,218)
TOTAL RESOURCES	927,107	975,788	875,563	815,148	694,951	569,624
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	640,632	765,262	814,175	891,439	915,799	947,592
% Change Recurring Appropriation		19.5%	6.4%	9.5%	2.7%	3.5%
Non-recurring Exp/App:						
One-time Items	67,542	115,254	35,215	33,370	33,370	33,370
TOTAL EXPEND/APPROP	708,174	880,516	849,390	924,809	949,169	980,962
UNADJUSTED FUND BALANCE	218,933	95,272	26,173	(109,661)	(254,218)	(411,337)
ADJUSTMENTS:						
Encumbrances	(16,560)	0	0	0	0	0
Warehouse Closure						
Unrealized (Gain)/Loss on Investments	13,144	13,144	13,144	13,144	13,144	13,144
Other Accounting Adjustments	(116)	(116)	(116)	(116)	(116)	(116)
TOTAL ADJUSTMENTS	(3,532)	13,028	13,028	13,028	13,028	13,028
ADJUSTED FUND BALANCE	215,401	108,300	39,201	(96,632)	(241,190)	(398,309)
RESERVES:						
1/12th Operating Reserve	59,543	71,355	70,782	77,067	79,097	81,747
Wage Adj. Designated Job Codes	0	445	0	0	0	0
EDA DownTown Valley Project*	0	8,000	0	0	0	0
GRT Bond Debt Service	0	4,000	0	0	0	0
Misc	0	0	0	0	0	0
TOTAL RESERVES	59,543	83,800	70,782	77,067	79,097	81,747
AVAILABLE FUND BALANCE	155,858	24,500	(31,581)	(173,699)	(320,287)	(480,056)
1/12th Operating Reserve	59,015	73,376	70,782	77,067	79,097	81,747
Recurring Surplus/(Deficit)	74,342	(12,057)	(37,538)	(106,229)	(115,097)	(127,813)

* Pending legislation (R-22-91) to repurpose for Personnel Wage Equity Initiatives.

This scenario is based on the IHS pessimistic alternative and is assigned a probability of 30%. In this scenario there is weaker consumer spending and a moderate recession that extends the decline in GDP that occurred in the first half of the year through mid-2023. A driving force in this scenario is the assumption that the Russia-Ukraine conflict intensifies and lingers on, maintaining higher energy prices and other industrial commodities and grains, pronounced risk spreads, and a deeper slowdown in foreign growth. There is also a slower correction of supply issues, further delaying production of durable goods.

In Albuquerque, the unemployment rate remains around 1% to the negative from FY/24 through FY/27. Employment remains below the baseline from FY/23 through FY/25, before rebounding nearly 1% over the baseline in FY/26 and FY/27. Residential housing continues its decline from FY/23 into FY/24, with only a modest rebound beginning in FY/25.

The slowdown in employment and construction has a negative impact on GRT and other revenues, the worst effect being in FY/24, tracking 2.2% less than in the baseline. Recurring revenue dips $4.9 million and $18 million in FY/23 and FY/24, respectively. General Fund losses then average 3.5% each year throughout the remainder of the forecast. In addition to declines in GRT, there are substantial impacts on other taxes, building permits, and charges for services.

Note: Revenues grow slower than expenses and available fund balance is negative $57.8 million in FY/24. Assuming the initial deficit is not addressed, the recurring deficit compounds to a negative $575.8 million by FY/27.

Pessimistic Scenario Inflation Factors

GLOBAL INSIGHT PESSIMISTIC SCENARIO							
	2021	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
All Items	2.3%	7.2%	7.3%	3.6%	2.0%	1.7%	1.7%
Wages & Salary	3.0%	5.0%	5.1%	4.4%	4.0%	3.2%	2.8%
Medical Care	3.0%	2.3%	2.7%	3.6%	2.6%	2.3%	2.1%
Core CPI	2.1%	5.4%	5.8%	3.4%	1.9%	1.7%	1.7%
New Cars	1.8%	10.6%	5.2%	-8.2%	-7.4%	-5.0%	-2.3%
Trasportation	0.0%	8.6%	11.1%	4.3%	2.4%	1.8%	1.5%
Natural Gas	15.7%	46.4%	20.0%	-19.0%	-3.2%	6.2%	4.8%
Gasoline & Oil	1.4%	45.5%	11.9%	4.1%	2.6%	1.1%	1.6%
Electricity	2.0%	8.5%	13.3%	-1.2%	1.0%	1.8%	1.6%
Govt Consumption	3.3%	7.0%	7.5%	3.7%	2.5%	2.5%	2.5%
Auto Parts and Acessories	1.2%	9.3%	8.0%	-1.9%	-2.7%	-1.7%	0.9%

General Fund Revenues

(In Thousands of Dollars)

	Audited	Budget	Five Year Forecast					Growth				
	FY/22	FY/23	FY/23	FY/24	FY/25	FY/26	FY/27	FY/23	FY/24	FY/25	FY/26	FY/27
Total Gross Receipts	512,913	539,323	529,833	530,966	525,734	530,881	542,651	3.3%	0.2%	-1.0%	1.0%	2.2%
Taxes	130,796	135,592	136,774	139,116	141,729	145,567	149,667	4.6%	1.7%	1.9%	2.7%	2.8%
Shared	4,521	4,968	4,968	4,978	4,988	4,998	5,008	9.9%	0.2%	0.2%	0.2%	0.2%
Permits	13,984	13,290	11,187	11,832	12,457	12,820	13,294	-20.0%	5.8%	5.3%	2.9%	3.7%
Charges for Services	29,164	26,017	28,143	28,129	28,270	28,327	28,383	-3.5%	0.0%	0.5%	0.2%	0.2%
Intra City	20,672	25,358	25,358	26,372	26,288	27,140	26,958	22.7%	4.0%	-0.3%	3.2%	-0.7%
Misc	8,264	6,333	6,743	6,781	6,813	6,843	6,872	-18.4%	0.6%	0.5%	0.4%	0.4%
CIP Funded	9,922	10,345	10,345	10,804	10,764	11,149	11,064	4.3%	4.4%	-0.4%	3.6%	-0.8%
Total Revenue	**730,236**	**761,228**	**753,354**	**758,979**	**757,043**	**767,726**	**783,898**	3.2%	0.7%	-0.3%	1.4%	2.1%

TABLE B
FIVE YEAR FORECAST
GENERAL FUND - PESSIMISTIC SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES
($000's)

($000's)	AUDITED ACTUAL FY/22	REVISED BUDGET FY/23	FORECASTS FY/24	FY/25	FY/26	FY/27
RESOURCES:						
Recurring Revenue	714,974	750,205	755,381	753,281	763,852	779,913
% Change Recurring Revenue		4.9%	0.7%	-0.3%	1.4%	2.1%
Total Non-recurring	15,262	3,148	3,598	3,762	3,874	3,985
TOTAL REVENUES	730,236	753,354	758,979	757,043	767,726	783,898
% Change Total Revenue		3.2%	0.7%	-0.3%	1.4%	2.1%
BEGINNING FUND BALANCE	196,871	218,933	91,770	61	(162,554)	(331,559)
TOTAL RESOURCES	927,107	972,287	850,750	757,104	605,172	452,339
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	640,632	765,262	815,474	886,288	903,362	927,741
% Change Recurring Appropriation		19.5%	6.6%	8.7%	1.9%	2.7%
Non-recurring Exp/App:						
One-time Items	67,542	115,254	35,215	33,370	33,370	33,370
TOTAL EXPEND/APPROP	708,174	880,516	850,689	919,658	936,732	961,111
UNADJUSTED FUND BALANCE	218,933	91,770	61	(162,554)	(331,559)	(508,772)
ADJUSTMENTS:						
Encumbrances	(16,560)	0	0	0	0	0
Warehouse Closure						
Unrealized (Gain)/Loss on Investments	13,144	13,144	13,144	13,144	13,144	13,144
Other Accounting Adjustments	(116)	(116)	(116)	(116)	(116)	(116)
TOTAL ADJUSTMENTS	(3,532)	13,028	13,028	13,028	13,028	13,028
ADJUSTED FUND BALANCE	215,401	104,799	13,089	(149,526)	(318,531)	(495,744)
RESERVES:						
1/12th Operating Reserve	59,543	71,355	70,891	76,638	78,061	80,093
Wage Adj. Designated Job Codes	0	445	0	0	0	0
EDA DownTown Valley Project*	0	8,000	0	0	0	0
GRT Bond Debt Service	0	4,000	0	0	0	0
Misc	0	0	0	0	0	0
TOTAL RESERVES	59,543	83,800	70,891	76,638	78,061	80,093
AVAILABLE FUND BALANCE	155,858	20,999	(57,802)	(226,164)	(396,592)	(575,837)
1/12th Operating Reserve	59,015	73,376	70,891	76,638	78,061	80,093
Recurring Surplus/(Deficit)	74,342	(15,502)	(60,093)	(133,007)	(139,509)	(147,829)

* Pending legislation (R-22-91) to repurpose for Personnel Wage Equity Initiatives.

Comparison of Scenarios—National and Local Variables

	SCENARIO			Difference		
Indicator/FY	Optimistic	Baseline	Pessimistic	Optimistic	Pessimistic	
GRT- (State Shared 1.225%)						
2023	3.4%	4.0%	3.3%	-0.6%	-0.7%	
2024	3.4%	2.6%	0.4%	0.8%	-2.2%	
2025	1.1%	0.7%	-0.5%	0.4%	-1.2%	
2026	2.4%	2.1%	1.7%	0.3%	-0.4%	
2027	3.0%	2.8%	2.7%	0.2%	-0.1%	
Employment -Albuquerque MSA						
2023	1.2%	1.2%	0.3%	0.0%	-0.9%	**L**
2024	0.4%	0.5%	-1.4%	0.0%	-1.8%	**O**
2025	0.6%	0.5%	-0.2%	0.1%	-0.7%	**C**
2026	1.0%	0.9%	1.7%	0.1%	0.7%	**A**
2027	0.8%	0.9%	1.7%	-0.1%	0.8%	**L**
Unmployment Rate -Albuquerque MSA						
2023	4.5%	4.6%	4.8%	-0.1%	0.2%	
2024	4.6%	4.8%	5.7%	-0.2%	0.9%	
2025	5.0%	5.1%	6.4%	-0.2%	1.2%	
2026	5.0%	5.2%	6.2%	-0.2%	1.0%	
2027	5.1%	5.3%	5.9%	-0.1%	0.6%	
GRT Construction						
2023	1.0%	1.1%	0.3%	-0.1%	-0.8%	
2024	4.4%	3.2%	0.9%	1.2%	-2.3%	**I**
2025	4.0%	3.6%	2.0%	0.4%	-1.6%	**N**
2026	4.4%	3.9%	2.7%	0.5%	-1.2%	**D**
2027	4.3%	3.9%	3.1%	0.4%	-0.8%	**I**
MSA Construction Employment						**C**
2023	1.1%	0.9%	0.1%	0.2%	-0.7%	**A**
2024	-1.4%	-1.8%	-3.7%	0.4%	-1.9%	**T**
2025	0.6%	0.3%	-1.0%	0.3%	-1.3%	**O**
2026	1.5%	1.2%	0.5%	0.3%	-0.7%	**R**
2027	1.3%	1.1%	0.7%	0.2%	-0.4%	**S**
Residential Housing Permits-Inside City						
2023	(46,842)	(48,328)	(53,002)	1,487	(4,674)	
2024	25,498	24,672	16,144	826	(8,528)	
2025	8,646	9,425	12,419	(779)	2,994	
2026	4,789	4,281	4,986	508	706	
2027	5,286	4,461	6,758	825	2,297	
Real GDP						
2023	0.6%	0.1%	-0.6%	0.5%	-0.7%	
2024	0.6%	0.3%	-0.5%	0.3%	-0.8%	
2025	1.7%	1.7%	1.5%	-0.1%	-0.3%	
2026	2.1%	2.1%	2.2%	0.0%	0.1%	
2027	1.6%	1.8%	2.0%	-0.2%	0.2%	
Unemployment Rate						
2023	3.8%	4.0%	4.7%	-0.2%	0.6%	
2024	5.5%	5.8%	7.6%	-0.3%	1.8%	**N**
2025	5.1%	5.4%	7.3%	-0.3%	1.9%	**A**
2026	4.6%	4.9%	6.3%	-0.3%	1.3%	**T**
2027	4.4%	4.6%	5.5%	-0.2%	0.8%	**I**
CPI-Urban Consumers						**O**
2023	5.9%	6.5%	7.3%	-0.6%	0.8%	**N**
2024	3.5%	2.9%	3.6%	0.6%	0.7%	**A**
2025	2.5%	2.4%	2.0%	0.2%	-0.3%	**L**
2026	2.3%	2.2%	1.7%	0.1%	-0.5%	
2027	2.3%	2.2%	1.7%	0.1%	-0.5%	
Interest Rates-Federal Funds Rate						
2023	3.6%	3.6%	3.6%	0.0%	0.0%	**I**
2024	4.8%	4.5%	3.1%	0.2%	-1.4%	**N**
2025	3.5%	3.3%	1.4%	0.2%	-2.0%	**D**
2026	2.8%	2.6%	0.6%	0.2%	-2.0%	**I**
2027	2.6%	2.6%	0.6%	0.0%	-2.0%	**C**
Interest Rates-Ten Year Treasury Bonds						**A**
2023	3.8%	3.7%	3.4%	0.1%	-0.2%	**T**
2024	3.6%	3.4%	2.8%	0.2%	-0.6%	**O**
2025	3.3%	3.2%	2.4%	0.1%	-0.8%	**R**
2026	3.3%	3.2%	2.3%	0.1%	-0.9%	**S**
2027	3.2%	3.2%	2.2%	0.0%	-0.9%	
West Texas Intermediate $/Barrel						
2023	84.8	86.6	96.2	(1.8)	9.6	
2024	82.4	82.4	97.4	0.0	15.0	
2025	84.3	84.3	98.1	0.0	13.8	
2026	84.0	84.0	96.8	0.0	12.8	
2027	85.2	85.2	97.6	0.0	12.5	

REVENUE COMPARISON

(In Thousands of Dollars)

	Pessimistic - Baseline					Optimistic - Baseline				
	FY/23	FY/24	FY/25	FY/26	FY/27	FY/23	FY/24	FY/25	FY/26	FY/27
Total Gross Receipts	(3,597)	(15,227)	(21,679)	(24,182)	(25,522)	(2,706)	1,266	3,545	5,377	6,623
Other Taxes	48	(578)	(1,721)	(1,912)	(2,123)	(68)	519	1,060	1,115	1,164
State Shared	-	(5)	(10)	(10)	(10)	-	5	5	5	5
Permits	(750)	(1,205)	(1,204)	(1,260)	(1,229)	33	171	167	216	278
Charges for Services	(292)	(449)	(451)	(452)	(453)	1,256	1,262	1,269	1,271	1,274
Intra City	-	(156)	(239)	(429)	(490)	-	(9)	32	11	61
Misc	(330)	(345)	(360)	(376)	(393)	68	71	73	75	76
CIP Funded	-	(70)	(106)	(193)	(221)	-	(5)	13	4	26
Total Revenue	(4,921)	(18,035)	(25,771)	(28,814)	(30,440)	(1,418)	3,279	6,165	8,073	9,507
Recurring Growth	**-0.6%**	**-2.3%**	**-3.3%**	**-3.6%**	**-3.7%**	**-0.2%**	**0.4%**	**0.8%**	**1.0%**	**1.2%**

COMPARISON OF SCENARIOS

US Macro Forecast Snapshot

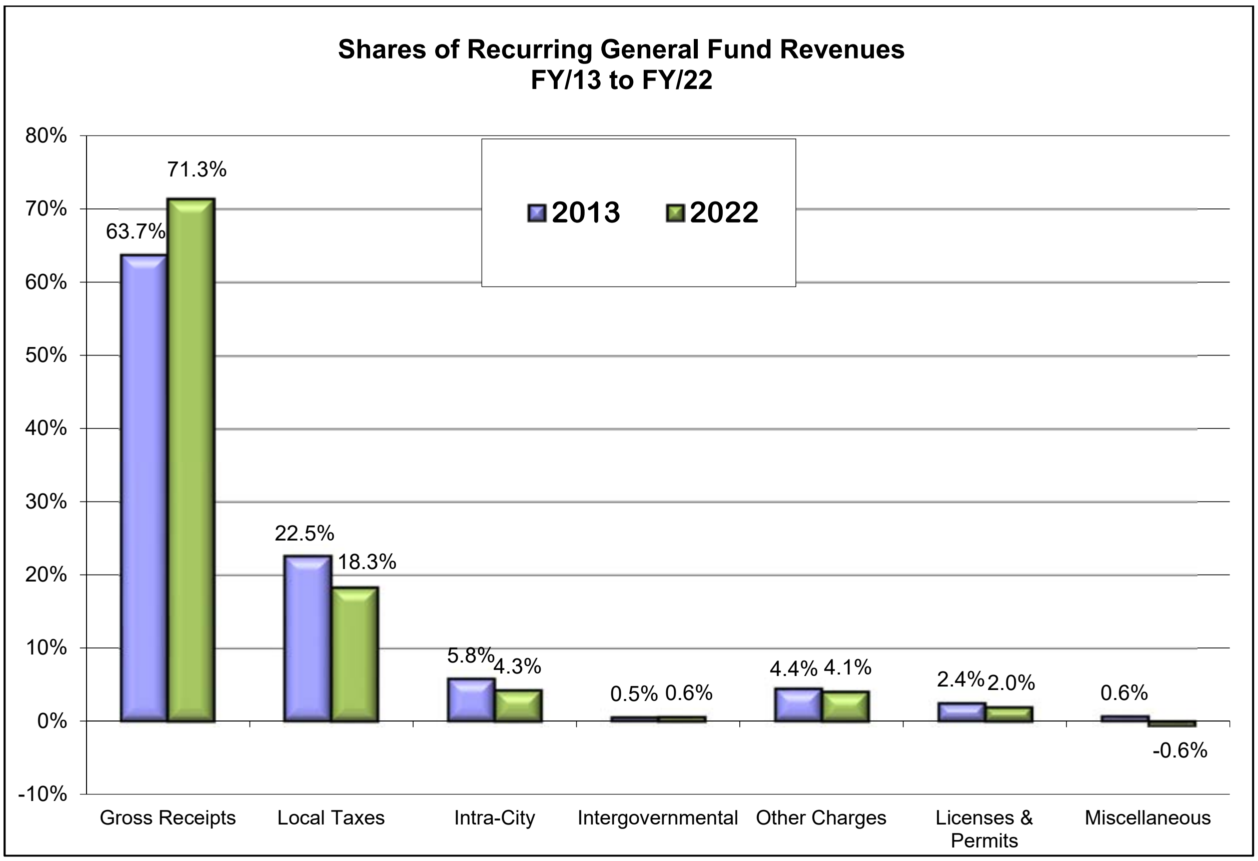
	Baseline (55%)	Pessimistic (30%)	Optimistic (15%)
GDP growth	Real GDP rises 1.7% in 2022 as the aggressive recovery following the pandemic-induced downturn begins to chill. A recession drops output by 0.5% in 2023 before rising modestly at 1.3% in 2024.	Real GDP rises a mere 1.5% in 2022 and contracts 1.5% in 2023 in response to sustained weakness through the end of this year leading into next year. Growth resumes at 0.9% in 2024.	Real GDP rises 1.8% in 2022 as the relative strength in consumer spending supports growth. Growth persists at 0.2% in 2023 and 1.3% in 2024.
Consumer spending	Consumption slips from 8.3% in 2021 to a more subtle 2.5% in 2022. Growth continues in 2023 and 2024 at 0.3% and 1.4%, respectively.	Spending rises 2.3% in 2022, before falling by 0.3% in 2023. Growth resumes at 1.3% in 2024.	Spending rises 2.6% in 2022 and 0.9% in 2023, before growth eases to 1.4% in 2024.
Business fixed investment	Jumps 3.2% in 2022 with growth turning negative in 2023 and 2024 by 1.6% and 0.2%, respectively.	Grows 2.7% in 2022, before shrinking 5.3% in 2023 and 3.7% in 2024.	Rises 3.3% in 2022, falls 0.5% in 2023, and grows 0.4% in 2024.
Housing	Housing starts shrink from 1.61 million in 2021 to 1.56 million in 2022 before continuing downward to 1.22 million in 2023 and popping slightly up to 1.32 million in 2024.	Housing starts drop in 2022 to 1.56 million before declining further to 1.11 million in 2023, then rise to 1.20 million in 2024.	Housing starts edge down from 1.61 million in 2021 to 1.57 million in 2022. Starts then fall to 1.25 million in 2023 and 1.35 million in 2024.
Exports	Grows 6.8% in 2022, 1.6% in 2023, and 3.1% in 2024.	Increases 6.6% in 2022, falls 0.7% in 2023, and rises 3.1% in 2024.	Rises 7.0% in 2022, 3.2% in 2023, and 2.6% in 2024.
Fiscal policy	The forecast includes the Inflation Reduction Act. We estimate the macro impacts of the IRA to be modest The forecast does not (yet) include the President's plan to forgive one third of student debt, which Republicans may block.	Same fiscal assumptions as in baseline.	Same fiscal assumptions as in baseline.
Monetary policy	We expect the upper end of the federal funds rate target to reach 4.75% by mid-2023	The federal funds rates reaches an upper limit of 4.75% in mid-2023 before descending to an upper limit of 0.75% by 2025, where it remains throughout the forecast window.	Similar path to baseline, but more overshoot of the long-run federal funds rate over 2023–2026
Credit conditions	Eased in 2021 and remain mostly stabilized in 2022–2024.	Remain slightly tighter than in baseline.	Slightly looser than in baseline.
Productivity growth	Slips from 2.3% in 2021 to -1.8% in 2022, then accelerates to 0.4% in 2023 and 1.8% in 2024.	Falls to -1.8% in 2022 before jumping to 1.1% in 2023 and 2.8% in 2024.	Falls to -1.7% in 2022 before climbing to 0.7% in 2023 and 1.7% in 2024.
Consumer confidence	Dips through the middle of next year before gently escalating	Remains below the baseline over the entire forecast interval.	Outperforms baseline over the entire forecast interval.
Oil prices (Dollars/barrel)	Average price of Brent crude oil rises from $71/barrel in 2021 to $103 in 2022 before falling to $87 in 2023 and 2024.	Brent crude oil averages $106 in 2022, $105 in 2023, and $104 in 2024.	Brent crude oil averages $102 in 2022 before declining to $87 in 2023 and 2024.
Stock markets	The year-end value of the S&P 500 rose 26.9% in 2021. The index experiences declines of 22.9% over 2022 before entering positive-growth territory at 2.5% in 2023 and 4.4% in 2024.	The year-end value of the S&P 500 rose 26.9% in 2021. It falls 23.9% in 2022 and another 1.8% in 2023 before recovering 5.0% in 2024.	The year-end value of the S&P 500 rose 26.9% in 2021, and it will experience a decline of 21.3% in 2022 before growing 7.6% in 2023 and 3.7% in 2024.
Inflation (PCE)	Core personal consumption (PCE) price inflation rises from 3.5% in 2021 to 5.0% in 2022, before moderating to 3.7% in 2023 and 2.3% in 2024.	Core PCE price inflation registers 5.0% growth in 2022, but slows to 4.0% in 2023 and 2.1% in 2024.	Core PCE price inflation rises to 4.9% in 2022, slowing to 3.8% in 2023 and 2.5% in 2024.
Foreign growth	Eurozone GDP rises 3.1% in 2022 and is flat in 2023 after a 5.2% rebound in 2021, while China's growth slows from 8.1% in 2021 to 3.3% in 2022 and 4.5% in 2023.	Global economy suffers from Russia-Ukraine conflict, and COVID-19-related setbacks endure.	Global economy recovers more quickly than in baseline amid a faster resolution to the Russia-Ukraine conflict.
US dollar	The broad real dollar appreciates through early next year before gently falling through the end of the forecast horizon.	Rises through first quarter of 2023 before decreasing slowly.	The broad dollar strengthens slightly more than in the baseline.

 October 2022

REVENUE HISTORY

A history of major revenue sources for the General Fund from FY/13 to FY/22 is presented below. These numbers reflect a two-month accrual of tax revenues to comply with the tax revenue standard issued by the Governmental Accounting Standards Board in 1994. Total receipts from FY/13 to FY/22 increased 47.9% or a compound annual rate of 4.4%. Recurring revenues for the same period showed annual growth of 4.3%.

The bar chart below compares the composition, by major revenue category, of General Fund recurring revenues in FY/13 and FY/22. The City's General Fund has continued to become more reliant on Gross Receipts Taxes and less on local taxes (franchises and property tax). This became more pronounced in FY/22, when tax changes at the State level allowed for local tax increments on internet sales. Licenses and permits declined to 2%. Charges for services became somewhat lower and miscellaneous revenues became a fraction higher.



The following sections present changes that occurred from FY/13 to FY/22, as well as detailed historical perspective, by category.

GENERAL FUND REVENUE HISTORY

GENERAL FUND
HISTORICAL COMPARISON OF REVENUE SOURCES
($000'S)

REVENUE SOURCE	FY/13	FY/14	FY/15	FY/16	FY/17	FY/18	FY/19	FY/20	FY/21	FY/22	GROWTH FY/13 TO 22	COMPOUND ANNUAL RATE
GROSS RECEIPTS TAX	259,787	265,745	276,573	280,550	284,466	296,408	348,621	363,444	371,051	450,299	73.3%	6.3%
GRT PUBLIC SAFETY	35,436	36,239	37,606	38,236	38,720	40,283	40,500	42,268	43,561	52,869	49.2%	4.5%
INTERNET SALES								6,012	12,025	0		
LOCAL COMPENSATING TAX	1,485	1,570	2,361	1,325	1,269	1,557	1,542	1,766	1,403	9,361	530.4%	22.7%
INTERSTATE TELECOM TAX	0	0	0	0	0	0	0	0	0	89	N/A	N/A
CANNABIS EXCISE	0	0	0	0	0	0	0	0	0	296	N/A	N/A
TOTAL GRT	296,708	303,554	316,540	320,111	324,456	338,248	390,663	413,490	428,039	512,913	72.9%	6.3%
OTHER LOCAL TAXES	104,957	105,273	107,542	108,010	111,203	111,584	114,743	117,852	128,437	130,796	24.6%	2.5%
LICENSES AND PERMITS	11,343	11,705	11,307	11,899	13,049	11,545	13,634	12,523	11,213	13,984	23.3%	2.4%
INTER-GOVERNMENTAL AID	4,750	4,808	4,327	4,739	4,887	4,753	5,219	5,010	4,929	4,521	-4.8%	-0.5%
INTRA-CITY CHARGES (1)	26,897	28,054	27,630	29,577	30,734	30,426	29,524	28,963	29,836	30,594	13.7%	1.4%
OTHER SERVICE CHARGES	20,599	22,301	20,841	21,537	22,924	24,161	22,669	20,030	23,294	29,164	41.6%	3.9%
MISCELLANEOUS	2,998	2,235	1,568	4,002	3,925	3,437	4,004	5,871	5,183	8,264	175.7%	11.9%
TOTAL REVENUES	468,252	477,930	489,756	499,875	511,179	524,154	580,457	603,739	630,931	730,236	55.9%	5.1%
LESS NON-RECURRING	2,330	3,199	4,836	4,210	4,915	8,768	2,965	9,146	2,361	15,262	555.0%	23.2%
RECURRING REVENUES	465,922	474,731	484,920	495,665	506,264	515,386	577,492	594,593	628,570	714,974	53.5%	4.9%

NOTES:

(1) Includes CIP funded positions and inter-fund transfers

Other Local Taxes

This category includes property taxes, franchise fees, and payment in lieu of taxes (PILOT). This revenue category reduced its share of total recurring revenues from 22.5% in FY/13 to 18.3% in FY/22. Overall, property tax revenues increased at an annual compound rate of 2.1%. There were no shifts in the tax that affected growth in this period. Residential growth continued to compensate for sluggish growth for non-residential.

Commercial property had shown slight new growth following the decline in existing values that persisted during the 2008 recession. Since commercial property values can be based on the income the property can earn, a struggling economy can be a drag on earning capabilities. New non-residential property tax values increased at an average annual rate of 4.8% from FY/13 to FY/22, and at $3.2 billion, remain below the 2010 high of $3.7 billion. However, residential property valuations grew at 9% compound annual growth, surpassing the 2010 high of $8.6 billion at nearly $12.3 billion.

Historical slumps were due to several factors. Residential property values declined with the 2008 recession; new residential construction had been slow; and the Bernalillo County Assessor adjusted property values downward to avoid “tax lightning.” Tax lightning occurred when county assessors reassessed homes to the “current and correct value” in the year after they were sold, often spiking a new homeowner’s tax bill. Following a court case in 2009, the County Assessor limited assessments on these re-sold homes to a 3% annual increase, substantially reducing the residential tax base. This case was successfully appealed in 2012 and property values can now increase with their sale. However, declines in home values that followed the 2008 recession continued to limit the increases. In FY/12, residential rates were at a maximum and the yield control mechanisms would no longer increase rates. With low rates of inflation, yield control reduced rates from 6.544 mills in FY/12 to 6.241 in FY/18, a reduction of

5% in the rates. The COVID-19 pandemic did not negatively impact home prices; rather, record low mortgage rates fueled demand and exceedingly low inventory increased home prices dramatically. As of December 2022, mortgage rates have reversed trend, but remain significantly higher than in past years.

The compound annual rate for total franchise revenues increased to 3.3% from FY/13 to FY/22, with positive growth for the gas, water, electricity and telecom utilities only. For FY/22, growth in the electricity franchise was -10.8% due to a pullback in both demand from the previous year's energy prices and possibly other impacts from the pandemic. In FY/22, the franchise fee in electricity was increased from 2% to 3%.

The gas franchise grew at just over 31.6% for the year, the New Mexico Gas Company reported it experienced a 36% hike in the cost of gas purchased on behalf of its customers in 2021 due to rising worldwide natural gas prices. These increases have happened for a third year in a row. Telecom struggled more during the deepest part of the pandemic and then rebounded in FY/21 and FY/22, with growth of 33.2% and 27.9%, respectively. The telephone and cable franchises have experienced negative compound annual growth during the period that continued flat or negative from FY/21 to FY/22.

PILOT had annual compound growth of 3.8% and grew 9.4% in FY/22. Historically, slow population growth and household formation contributes to sluggish growth in the franchises and PILOT. However, extreme heat and cold and volatile energy prices have impacted gas and electric franchises in recent years.

Licensing and Permits

The share for this category declined to 1.9% for FY/22. The limited share was due in part to the fall in building permits and licensing revenue that occurred in FY/07 through FY/09. This category was impacted in complex ways during the pandemic. Certain revenues, such as business registration fees and barricading, declined due to decreased demand or because the City waived the fees. Other revenues, such as building permits, maintained some strength due to pre-pandemic strength and City policy that determined that construction was an essential business. Although, inflation in FY/22 did eat into real growth for the year. From FY/13, building permits have increased at an average compound annual rate of 5.2%, and increased 12.4% in FY/22.

Despite the growth in building permits, as of FY/22 revenue was still only 80% of the FY/06 high. However, other licenses and fees declined at a compound annual rate of 2.2% since FY/13; however, for FY/22, this group increased 68.4%, rebounding significantly, but still significantly below pre-pandemic levels

Intergovernmental Aid

Revenues from other governments not including GRT shared distributions accounted for 0.5% of General Fund recurring receipts in FY/13 and increased slightly for FY/22, to 0.6%. Revenues decreased at a compound annual rate of 0.5% during this period due to losses of several shared revenue sources in the past recent poor performance. The only recurring revenues are the municipal gasoline tax, state shared vehicle taxes and county shared revenues. In FY/22, road gas taxes decreased 9.3% while state shared motor vehicle licenses declined 7.3%.

The State stopped the cigarette tax revenues distribution in FY/11, an annual loss of approximately $400 thousand. In FY/12, the General Fund lost the state-shared revenues from DWI citations to be used for corrections facilities operations. These revenues were erratic and the State legislature reassigned this distribution to the County beginning in FY/12. In past years, there were grants that were generally reimbursements for one-time expenses; however, these are now captured in charges for services. In FY/14, $108 thousand of revenue received from Bernalillo County to manage household hazardous waste was moved from the General Fund to the Solid Waste Enterprise fund.

Intra-City Revenues

These are revenues from internal service charges, indirect overhead, CIP-funded positions, and other inter-fund transfers, excluding PILOT. In FY/13 these accounted for 5.8% of recurring revenues and 4.3% in FY/22.

Revenues for CIP-funded positions increased substantially in FY/10 and FY/11 as both the Parks and Recreation Department and the Department of Municipal Development made more use of CIP-funded positions. These positions are associated with capital projects for construction of parks, roads, storm sewer, and other construction projects in the CIP program. Some of this was offset by a reduction in CIP-funded positions at the BioPark in FY/13. In FY/17, the BioPark, due to the capital GRT tax for BioPark projects, added a position for managing the project. CIP-funded positions decreased 6.6% in FY/21 following an influx of expected capital expenditures during FY/20.

Interfund transfers in total can vary substantially due to one-time transfers from other funds. In FY/10, FY/11, FY/13, and FY/16 the closing of projects in special assessment districts yielded transfers to the General Fund of $7.3 million, $2.3 million, $659 thousand and $1.3 million, respectively. In FY/08 large transfers were mainly due to transfers from the newly created Photo-Enforcement Fund. Transfers from the Photo-Enforcement Fund were used to pay for the cost of operating the program, largely the cost of the Administrative Hearing Office. The program was discontinued in December 2011, and in November 2019, the City Council approved a resolution to remove $21.3 million in uncollectable revenue. In FY/14 there was a one-time transfer of $2.3 million from the Operating Grants Fund. FY/19 included a one-time transfer from the Lodgers' Tax Fund of $622 thousand and the Hospitality Tax Fund of $60 thousand for the National Senior Games. Also, in FY/19 there was a reduction of $362 thousand in transfers from the Law Enforcement Protection fund to account for changes in forfeiture laws. The FY/19 transfers were reversed for FY/20. For FY/21, transfers increased 54.4% due to a one-time transfer from the Golf operating fund to the General Fund, ending Golf as an enterprise fund. Interfund transfers declined 27% in FY/22.

Revenues from internal service charges have decreased dramatically as the City either contracted out, or moved services to separate funds. In FY/09 revenues were about $1.6 million, with most of the revenue coming from a contract the Parks and Recreation Department had to provide landscape maintenance at the Sunport. Revenues began to decline in FY/14 with the start of the phase-out of the Sunport contract. From FY/19 to FY/22 most fluctuations are largely the result of rising and falling demand for engineering inspections conducted by the Municipal Development Department. Compound annual growth is down 21.1% from FY/13 and revenues were down 25% in FY/22 alone.

Indirect overhead (IDOH) revenues in FY/12 were $13.8 million, increasing to approximately $17.9 million in FY/22. This increase is mostly due to changes to the indirect plan. Some of this is offset by reclassifying the IDOH from the Water Utility Authority to charges for services and rental agreements since the entity is independent and no longer accounted for as a component unit of the City.

Other Charges (Charges for Services)

Revenues from other charges accounted for 4.4% of General Fund recurring revenues in FY/13, dipping to 4.1% in FY/22. These revenues include entrance fees to City venues and charges to other funds and outside entities. Engineering fees and other construction related charges increased substantially prior to the 2008 recession and then fell as construction faltered. Revenues from charges for legal services, primarily from the Risk Management Fund, increased due to a rate increase in FY/10, in large part. This revenue in large part is dependent on the number of staff in the Legal Department and how much outside counsel for risk management cases they need to employ. In FY/12, the alarm ordinance amount increased to over $1 million as all of the revenues - both fines and fees - are now collected in the General Fund. In FY/11 the Metropolitan Court also began paying the City approximately $600 thousand for police security at the Metropolitan Court. Reimbursements from the County for library services in the unincorporated areas have remained relatively flat. The BioPark, which includes the zoo, aquarium and botanic gardens, had revenues of $3.4 million in FY/12. The BioPark was one of the few City venues to increase attendance during the 2008 recession. In September of FY/13, admission fees to the park were increased and revenues increased to $4 million for the year. The BioPark saw declines in revenue for FY/17, likely due to construction and delays associated with new exhibits for penguins and otters. While revenues missed expectations for FY/19 due in part to construction and delayed exhibit openings, revenues for the BioPark exceeded $4 million.

For FY/20, the unusual nature of the economic crisis induced by the pandemic resulted in significant decreases beginning in April 2020 when the crisis began to impact City entertainment venues, public events and demand for City services due to reduced business and entertainment activity. For FY/20, revenues declined 11.6% from FY/19 and declined another 9.4% in FY/21; however, the transfer of golf revenue from an enterprise fund to the General Fund in that year resulted in just over $5 million in additional revenue resulting in a net increase over FY/20 of 16.3% for this revenue category. For FY/22, this sector returned to and even exceeded pre-pandemic levels, increasing 25.4% over FY/21 to just over $29 million. Golf revenues, which grew substantially during the pandemic, were one of the fewer categories that declined for the year.

Miscellaneous

This category has only a small share of recurring revenue and decreased from 0.6% in FY/13 to -0.6% in FY/22. While one of the largest components of miscellaneous revenue is typically interest earnings, in FY/22 there was a $10.4 million unrealized interest earnings loss following dramatic swings in the market.

Interest earnings had fallen dramatically, from $3.3 million in FY/08 to $213 thousand in FY/14. In FY/16, interest earnings increased to $1.1 million, but over half of this is due to the inclusion of unrealized gains. Due to an adjustment to capture unrealized losses, the General Fund posted negative interest earnings in FY/17 and FY/18. In FY/19, the General Fund posted a positive interest earnings of $871 thousand. For FY/20, unrealized gains for interest earnings increased significantly, from about $200 thousand to $2.2 million resulting from low interest rates and strong equity markets during the year. After a moderate $1.4 million in FY/21, interest earnings experienced the $10.4 million unrealized loss in response to extreme volatility in markets as the recovery transitioned into worries about inflation and a potential recession.

Other sources of revenue include rental of City property and fines. Rentals have remained relatively stable, with increases at about the rate of inflation. Fines are primarily air quality fines related to dust control and have averaged close to $200 thousand in recent years. In FY/14, there was one-time revenue of $381 thousand associated with the photo-enforcement program; this was from a collection program to collect unpaid fines associated with the now closed program. In FY/15, there was a large $1.5 million reduction for a one-time accounting adjustment. For FY/21 there was the addition of new rental income associated with the acquisition of the Gibson Medical Center.

Gross Receipts Tax

GRT remains the major contributor to the General Fund, making up 71.3% of recurring revenues in FY/22, up from 67.8% in FY/21 and 63.7% in FY/13. Non-recurring GRT revenue was about $15.3 million in FY/22 due to a $12.3 million one-time settlement between the City and the State's Taxation and Revenue Department and the phase out of food and medical hold harmless distributions. In FY/05, the City imposed a new 1/4 cent tax for public safety. On January 1, 2000 the 1/4 cent transportation tax was imposed; this replaced the 1/4 cent quality of life tax that expired June 30, 1999. In January 2007 and July 2008 the 1/4 cent tax basic services increment was removed in two 1/8 cent increments. The Transportation Tax expired in 2019 and was reinstated by voters on November 11, 2019, without a sunset.

The following table provides a summary of the GRT from FY/12 to FY/22 by revenue source. The locally imposed GRT consists of the municipal imposed 1/2 cent (two quarters), public safety 1/16 cent, infrastructure 1/16 cent, the transportation infrastructure 1/4 cent, and the BioPark projects 1/8 cent tax which is reserved for capital projects at the BioPark. The transportation infrastructure tax and the BioPark projects tax are not included in the General Fund.

In the spring of 2018 City Council voted for a 3/8ths "hold harmless" tax increase, a tax increment made available to municipalities following the phase out hold harmless distributions to municipalities which were originally provided to help cover the loss of revenues when certain food and medical goods were exempted from gross receipts taxes. In FY/19, the tax generated about $50 million for the first 11 months, increasing to $59.4 million in FY/21. The 3/8ths tax grows more quickly than other increments because it does not include hold harmless revenues, which act as a drag on growth. In FY/09, the City began receiving a share of the compensating tax. The City's share in FY/09 was $694 thousand and was phased in to a larger percentage and was $1.5 million in FY/11. The distribution in FY/15 was $2.4 million but $361 thousand of this was non-recurring. The base of the compensating tax includes revenues from oil producing activity and is at a substantially lower level in FY/18 and FY/19. In FY/22, following changes at the State level, the City began receiving both State shared and local increments on compensating tax; in FY/22, the City received a total of $9.4 million.

In FY/22, these changes at the State level allowed also for local increments on internet sales. Implementing destination-based taxes, a change necessary to allow for local options on internet sales, made other changes to local tax bases which are still not entirely understood. Also, effective July 1, 2019, House Bill 479 de-earmarked and consolidated local option taxes, allowing local governments more freedom in their use. However, the City of Albuquerque continues to collect and use its local options in the same manner as before.

Another change resulting destination-based sourcing includes interstate telecom tax which totaled about $89 thousand. Finally, in FY/22 the State began allowing for the sale of recreational use cannabis. Total cannabis revenue received in FY/22 was $828.8 thousand; however, due to an accounting oversight at the City, only $295.6 thousand was recognized for FY/22. The remaining $524.1 thousand is recognized in FY/23.

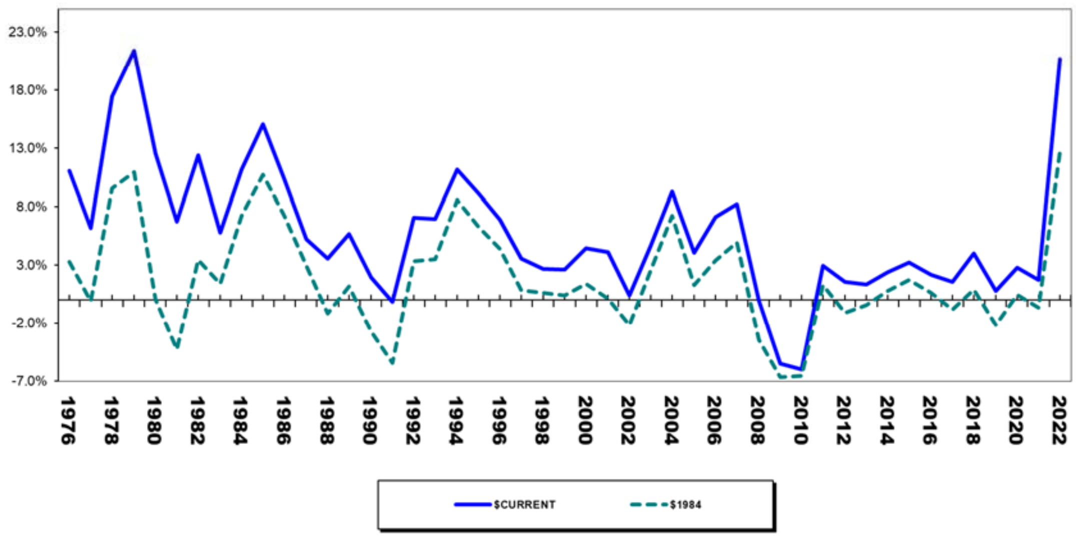
Total Gross Receipts Tax revenues in the General Fund increased at a compound annual rate of 6.3% from FY/13 to FY/22. The increased growth is partly due to 3/8ths hold harmless tax increment that went into effect July 1, 2018 as well as State shared and more remarkably, local internet sales, in FY/20, FY/21 and FY/22. The one-percent distribution showed a compound annual growth of 4.2% from FY/13 to FY/22, with 20.7% growth for FY/22 due to the strength of the recovery from the pandemic, strong inflation, and the impacts of tax base changes and availability of local tax options on internet sales.

GROSS RECEIPTS TAX REVENUES, FISCAL YEARS 2013 - 2022
($000's)

DETAIL ON GROSS RECEIPTS:	FY/13	FY/14	FY/15	FY/16	FY/17	FY/18	FY/19	FY/20[5]	FY/21	FY/22	FY'S 13-22 PERCENT CHANGE	COMPOUND ANNUAL RATE
GENERAL FUND:												
MUNICIPAL IMPOSED 1/2 CENT	73,006	74,661	77,481	78,796	79,817	83,052	83,534	86,203	87,121	105,737	44.8%	4.2%
PUBLIC SAFETY 1/4 CENT(3)	35,436	36,239	37,606	38,236	38,720	40,283	40,500	42,268	43,561	52,869	49.2%	4.5%
INFRASTRUCTURE 1/16 CENT (2)	8,685	8,895	9,237	9,387	9,523	9,913	9,986	10,305	10,752	13,093	50.8%	4.7%
HOLD HARMLESS 3/8 CENT							49,992	51,675	59,389	73,585		
COMPENSATING TAX										5,247		
	117,127	119,795	124,324	126,419	128,061	133,248	184,011	190,451	200,823	250,531	113.9%	8.8%
STATE SHARED RECEIPTS:												
1% DISTRIBUTION	143,688	147,162	152,725	155,223	157,529	163,962	165,276	173,305	172,772	208,450	45.1%	4.2%
.225% DISTRIBUTION	32,336	33,117	34,366	34,931	35,450	36,898	37,194	39,001	38,881	46,909	45.1%	4.2%
MUNICIPAL SHARE INTERNET SALES TAX								6,012	12,025			
MUNICIPAL SHARE COMPENSATING TAX	1,485	1,570	2,361	1,326	1,381	1,557	1,542	1,766	1,403	4,114	177.0%	12.0%
CANNABIS EXCISE TAX (7)										296		
INTERSTATE TELECOM										89		
	177,509	181,849	189,452	191,480	194,361	202,417	204,012	220,084	225,080	259,858	46.4%	4.3%
TOTAL TAX RECEIPTS	294,636	301,644	313,776	317,899	322,422	335,665	388,023	410,535	425,903	510,389	73.2%	6.3%
PENALTY & INTEREST	2,072	1,910	2,765	2,212	2,078	2,583	2,640	2,955	2,136	2,525	21.8%	2.2%
TOTAL GENERAL FUND DISTRIBUTION(6)	296,708	303,554	316,540	320,111	324,500	338,248	390,663	413,490	428,039	512,913	72.9%	6.3%
MUNICIPAL IMPOSED 1/4 CENT												
TRANSPORTATION2000 (4)												
TRANSPORTATION2010 (4)	34,815	35,585	36,777	37,616	38,154	39,720	40,011	41,603	43,026	52,371	50.4%	4.6%
	34,815	35,585	36,777	37,616	38,154	39,720	40,011	41,603	43,026	52,371	50.4%	4.6%
CAPITAL PURPOSES IMPOSED 1/8 CENT												
BIO PARK PROJECTS TAX(6)					15,579	17,773	19,970	18,683	19,808	24,509		
TOTAL GROSS RECEIPTS TAX REVENUES(1)	331,524	339,138	353,318	357,728	378,233	395,741	450,644	473,775	490,874	589,793	77.9%	6.6%

(1) After adjustments in compliance with GASB.
(2) The Municipal Infrastructure Gross Receipts Tax went into effect July 1, 1992, with the first distribution in September.
(3) Went into effect July 2004, 11 months received in FY/05
(4) 1/4 Cent Transportation Infrastructure Tax was renewed by voters on November 5, 2019 and will not sunset
(5) An administrative fee of 3.25% was added to the food and medical hold harmless portion of all the GRT distributions in FY/12 and removed in FY/20.
(6) The tax is to be used only for BioPark capital projects. It sunsets on June 30, 2031.
(7) Due to an accounting error, $524.1 thousand in FY/22 Cannabis revenue will be recognized in FY/23; therefore, FY/22 revenue is short by the same amount.

GROWTH IN THE GRT 1% DISTRIBUTION
% CHANGE OVER PRIOR YEAR, FY'S 1976-2022



The year-over-year growth in the one-percent distribution received as State shared revenues is charted above in current dollars and inflation adjusted to constant 1984 dollars. In FY/12, growth was limited in part due to the imposition of an administrative fee of 3.25% on tax revenue distributions; however, beginning in FY/20 the fee was reduced to 3% and removed altogether for the food and medical hold harmless components of the distributions. The negative real growth in FY/81, FY/91, FY/02 and FY/09 and FY/19 corresponds to recessions. Since the 2008 recession in real terms, only FY/11, FY/14, FY/15, FY/16, FY/18, and FY/20 and FY/22 had growth that exceeded the rate of inflation. FY/17 shows a decline in real terms, in part, due to the phase out of the hold harmless distributions. The 1% tax mimics the performance of the Albuquerque economy. The gross receipts tax is an "elastic" revenue source, as revenues are sensitive to economic growth and inflation.

The other item of note is that the size of percentage increases in GRT has decreased over the years. Part of this is due to the larger base of the economy and growth in surrounding regions, but the State has also reduced the tax base substantially by allowing many deductions from GRT. This of course was altered in FY/22 with the dramatic change to the tax base that occurred with the change to destination-based sourcing.

<u>Changes to Gross Receipts Tax Base</u>

Between FY/99 and FY/22 the state legislature exempted or allowed deductions from the Gross Receipts Tax base that affect Albuquerque for:

- Prescription drugs,
- Medicare expenditures,
- Movie production costs,
- Hospitals including for-profits,
- Construction materials purchased locally for use on Indian reservations,
- Deduction for jet fuels,
- Deduction for food and medical services,
- Commercial airline repairs,
- Three day gross receipts tax holiday in August,
- Nursing home and health provider deductions,
- Renewable energy deductions,

- Compensating tax credit for electric generation,
- Deductions for construction services,
- Deductions for inputs consumed in the manufacturing process, and
- Deductions for Space Based efforts at the Airforce Research Labs.
- Deductions for medical cannabis

The State holds the City harmless on the deduction for food and certain medical services. The City receives a distribution from the State as if the deduction was not in place. Revenue to the State to offset this was generated by increasing all municipalities' taxes by 0.5%; however, this distribution is being phased out over 15 years beginning in FY/16. The deduction for manufacturing inputs was phased out over five years beginning with a half year in FY/13.

ACCURACY OF THE REVENUE ESTIMATE

A summary of information regarding the accuracy of General Fund revenue estimates over the past 10 years is presented in this section.

General Fund revenue estimates are officially updated three times over the course of a budget cycle. When the annual budget is prepared each spring, the original estimate of revenue is made for the following fiscal year ending June 30th, looking 16 months out. In the fall/winter, the current-year revenue estimate is revised as part of the Five-Year Forecast, looking six months out for the year ending June 30th. The revenue is revised again a second and final time as the subsequent year's budget is developed, again looking forward to the fiscal year ending June 30th, which is four months out.

The first set of columns report the accuracy of the four month revised estimates. The second set of columns report the error of the six month revised estimates prepared as part of the Five-Year Forecast, finalized in December. The final set of columns report the differences between the actual results and the original budget estimates prepared in February and March of the prior year. In each case, the figures are presented for the GRT, total recurring receipts, and non-recurring revenues. CIP-funded positions are excluded from the calculations because expenditures on these positions are fully reimbursed with no effect on General Fund balances.

The final table provides information on the accuracy of the revenue estimates by revenue source for FY/22.

For FY/22, the six month estimate at the Five-Year Forecast was during the dramatic recovery period following the COVID-19 health crisis when the economy was still fueled with federal recovery funds and outsized consumer spending. Additionally, at this time the City was still intentionally conservative regarding the impacts of destination-based sourcing and local increments on internet sales. Revenues were cautiously revised upward at the six month and fourth month estimates.

FY/22 unaudited actuals reflect GRT revenues at 17.7% over original budget expectations, with recurring revenues less CIP at 11.8% above the estimate. As noted above, economic recovery from the pandemic, inflation, remarkable revenue from local increments on internet sales, and a $12 million settlement from a lawsuit, all resulted in impressive revenue gains for the year.

ACCURACY OF THE GENERAL FUND REVENUE ESTIMATES

ESTIMATING ERROR (ACTUAL - ESTIMATED REVENUES)

(in $000s)

	MARCH REVISION 4 MONTH ESTIMATE		FIVE YEAR FORECAST 6 MONTH ESTIMATE		APPROVED BUDGET 16 MONTH ESTIMATE	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
FISCAL YEAR 2022 (Audited Results)						
Gross Receipts Tax	2,037	0.4%	66,392	12.9%	91,015	17.7%
Recurring Revenues Less CIP	(5,691)	-0.8%	54,507	7.7%	83,450	11.8%
Non-Recurring	(0)	0.0%	(0)	0.0%	12,798	83.9%
FISCAL YEAR 2021						
Gross Receipts Tax	25,275	5.9%	25,275	5.9%	40,814	9.5%
Recurring Revenues Less CIP	22,660	3.7%	22,292	3.6%	35,495	5.8%
Non-Recurring	7,056	74.9%	7,992	84.9%	7,055	74.9%
FISCAL YEAR 2020						
Gross Receipts Tax	25,274	5.9%	1,358	0.3%	40,814	9.5%
Recurring Revenues Less CIP	28,767	4.7%	5,895	1.0%	35,495	5.8%
Non-Recurring	227	2.4%	227	2.4%	7,055	74.9%
FISCAL YEAR 2019						
Gross Receipts Tax	105	0.0%	1,014	0.3%	3,871	1.0%
Recurring Revenues Less CIP	(3,678)	-0.6%	(1,896)	-0.3%	1,492	0.3%
Non-Recurring	-	0.0%	0	0.0%	(1,370)	-46.2%
FISCAL YEAR 2018						
Gross Receipts Tax	8,207	2.4%	8,207	2.4%	46	0.0%
Recurring Revenues Less CIP	(15)	0.0%	(1,770)	-0.4%	(12,299)	-2.5%
Non-Recurring	6,148	62.4%	6,679	67.8%	7,054	71.6%
FISCAL YEAR 2017						
Gross Receipts Tax	(3,147)	-1.0%	(3,147)	-1.0%	(7,555)	-2.3%
Recurring Revenues Less CIP	(2,830)	-0.6%	(1,671)	-0.3%	(4,756)	-1.0%
Non-Recurring	-	0.0%	2,556	55.8%	2,146	46.9%
FISCAL YEAR 2016						
Gross Receipts Tax	(2,443)	-0.8%	(3,643)	-1.1%	118	0.0%
Recurring Revenues Less CIP	(1,758)	-0.4%	(1,640)	-0.3%	141	0.0%
Non-Recurring	572	12.0%	777	16.2%	777	16.2%
FISCAL YEAR 2015						
Gross Receipts Tax	2,651	0.8%	5,349	1.7%	4,464	1.4%
Recurring Revenues Less CIP	1,041	0.2%	2,096	0.4%	981	0.2%
Non-Recurring	444	9.2%	939	19.4%	2,603	53.8%
FISCAL YEAR 2014						
Gross Receipts Tax	(1,016)	-0.3%	(14)	0.0%	4,180	1.4%
Recurring Revenues Less CIP	(1,355)	-0.3%	(763)	-0.2%	3,539	0.8%
Non-Recurring	1,870	58.5%	3,128	97.8%	3,128	97.8%
***GRT reflects only recurring GRT**						
FISCAL YEAR 2013						
Gross Receipts Tax	2,664	0.9%	2,664	0.9%	(5,615)	-1.9%
Recurring Revenues Less CIP	4,264	0.9%	4,412	1.0%	(1,393)	-0.3%
Non-Recurring	-	0.0%	1,145	49.1%	1,255	53.9%
FISCAL YEAR 2012						
Gross Receipts Tax	(1,753)	-0.6%	(1,753)	-0.6%	(1,386)	-0.5%
Recurring Revenues Less CIP	(983)	-0.2%	1,551	0.3%	1,044	0.2%
Non-Recurring	-	0.0%	2,539	68.2%	2,652	71.2%

ACTUAL AND ESTIMATED REVENUE IN FY/22

All figures in $1,000's

	AUDITED				ESTIMATES					
	ACTUAL	2nd Revision (March 2022)			1st Revision (Dec. 2021)			Approved Budget (May 2022)		
<u>REVENUE SOURCES:</u>	FY/22	Estimate	Difference	Percent	Estimate	Difference	Percent	Estimate	Difference	Percent
Total GRT	512,913	510,876	2,037	0.4%	446,521	66,392	12.9%	421,898	91,015	17.7%
Property Tax	94,021	94,970	(949)	-1.0%	94,918	(897)	-1.0%	94,705	(684)	-0.7%
Franchise Tax-Telephone	1,021	1,030	(9)	-0.9%	1,030	(9)	-0.9%	1,226	(205)	-20.0%
Franchise Tax-Electric	14,362	16,344	(1,982)	-13.8%	16,742	(2,380)	-16.6%	14,390	(28)	-0.2%
Franchise Tax-Gas	5,640	4,393	1,247	22.1%	4,590	1,050	18.6%	3,341	2,299	40.8%
Franchise Tax-Cable TV ABQ	4,151	4,084	66	1.6%	4,117	34	0.8%	3,972	179	4.3%
Franchise Tax - Water Auth	8,738	8,139	599	6.9%	8,139	599	6.9%	8,234	504	5.8%
Franchise Tax-Telecom	468	358	109	23.4%	333	135	28.8%	266	202	43.1%
Other Intergovernmental Assistance	4,521	4,953	(432)	-9.6%	5,228	(707)	-15.6%	5,228	(707)	-15.6%
Building Permit Revenue	9,820	8,768	1,051	10.7%	9,451	369	3.8%	9,745	75	0.8%
Permit Revenue	4,165	3,433	732	17.6%	3,250	915	22.0%	4,199	(34)	-0.8%
Service Charges	29,164	24,605	4,559	15.6%	26,788	2,376	8.1%	25,010	4,154	14.2%
Fines & Penalties	413	235	178	43.0%	280	133	32.1%	100	313	75.8%
Earnings on Investments	(10,270)	872	(11,142)		1,200	(11,470)		872	(11,142)	
Miscellaneous	18,122	17,737	385	2.1%	18,179	(57)	-0.3%	5,840	12,282	67.8%
Transfers From Other Funds	2,572	2,597	(25)	-1.0%	2,560	12	0.5%	2,560	12	0.5%
Payments In Lieu of Taxes	2,395	2,304	91	3.8%	2,222	173	7.2%	2,222	173	7.2%
IDOH	17,941	20,146	(2,205)	-12.3%	20,146	(2,205)	-12.3%	20,146	(2,204)	-12.3%
Services Charges-Internal	158	160	(2)	-1.3%	113	45	28.5%	113	45	28.5%
Transfers For CIP Positions	9,922	9,220	702	7.1%	10,983	(1,061)	-10.7%	10,983	(1,061)	-10.7%
									0	
TOTAL REVENUE	730,236	735,226	(4,990)	-0.7%	676,790	53,446	7.3%	635,049	95,187	13.0%
			-			-			-	
LESS: NON-RECUR	15,262	15,262	(0)	0.0%	15,262	(0)	0.0%	2,464	12,798	83.9%
			-			-			-	
RECURRING REVENUE	714,974	719,963	(4,989)	-0.7%	661,528	53,446	7.5%	632,585	82,389	11.5%