



CITY OF ALBUQUERQUE

Albuquerque, New Mexico

Office of the Mayor

EC-20-63

Mayor Timothy M. Keller

INTER-OFFICE MEMORANDUM

February 12, 2020

TO: Pat Davis, President, City Council

FROM: Timothy M. Keller, Mayor

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**SUBJECT: EXECUTIVE COMMUNICATION FOR THE SUBMISSION OF
THE FIVE-YEAR FORECAST**

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 2020 through 2024. The purpose of the report is to identify key trends in revenues and expenditures and to provide information about the financial challenges and opportunities anticipated over the next few years. I look forward to working with the Council as we create a structurally balanced operating budget for the Fiscal Year 2021 Budget.

Note: The attached forecast was compiled prior to the COVID-19 pandemic and does not reflect the negative economic impacts associated with this public health emergency.

EXECUTIVE COMMUNICATION FOR THE SUBMISSION OF THE FIVE-YEAR FORECAST


Approved:



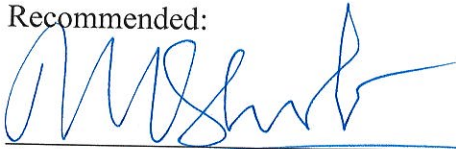
3/25/20

Sarita Nair

Date

 Chief Administrative Officer

Recommended:



2/14/20

Sanjay Bhakta

Date

Chief Financial Officer

Recommended:



2/14/20

Renée Martinez

Date

DFAS Office of Management and Budget

Recommended:



2/12/2020

Lawrence L. Davis

Date

DFAS Office of Management and Budget

Five-Year Forecast Cover Analysis

1. What is it?

The attached executive communication and accompanying report provide a long-term outlook of revenues and expenditures for the General Fund and other funds supported by the General Fund. The report period covers the current fiscal year through fiscal year 2024 and is developed with input from the Multi-Year Forecasting Advisory Committee made up of members from the City Office of Management and Budget, City Council, State of NM, and the UNM Bureau of Business and Economic Research. The report identifies key trends in revenues and expenses and provides an outlook of the available fund balance for the forecast period. The assumptions are generally conservative although three scenarios are presented – a baseline, an optimistic, and a pessimistic. The baseline scenario is generally the focus of the report with a likelihood of 55% assigned. The optimistic and pessimistic scenarios are assigned a likelihood of 10% and 35%, respectively.

2. What will this piece of legislation do?

The legislation will allow policy makers and managers to gain a high-level understanding of key trends expected in revenues and expenditures, and all known unmet needs of the city. The focus of the report is usually on the current fiscal year and the upcoming fiscal year as city staff begin to prepare the budget for fiscal year 2021.

3. Why is this project needed?

The report is required under Section 2-2-5 of the City's Code of Resolutions.

4. How much will it cost and what is the funding source?

There is no cost associated with the submission of the report; however, the purpose of the report is to provide a financial outlook of the General Fund and funds subsidized by the General Fund.

5. What will happen if the legislation is not approved?

There is no requirement that the legislation be approved, only that it be presented to the Council.

CITY OF ALBUQUERQUE

Five-Year Forecast Fiscal Year 2020-2024

February 2020

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EXECUTIVE SUMMARY

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 2020 (FY/20) through FY/24. The purpose of this forecast is to identify key trends in revenues and expenditures and to 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 2019. 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/21 budget is developed, revenue and expenditure projections will be updated based on more current information.

Revenues

The revenue projections are based on revenue received through October 2019 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 past year's five-year outlook for revenue growth was greatly impacted by the imposition of a 0.375% Gross Receipts Tax (GRT) tax beginning in July of 2018. The tax increased General Fund revenues by \$50 million during the 11 month period in FY/19 and has a projected full-year impact of \$56.4 million in FY/20. The enabling legislation mandates that at least 60% of this new tax

be spent on improving public safety in the City of Albuquerque. Recurring General Fund growth is projected at 7.0% in FY/20, which is \$5.2 million, or 0.84%, more than originally projected. This reflects a full year of the 0.375% tax as well as other GRT changes including \$6 million in new revenue from internet sales that the State began sharing with the City in FY/20. The outlook for base GRT growth in FY/20 remains at 3.5%, albeit with considerable caution. Estimates will be reevaluated as the city moves forward with budget development for FY/21.

Total FY/20 General Fund growth, which includes non-recurring revenue, is 8.0% over FY/19. Total growth is boosted by a \$6.8 million one-time lump sum payment of food hold harmless revenue received in early FY/20 resulting from several years of amended tax returns.

For FY/21, base GRT growth is expected at 3.4%, assuming for now that the local economy will not experience significant impacts in the coming year from recent market instability. For FY/22, revenue growth is projected to increase somewhat due to local tax increments on internet sales; however, there is still much work to be done by the state in preparation for the changes. Assuming required technology updates can be made at the state level, revenues from internet sales could triple, from \$6 million currently being shared by the state with the city, to as much as \$18 million, bringing recurring revenue to 3.9% for FY/22. For the remainder of the forecast, growth slows to 2.7% and 2.3% in FY/23 and FY/24, respectively.

GRT receipts, which comprised 67% of all General Fund revenues in FY/19, have been volatile the last few years, largely due to the erratic nature of the hold harmless food and medical payments resulting from inconsistent tax filers. 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. The first year of the reduction cost the City \$2.2 million. To account for the one-

EXECUTIVE SUMMARY

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.

Additionally, there are other expected reductions affecting growth in GRT. Tax Increment Development Districts (TIDDS), particularly the expansion of Winrock, will divert GRT revenues from the General Fund. The effect of these deductions increases in the out years when it is expected that the Winrock TIDD will have a substantial impact including more retail, eating and drinking establishments and a hotel.

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/20.

Building permit revenues are expected to improve after declining in FY/18 and FY/19 from a high in FY/17.

Property taxes were somewhat above the estimate in FY/19, in line with expectations of slightly higher inflation and a lower impact of yield control.

Franchise fees were below the estimate for FY/18 and again for FY/19, primarily due to warm weather, low gas prices, and possibly due to the renegotiation of a coal contract. The other telecommunications franchise has some potential for gains as companies build out the 5G network that will include revenues for small cell towers and fiber optic cable that will fall under City franchises.

While interest earnings on investment face potentially large gains as interest rates increase and City General Fund balances increase, currently low interest rates have severely limited interest revenue earnings.

Fiscal Year 2020 Budget Outlook

The original FY/20 General Fund appropriation was \$641.6 million which included \$29.1 million of one-time appropriations. The revised budget of \$658.9 million reflects mid-year appropriations approved by the City Council. The revision includes \$4.9 million for re-appropriated encumbrance commitments entered into but not fully expended from FY/19. The revised budget also includes an appropriation of \$5.4 million to correctly record the State of New Mexico's administrative fee for managing the City's GRT revenue, \$2 million for technology enhancements for APD's Real Time Crime Center, \$4 million to restore APD's risk recovery funding, and a budget-neutral \$2.8 million for department reorganizations. The revised revenue estimate for FY/20 is \$627.1 million, about \$13 million above the original budget estimate, which \$5.2 million is recurring and \$7.8 million is non-recurring.

Fiscal Year 2021 Budget Outlook

The forecast for FY/21 includes all anticipated expenses using the best available information. The net effect is a forecasted budget of \$662.9 million. This would be a \$3.9 million or a 0.6% increase over the revised FY/20 Budget. Reductions include non-recurring appropriations of \$31.9 million that are the result of the one-time change in revenue recognition from 30 to 60 days and additional mid-year encumbrance appropriations from FY/19.

Increases for FY/21 include \$7.1 million for a 2% across-the-board pay increase for all city employees; \$9.5 million for the growth of 100 new sworn officer positions, which now supports the total funding of 1,150 sworn officers; \$8.6 million for the operation of new capital projects coming-on-line; \$3.3 million for the increase in medical benefits; and \$1 million for the potential increase of Retiree Health Care obligations. Most other cost increases are minor or driven by inflation.

Historically, the majority of non-recurring resources comes from unspent appropriations from prior years. As budgets get tighter and tighter, those resources

EXECUTIVE SUMMARY

become less common, putting a constraint on the allocation for non-recurring uses. The fiscal year 2021 forecast includes \$9.2 million in non-recurring expenses, while only \$2.4 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 out-year 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 \$2.5 million higher (8.5%) for the General Fund in FY/21 as compared to FY/20. The Risk Recovery Program transfer is fully funded at \$3.1 million in the General Fund for FY/21.

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/21. 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. The available fund balance for FY/21 is forecasted to be a negative \$24.6 million, of which \$21.4 million is recurring.

Fiscal Years 2021 – 2024 Budget Outlook

Most of the underlying assumptions in FY/20 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 6% for health care costs through FY/24. 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 commitment to submit a structurally balanced annual budget. That said, the baseline forecast for FY/21, reflects an overall unmet need of \$24.6 million which compounds to a high of \$140.2 million in FY/24.

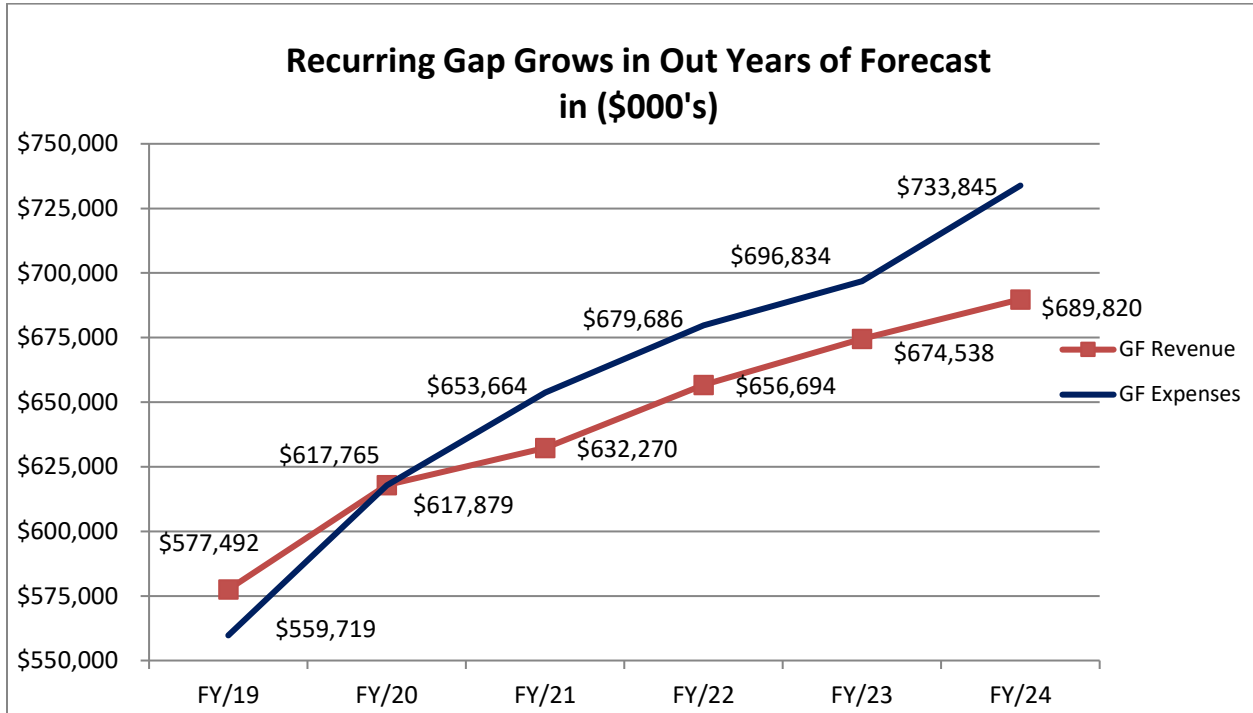
Table B on the following page shows the entire General Fund Baseline summary.

EXECUTIVE SUMMARY

**TABLE B
FIVE YEAR FORECAST
GENERAL FUND - BASELINE SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES**

(\$000's)	UNAUDITED ACTUAL FY/19	REVISED BUDGET FY/20	FORECASTS			
			FY/21	FY/22	FY/23	FY/24
RESOURCES:						
Recurring Revenue	577,492	617,879	632,270	656,694	674,538	689,820
% Change Recurring Revenue		7.0%	2.3%	3.9%	2.7%	2.3%
Total Non-recurring	<u>2,965</u>	<u>9,189</u>	<u>2,361</u>	<u>2,522</u>	<u>2,696</u>	<u>2,908</u>
TOTAL REVENUES	580,457	627,069	634,631	659,216	677,234	692,728
% Change Total Revenue		8.0%	1.2%	3.9%	2.7%	2.3%
BEGINNING FUND BALANCE	<u>54,637</u>	<u>91,084</u>	<u>59,208</u>	<u>30,939</u>	<u>1,231</u>	<u>(27,606)</u>
TOTAL RESOURCES	<u>635,094</u>	<u>718,152</u>	<u>693,839</u>	<u>690,155</u>	<u>678,465</u>	<u>665,122</u>
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	559,719	617,765	653,664	679,686	696,834	733,845
% Change Recurring Appropriation		10.4%	5.8%	4.0%	2.5%	5.3%
Non-recurring Exp/App: One-time Items	<u>20,212</u>	<u>41,179</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>
TOTAL EXPEND/APPROP	<u>579,931</u>	<u>658,944</u>	<u>662,901</u>	<u>688,923</u>	<u>706,071</u>	<u>743,082</u>
UNADJUSTED FUND BALANCE	<u>55,163</u>	<u>59,208</u>	<u>30,939</u>	<u>1,231</u>	<u>(27,606)</u>	<u>(77,960)</u>
ADJUSTMENTS:						
Encumbrances	(5,286)	0	0	0	0	0
Unrealized Gains on Investments	(242)	(242)	(242)	(242)	(242)	(242)
Other Accounting Adjustments	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>
TOTAL ADJUSTMENTS	<u>(5,558)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>
ADJUSTED FUND BALANCE	<u>49,605</u>	<u>58,936</u>	<u>30,667</u>	<u>959</u>	<u>(27,878)</u>	<u>(78,232)</u>
RESERVES:						
1/12th Operating Reserve	48,328	54,496	55,242	57,410	58,839	61,923
Reserve for the Cost of Labor	108	0	0	0	0	0
Increase to Reserve	0	0	0	0	0	0
RunOff Election	<u>0</u>	<u>1,192</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL RESERVES	48,436	55,688	55,242	57,410	58,839	61,923
AVAILABLE FUND BALANCE	<u>1,169</u>	<u>3,248</u>	<u>(24,575)</u>	<u>(56,451)</u>	<u>(86,717)</u>	<u>(140,155)</u>
1/12th Operating Reserve	48,328	54,912	55,242	57,410	58,839	61,923
Recurring Surplus/(Deficit)	17,665	114	(21,394)	(22,992)	(22,296)	(44,025)

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The graph above shows the underlying trend in recurring revenues to recurring expenses from FY/19 through FY/24. Based on the assumptions presented in this baseline forecast, expenses exceed resources beginning in FY/21. The recurring deficit peaks in FY/24 at \$44 million with recurring expenses at \$733.8 million and recurring revenue at \$689.8 million. The recurring gap is important because it demonstrates the underlying structural imbalance going

forward. The gap is driven by general inflationary factors, labor costs (wages and benefits), capital operations coming-on-line, and the growth of APD officers to 1,200 by FY/22. If this predicted possible scenario actually exists in the out-years, the Administration and Council will work together to close any gap between revenue and expenses and manage within available resources.

ECONOMIC OUTLOOK

The national economy influences the economies of Albuquerque and New Mexico in a variety of ways. For example, interest rates affect purchasing and construction, and federal government spending impacts employment and local purchases by federal agencies including the national labs and military bases. Inflation, which is only calculated at the national level, affects prices, wages and the level of local and national taxes collected.

The following information is based on the October 2019 forecasts from IHS Global Insight (IHS). Along with the baseline forecast, alternative forecasts are prepared with pessimistic and optimistic scenarios. The forecast period is FY/20 to FY/24.

Baseline Scenario

In the baseline forecast, assigned a probability of 55%, which is down from 60% a year ago. IHS expects annual growth of 1.9% in real GDP for FY/20, below the 2.3% growth and 3.2% seen in FY/19 and FY/18, respectively. The lower expectations reflect continued uncertainty around tariff policy, volatility in financial markets and signs of slowing growth seen globally. Nevertheless, as of this writing, IHS reports the year's Federal Reserve Bank (FRB) cuts have generated stimulus in interest-sensitive sectors, such as housing and spending on consumer durables, and reductions in Treasury yields have contributed to gains in broad stock indices which is passed to growth in income, real wealth and elevated consumer sentiment.

Real GDP growth is expected to be 2% in FY/21, slowing to 1.8% in FY/22, 1.4% in FY/23 and beginning a modest recovery in FY/24 with 1.7%. Much of the slowdown beginning in FY/20 is due to decreased personal and government consumption and gross investment. Nationally, total employment reached the pre-recession peak in May of 2014. Unemployment reached a peak of 9.9%

in the fourth quarter of 2009 and is expected to decline to a low of 3.6% in FY/20. Unemployment is expected to edge back up to 4.4% in FY/24.

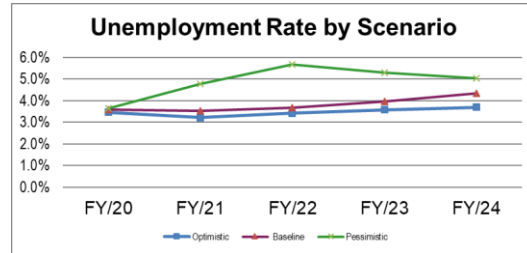
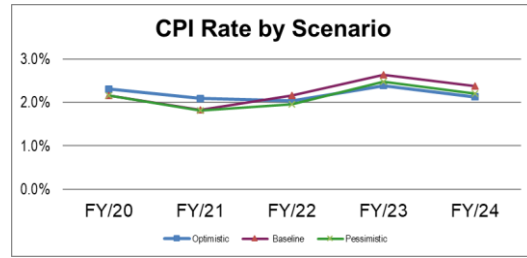
Inflation, as measured by the Consumer Price Index (CPI) was 2.7% in FY/18, decreased to 1.8% in FY/19, and is expected to increase to a high of 2.6% in FY/20. It is then expected to hover at around 2.3% for the remainder of the forecast period, in large part due to stable oil prices. Relatively weak wage growth and increases in productivity limit the cost of employment, putting little pressure on costs. Oil price (West Texas Intermediate) is expected to remain around \$62 per barrel, increasing to a high of \$64 per barrel in FY/20. The price remains around \$61 per barrel in FY21 before increasing to an average of \$69 per barrel in FY/23 and FY/24. The increase in oil prices does little to impact the CPI. The limited growth in inflation is near the FRB target of 2% as measured by the personal consumption expenditures index. The moderate inflation expectation also contributes to limited increases in interest rates. The federal funds rate averaged 2.2% in FY/19, expected to be 1.8% in FY/20, and increasing to 2.6% in FY/24.

Optimistic Scenario

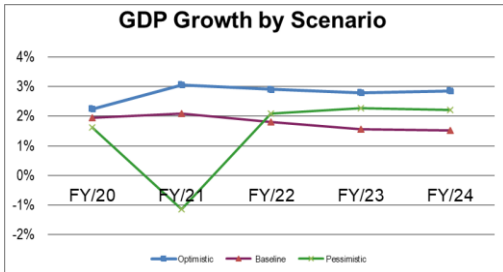
The optimistic scenario is assigned a probability of 10%, down from 15% a year ago. In this scenario IHS assumes that GDP could continue to grow yet without tightening labor and supply markets to the extent that the Federal Reserve would need to raise interest rates to slow a heated economy. Core CPI averages 2.2% over the forecast period. Productivity picks up to reach 3.1% by 2023. The scenario reflects stronger foreign growth and domestically housing starts and prices outpace the baseline through FY/23.

Pessimistic Scenario

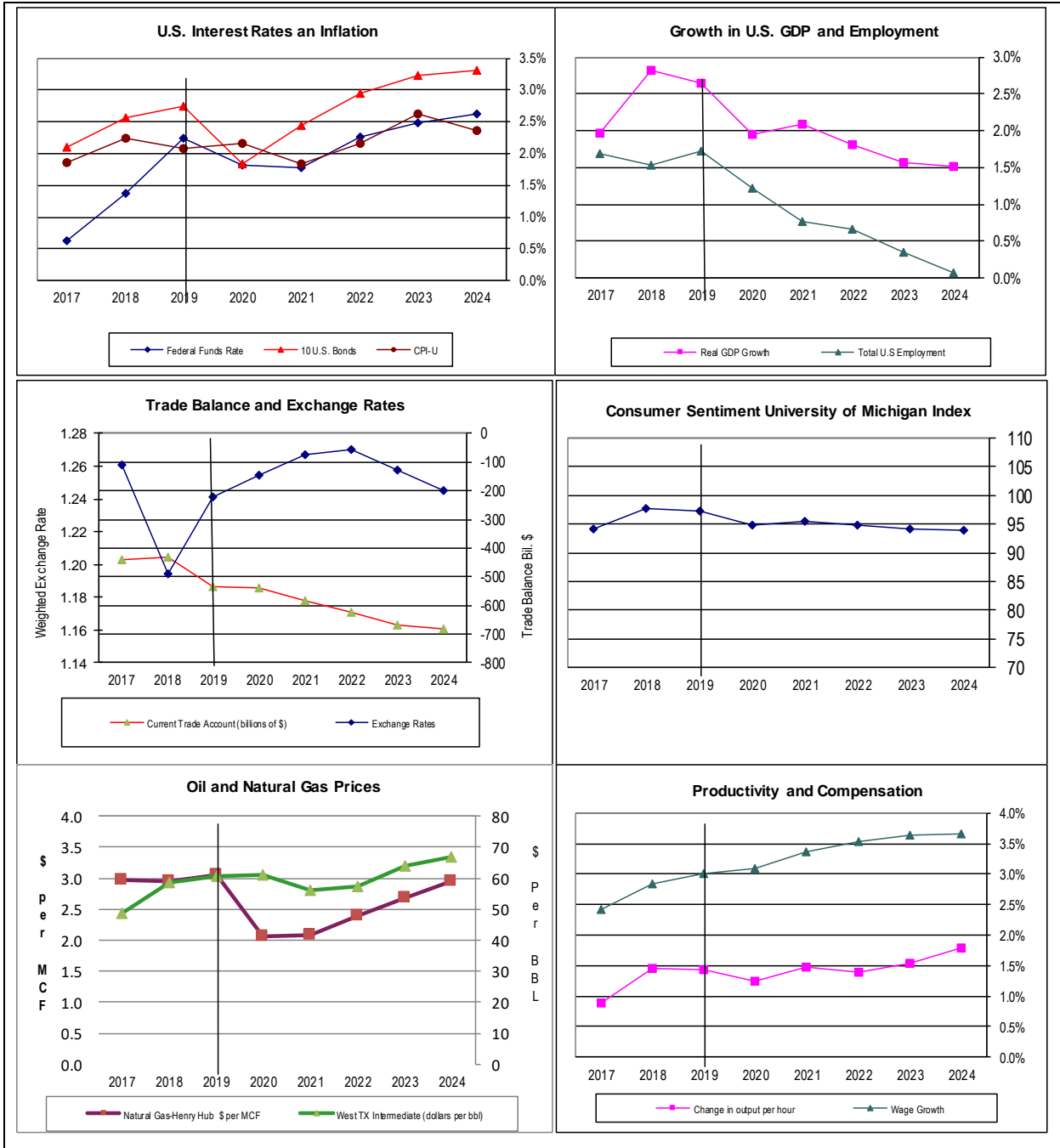
The pessimistic scenario is assigned a probability of 35%, up from 25% a year ago. In this scenario, a loss of confidence results from slowing global growth including China and Europe, with continued trade risks, uncertainties around Brexit, geopolitical unrest and potential for unknown policy mistakes at the national level. These concerns result in declines in a number of investment and consumer spending categories, bringing to a close the record expansion currently in its 138th month. Rising real estate prices and projected increases in mortgage rates increase the cost of homeownership, causing housing demand and starts to diminish toward the end of FY/20. Declines in consumer confidence result in sharp declines in business investment, causing the S&P 500 to dip 4.9% by mid FY/21. Weak demand causes downward pressure on inflation (as measured by the four-quarter change in the core PCE price index) from around 2.1% in the fourth quarter of FY/20 to 1.1% in the second quarter of FY/24.



More information and a comparison of scenarios can be found in the section on Alternative Scenarios.

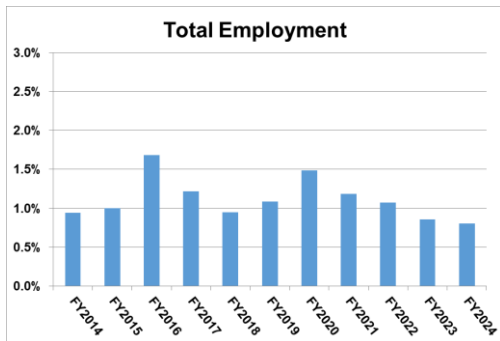


U.S. ECONOMIC VARIABLES AND FORECAST (FISCAL YEAR)
October 2019 Baseline Forecast



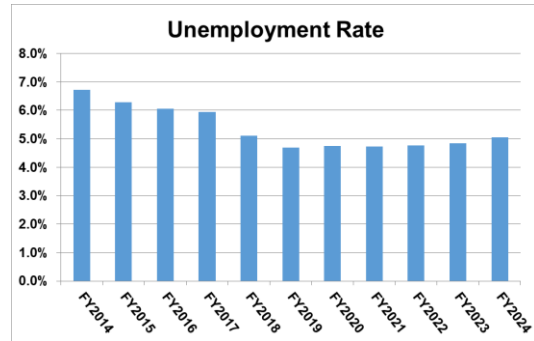
ALBUQUERQUE ECONOMY AND OUTLOOK

The economic outlook for the Albuquerque economy is developed by the Bureau of Business and Economic Research (BBER) at the University of New Mexico. They use national forecasts from IHS and local data to develop forecasts for the state and local economy. The BBER forecasting model for October 2019 provides the forecast of the Albuquerque economy presented in the following section. Due to the lag in employment reporting, this data only includes three quarters of actual data for FY/19. While the Albuquerque economy declined in sync with the national economy, it lagged in its recovery. The Albuquerque economy lost over 27 thousand jobs from FY/08 to FY/12, a 7% loss of total employment. About 25 thousand jobs were added from FY/12 to FY/19 and employment remains about two thousand jobs below FY/08 employment. Employment growth since FY/13 has been consistent, but at relatively low levels. The rate of growth in FY/16 was 1.7%, but this appears to be an anomaly; approximately 0.3% of the growth was due to 1,200 state government employees being correctly allocated to Albuquerque where their actual place of employment resides, as opposed to other locations in the State.



In FY/19 employment grew at 1.1% and in FY/20 is expected to increase by 1.5%. Growth in the remainder of the forecast averages 1%. The economy is expected to reach FY/08 employment levels in FY/20; however, this is over five years behind the national economy in terms of reaching post-recession employment levels. Government employment continues to limit growth, with private sector employment growth exceeding total employment growth from FY/12 through

FY/24, with the exception of FY/20 during which federal employment spikes to 2.3% reflecting the surge in temporary census workers. While the unemployment rate is expected to remain below 5% throughout the forecast, it continues to exceed the national rate. The rate remains at 4.7% for FY/20 and FY/21, increasing to 4.8% in FY/22 and FY/23, topping out at 5% in FY/24. This is above the U.S. unemployment rate currently and for the entire forecast period.



The following sections provide Albuquerque Metropolitan Statistical Area (MSA) (Bernalillo, Sandoval, Torrance and Valencia Counties) employment numbers from FY/14 to FY/24 by major North American Industrial Classification System (NAICS) categories as well as a series of charts and tables illustrating comparisons of Albuquerque to the U.S. economy.

Retail and Wholesale Trade

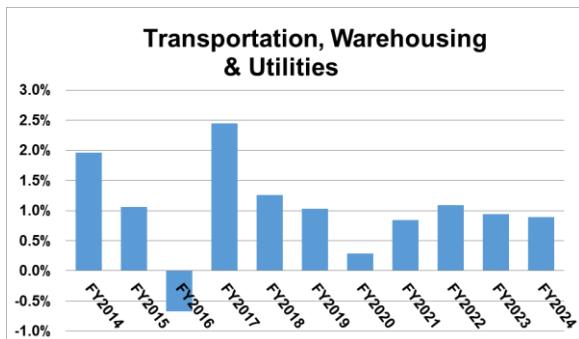
This sector accounts for about 14% of employment in the MSA and is particularly important in terms of the Gross Receipts Tax, comprising about 25% of GRT. During the recession, closure of stores and reductions in purchases substantially impacted employment and GRT in this sector. In addition, increasing internet sales also contribute to declines in local retail sales.



In FY/17 and FY/18 employment in this sector declined nearly 600 jobs. While wholesale trade is expected to make very modest gains in FY/20, retail trade continues to decline; consequently, the sector as a whole decreases by nearly 1% in FY/20 and is essentially flat for the remainder of the forecast.

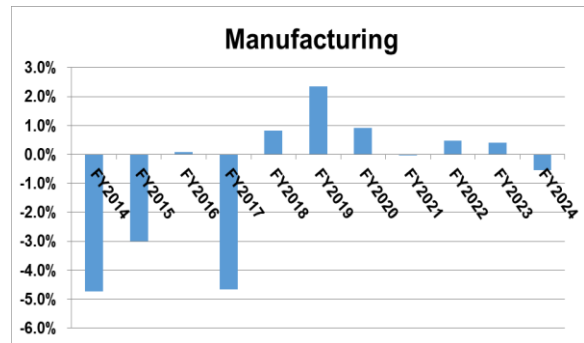
Transportation, Warehousing and Utilities

This sector, while important, accounts for just 2.5% of employment. After showing strong recovery growth of 2.4% in FY/17, the sector shows limited growth in the forecast, remaining 4% below the FY/08 pre-recession high by FY/24.



Manufacturing

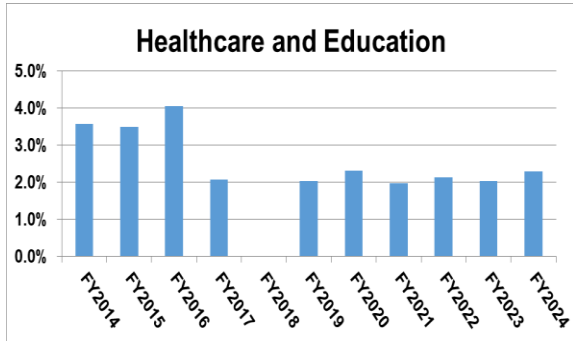
This sector accounts for about 4.2% of employment in the MSA. It is an important sector as it creates relatively high paying jobs that bring revenue from outside the area. It also generates purchases of materials and services in the local economy, making this sector's impact greater than its employment share.



The sector has had substantial job losses that began prior to FY/13, with modest growth only beginning in FY/18. However, FY/19 spiked with 2.3% growth as jobs were added by employers such as Tempur Sealy (50 jobs) and Intel (200 jobs) for a total of 369 new jobs. Growth for FY/20 is expected to cool to 0.9%, averaging just 0.3% over the remainder of the forecast, FY/24 employment reaching only 68% of the FY/07 employment.

Educational and Health Services

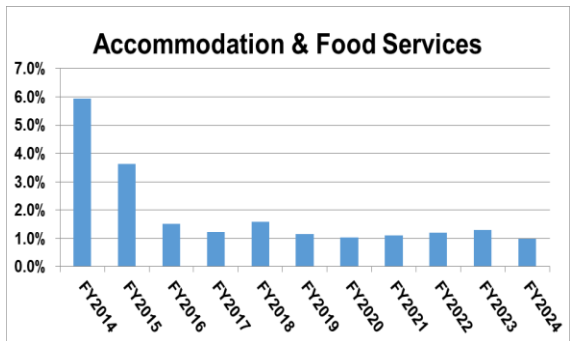
This section represents two sectors, in line with the summary of jobs generally shown in the NAICS sectors. The sector's jobs are predominantly health services and account for 16.2% of total employment. Albuquerque is a major regional medical center that attracts people into the area for services. Presbyterian Hospital and its HMO are one of the largest employers in the area. Importantly, this was the only sector that increased through the recession and continues to be a primary driver for economic growth. This sector is the largest contributor to employment growth in the forecast period, adding about 5,100 jobs (33% of total job growth) from FY/20 to FY/24.



Accommodation and Food Services

This category includes eating and drinking establishments as well as hotels and other travel related facilities. It accounts for 10.3% of employment in the MSA. The sector is a major contributor to both GRT and Lodgers' Tax and has been a major contributor to employment growth since the recession.

Employment reached the pre-recession high in FY/14. After very strong growth in FY/14 and FY/15, growth has slowed but will benefit from an improved economy and is expected to post an annual average growth rate of 1.1% in the forecast.



Real Estate & Financial Activities

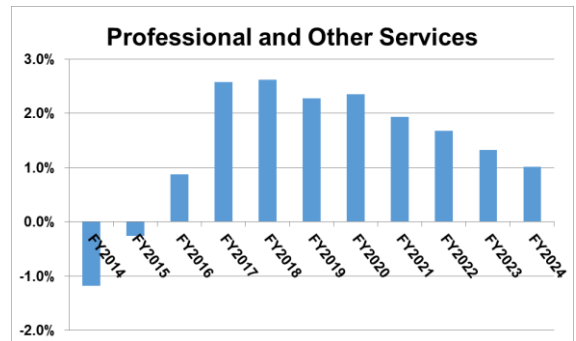
This section includes two sectors and includes finance, insurance and real estate including credit intermediation. It accounts for about 4.7% of employment in the MSA. The financial crisis, consolidation of banking, and the collapse of real estate negatively impacted this sector; however, FY/14 to FY/19 growth was strong at above 2% each year. In FY/20 employment is expected to slow to about 0.7% and continue slowing through the forecast period. In FY/20, the

sector is expected to reach the pre-recession peak of 2006.



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 18.7% of employment in the MSA. The category includes temporary employment agencies, some of Albuquerque's back-office operations, and architect and engineering firms that are closely tied to construction. It also includes Sandia National Labs (SNL).

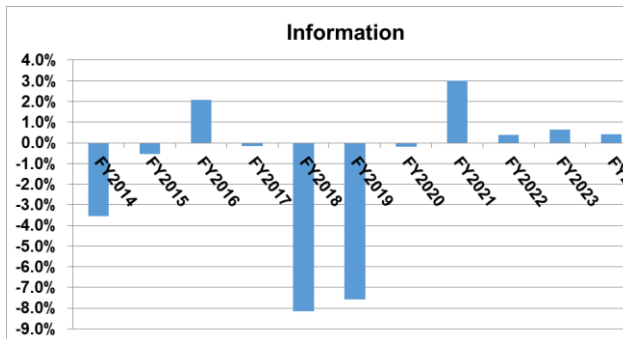


The sector as a whole remained weak until FY/16 when construction services (engineering and architecture) began adding jobs. The sector showed growth in FY/16 of less than 1%, growing to well over 2% in FY/17 through FY/20. Growth then tapers off through the remainder of the forecast. In FY/22 the sector exceeds the FY/08 peak, led by Professional and Technical Services sector, which relies in part on federal contracts and grants in New Mexico.

ALBUQUERQUE ECONOMY AND OUTLOOK

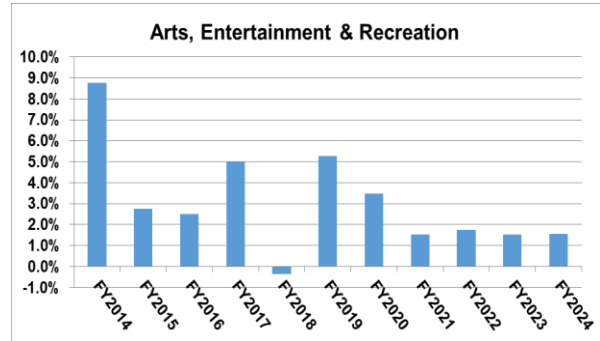
Information

This sector includes businesses in telecommunications, broadcasting, publishing, internet service establishments, and the film studios. It accounts for about 1.7% of employment in the MSA. FY/13 posted solid growth, but FY/14 showed a substantial decline with additional declines in FY/15. FY/16 increased 2.1%; however, there was a decline in FY/17, an 8.2% decline in FY/18, and a 7.6% decline in FY/19. Growth is not expected to rebound until FY/21 when it peaks at 3%. Growth for the remaining forecast slips and averages 0.5%. Although the Netflix production hub and other employers have certainly been active, BBER notes that many of the workers in this sector are technically contract workers and are not included in the U.S. Bureau of Labor Statistics Quarterly Census Employment and Wages.



Arts Entertainment and Recreation

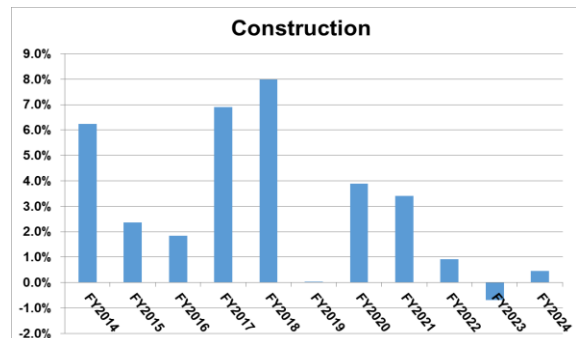
This is a relatively small sector with 1.3% of MSA employment. It includes artists, entertainers, spectator sports, and recreation facilities such as bowling alleys and fitness centers. The sector showed large growth in FY/12 and FY/13; in FY/17 growth was 5% before falling to -0.3 in FY/18. FY/19 is increased to over 5%, with another 3.5% expected in FY/20. Growth is expected to average 1.6% for the remainder of the forecast driven by an improved economy.



Construction

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 6.3%. This sector lost 12 thousand jobs from FY/07 to FY/13. In FY/07 its employment share was 8%. After falling consistently from FY/07, employment in construction began increasing at the end of FY/13 and continues to grow, although much slower than the 8.2% growth seen in FY/18. Robust growth of 3.9% and 3.5% growth is expected for FY/20 and FY/21, respectively. Growth slows to just under 1% in FY/22 and then flattens for the remainder of the forecast. Even with this growth, however, construction employment in FY/24 is forecasted to be 18.2% or 5,600 jobs below the FY/07 peak.

Construction permits show the trends in construction and the types of construction. The graph following this section shows the real values of building permits after adjusting by the CPI from 2000 to 2019. Construction is categorized as new construction or additions, alterations, and repairs.



ALBUQUERQUE ECONOMY AND OUTLOOK

New construction is further separated as residential and commercial. Five distinct peaks occurred in 1973, 1979, 1985, 1995 and 2005. The 2005 cycle was the longest but also had the largest decline.

The lowest level of residential construction was reached in the period of August 2008 to February 2009. From this point single family permitting has increased, but it remains subdued and at levels well below pre-recession permitting.

Additions, alterations, and repairs did not drop as significantly as new construction but still showed declines. This category is dominated by commercial and public projects.

Single family permitting has grown unevenly, with 37.7%, or 361 new permits for FY/18 and a complete reversal in FY/19 of -37.3%. Nevertheless, considerable growth of 340 new permits are expected in FY/20 (41% growth), with another 4.7% growth expected in FY/21. The remainder of the forecast averages about 2.2% growth. These are still historically very low numbers and continue to lag early 1990 levels. A contributing factor had been lack of job growth which led to out-migration and very low growth (less than 0.5% a year from 2010 to 2017) in population.

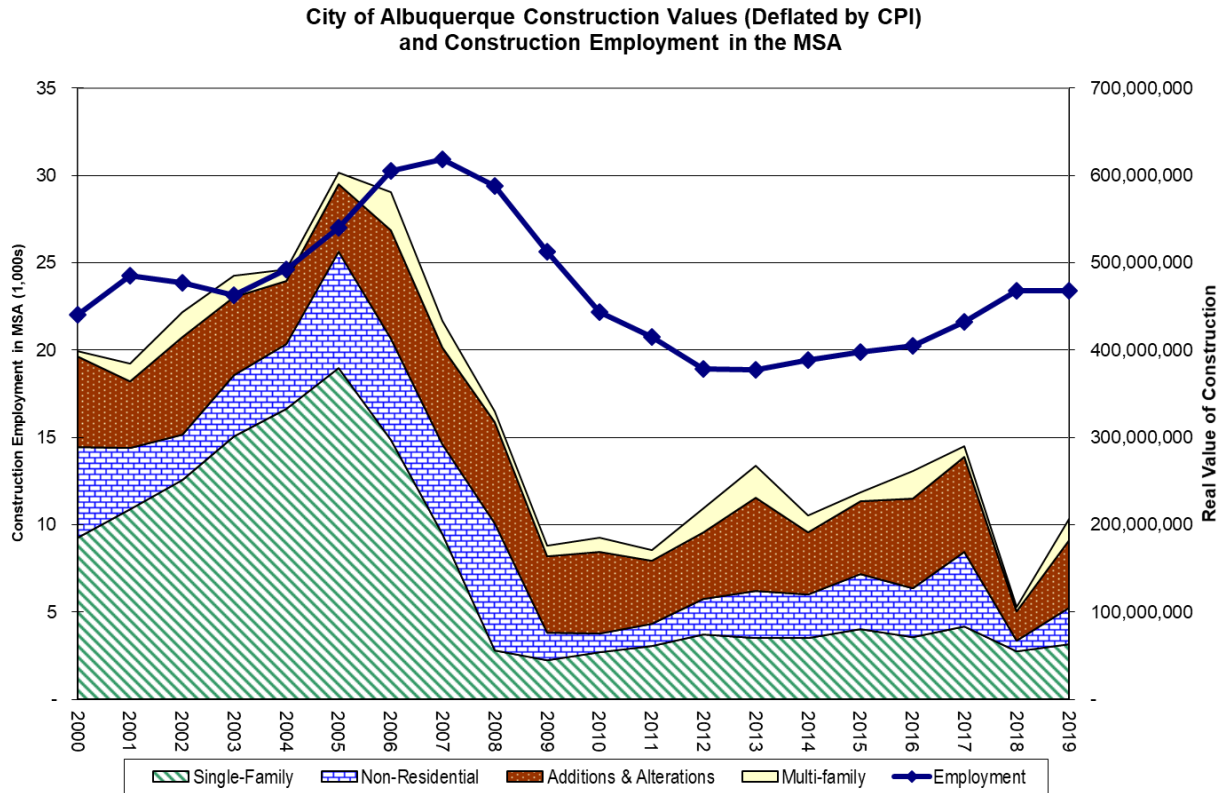
Multi-family construction showed some strength in FY/13 with 945 units and 898 units in FY/14. These permits fell 450 and 567 units in FY/15 and FY/16 respectively, although FY/17 had 894 permits. The UNM BBER forecast expects a decline of 200 units

or 31.3% for FY/20 but then modest growth of 10.8% or 55 units in FY/21 and then tapering for the remainder of the forecast.

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 did not generate building permits in the City.

As shown in the chart following this section, 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. Growth in employment was very strong in 2000-2006, driven in large part by the Intel project and the Big-I reconstruction project.

ALBUQUERQUE ECONOMY AND OUTLOOK



Government

The government sector makes up 20.2% 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 Indian enterprises. Federal government makes up 3.8% of Albuquerque MSA employment but only 1.9% of national employment. Note this doesn't include military employment, which is counted separately, or employment at the national labs which is included in professional and business services.

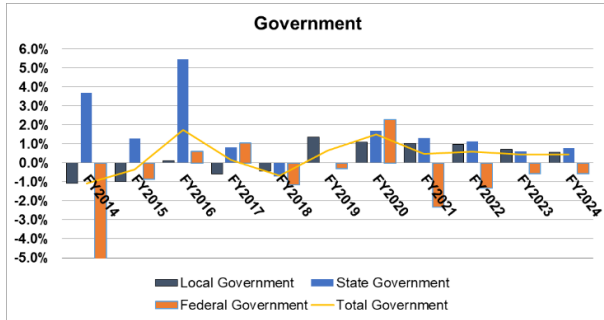
Active military is around 6,000 or about 1.5% of the total non-agricultural employment. Nationally, military is 1% of total non-agricultural employment.

Government employment slowed and decreased in FY/11 through FY/15. Local and state employment decreased due to declines in tax revenue and the inability to fund the same level of employees. State government in FY/16 increased in Albuquerque, though not at the state, due to the correction of counting of jobs in Albuquerque that were previously recorded in other parts of the state.

The major sources of State and local government 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 and then shows slow to flat growth in the remainder of the forecast.

ALBUQUERQUE ECONOMY AND OUTLOOK

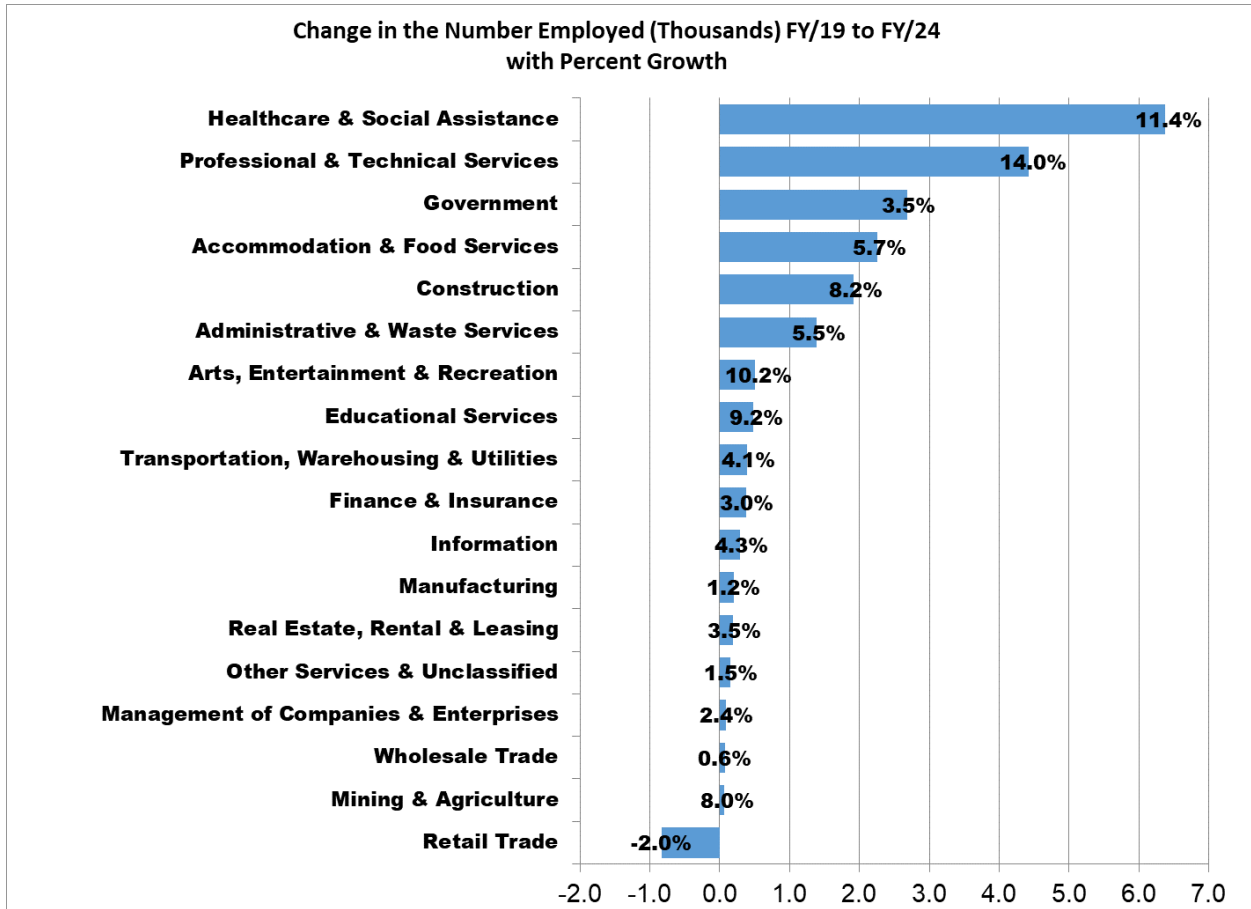
Federal government, after declining by over 7% in FY/14, has remained fairly stable with FY/18 climbing to within 40 jobs of FY/14 levels.



The forecast assumes continued losses in federal jobs—with the exception of FY/20 due to hiring for the 2020 census. The forecast shows state and local employment growing at about 0.5% annually.

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

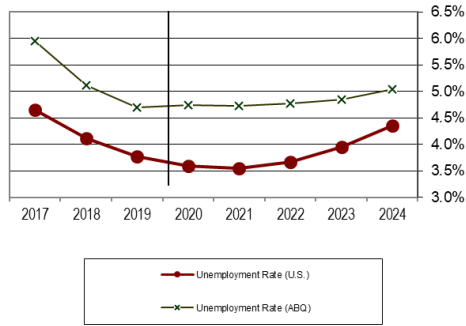
Alternative scenarios are discussed in the section on Alternative Scenarios.



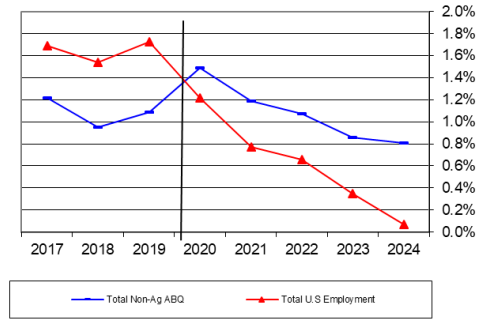
ALBUQUERQUE ECONOMY AND OUTLOOK

Albuquerque MSA and Comparisons to the U.S - October 2019

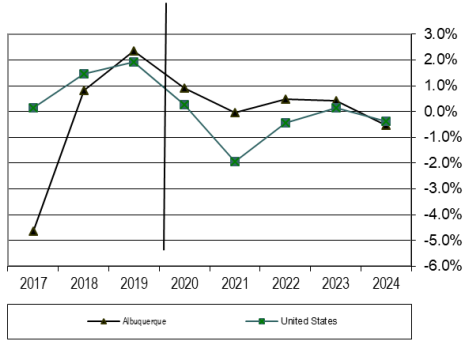
Albuquerque MSA vs. U.S. Unemployment Rates



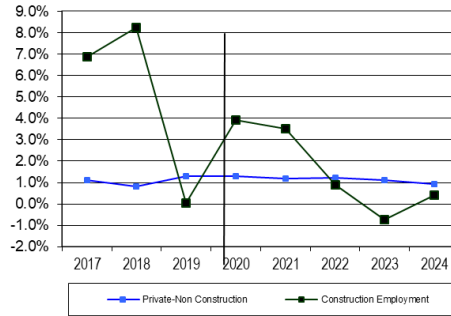
Albuquerque MSA vs. U.S. Employment Growth



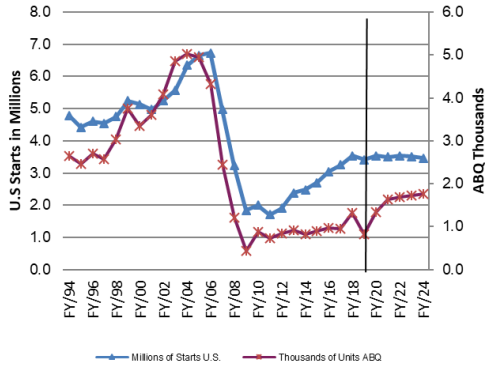
Albuquerque MSA vs. U.S. Manufacturing Employment Growth



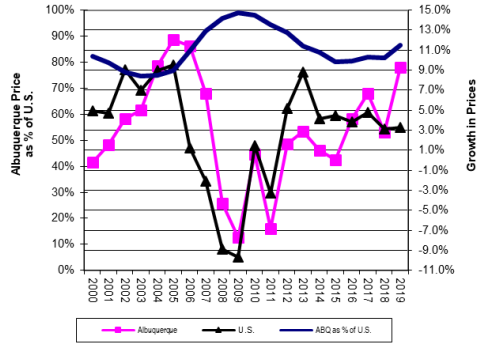
Albuquerque MSA Construction and Private Non-Construction Employment Growth



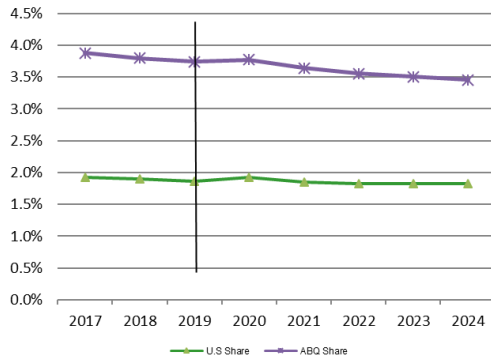
Single Family Construction



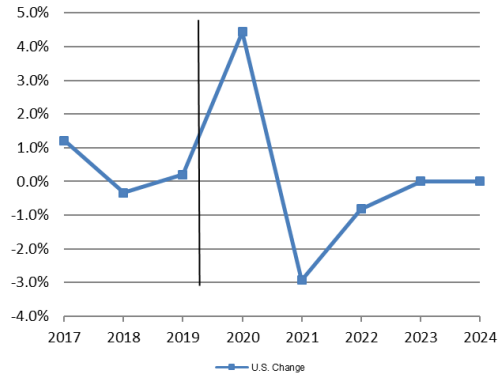
Comparison of Growth in Existing Home Sales Price by Calendar Year (history only)



Federal Government Employment as Share of Total Employment



Change in Federal Government Employment



ALBUQUERQUE ECONOMY AND OUTLOOK

Economic Variables Underlying the Forecast by Fiscal Year

Fiscal Year	Historical			Forecast				
	2017	2018	2019	2020	2021	2022	2023	2024
	National Variables							
Real GDP Growth	2.0%	2.8%	2.6%	1.9%	2.1%	1.8%	1.6%	1.5%
Federal Funds Rate	0.6%	1.4%	2.2%	1.8%	1.8%	2.3%	2.5%	2.6%
10 U.S. Bonds	2.1%	2.6%	2.7%	1.8%	2.4%	2.9%	3.2%	3.3%
CPI-U	1.9%	2.2%	2.1%	2.2%	1.8%	2.2%	2.6%	2.4%
Unemployment Rate (U.S.)	4.7%	4.1%	3.8%	3.6%	3.5%	3.7%	4.0%	4.4%
Total U.S Employment	1.7%	1.5%	1.7%	1.2%	0.8%	0.7%	0.4%	0.1%
Manufacturing Employment	0.1%	1.5%	1.9%	0.3%	-2.0%	-0.5%	0.1%	-0.4%
Consumer sentiment index–University of Michigan	94.3	97.7	97.3	94.9	95.5	94.7	94.2	93.9
Exchange Rates	1.26	1.19	1.24	1.25	1.27	1.27	1.26	1.24
Current Trade Account (billions of \$)	(439.8)	(433.8)	(534.0)	(540.2)	(583.9)	(624.8)	(666.9)	(684.1)
Change in output per hour	0.9%	1.5%	1.4%	1.2%	1.5%	1.4%	1.5%	1.8%
West TX Intermediate (dollars per bbl)	48.6	58.6	60.8	61.0	56.1	57.4	63.9	66.8
Wage Growth	2.4%	2.8%	3.0%	3.1%	3.4%	3.5%	3.6%	3.7%
Natural Gas-Henry Hub \$ per MCF	3.0	2.9	3.1	2.1	2.1	2.4	2.7	2.9
	Albuquerque Variables							
Employment Growth and Unemployment in Albuquerque MSA								
Total Non-Ag ABQ	1.2%	0.9%	1.1%	1.5%	1.2%	1.1%	0.9%	0.8%
Private-Non Construction	1.1%	0.8%	1.3%	1.3%	1.2%	1.2%	1.1%	0.9%
Construction Employment	6.9%	8.2%	0.0%	3.9%	3.5%	0.9%	-0.8%	0.4%
Manufacturing	-4.7%	0.8%	2.3%	0.9%	0.0%	0.5%	0.4%	-0.5%
Government	0.1%	-0.7%	0.6%	1.5%	0.5%	0.6%	0.4%	0.4%
Unemployment Rate (ABQ)	6.0%	5.1%	4.7%	4.7%	4.7%	4.8%	4.8%	5.0%
Growth in Personal Income	2.8%	3.1%	5.4%	4.5%	4.1%	4.5%	4.6%	4.9%
Construction Units Permitted in City of Albuquerque								
Single-Family Permits	957	1,318	827	1,167	1,222	1,246	1,270	1,304
Multi-Family Permits	825	150	753	518	573	596	596	590
Total Residential Permits	1,782	1,468	1,580	1,685	1,795	1,842	1,866	1,893

Sources: IHS Global Insight and FOR-UNM October 2019 Baseline Forecasts

ALBUQUERQUE ECONOMY AND OUTLOOK

Albuquerque MSA Employment in Thousands

	FY/17	FY/18	FY/19	FY/20	FY/21	FY/22	FY/23	FY/24
Employment, Thousands								
Total Employment	372.5	376.0	380.1	385.8	390.3	394.5	397.9	401.1
Private Employment	295.6	299.7	303.3	307.8	312.0	315.7	318.7	321.6
Mining & Agriculture	0.8	0.8	0.8	0.9	0.9	0.9	0.9	0.9
Construction	21.6	23.4	23.4	24.3	25.2	25.4	25.2	25.3
Manufacturing	15.6	15.7	16.1	16.3	16.3	16.3	16.4	16.3
Wholesale Trade	11.6	11.5	11.5	11.5	11.6	11.6	11.6	11.6
Retail Trade	41.6	41.6	41.3	40.9	40.7	40.6	40.7	40.5
Transportation, Warehousing & Utilities	9.3	9.4	9.5	9.5	9.6	9.7	9.8	9.9
Information	7.8	7.2	6.6	6.6	6.8	6.8	6.9	6.9
Finance & Insurance	12.1	12.3	12.6	12.7	12.8	12.9	12.9	13.0
Real Estate, Rental & Leasing	5.2	5.4	5.5	5.5	5.6	5.6	5.7	5.7
Professional & Technical Services	29.9	30.6	31.6	32.7	33.7	34.6	35.3	36.0
Management of Companies & Enterprises	3.6	3.7	3.7	3.7	3.7	3.8	3.8	3.8
Administrative & Waste Services	24.1	24.9	25.3	25.8	26.1	26.5	26.7	26.7
Educational Services	5.2	5.1	5.2	5.4	5.5	5.5	5.6	5.7
Healthcare & Social Assistance	54.5	54.6	55.7	57.0	58.1	59.4	60.6	62.1
Arts, Entertainment & Recreation	4.7	4.7	5.0	5.2	5.2	5.3	5.4	5.5
Accommodation & Food Services	38.3	38.9	39.4	39.8	40.2	40.7	41.2	41.6
Other Services & Unclassified	9.8	9.8	10.0	10.0	10.0	10.1	10.1	10.1
Government	76.8	76.3	76.8	78.0	78.3	78.8	79.2	79.5
Local Government	39.6	39.4	39.9	40.4	40.8	41.2	41.5	41.7
State Government	22.8	22.7	22.7	23.0	23.4	23.6	23.8	23.9
Federal Government	14.4	14.3	14.2	14.6	14.2	14.0	13.9	13.9
Military Employment	5.7	5.7	5.8	5.8	5.8	5.9	5.9	5.9
Private non-construction	274.0	276.3	279.9	283.5	286.8	290.3	293.5	296.3
Other Variables								
Personal Income, in \$Billions	36.9	38.1	40.1	41.9	43.7	45.6	47.8	50.1
Labor Force, NSA, in Thousands	423.9	427.7	434.5	439.2	442.0	445.9	450.0	454.0
Total Housing Units Authorized, in Thousands (City of Albuquerque Only)	1.8	1.5	1.6	1.7	1.8	1.8	1.9	1.9
Single-Family Housing Units, in Thousands	1.0	1.3	0.8	1.2	1.2	1.2	1.3	1.3
Multi-Family Housing Units, in Thousands	0.8	0.2	0.8	0.5	0.6	0.6	0.6	0.6
Unemployment Rate, Not Seasonally Adjusted	6.0	5.1	4.7	4.7	4.7	4.8	4.8	5.0
Year Over Year Growth Rates								
Employment, Thousands								
Total Employment	1.2%	0.9%	1.1%	1.5%	1.2%	1.1%	0.9%	0.8%
Private Employment	1.5%	1.4%	1.2%	1.5%	1.4%	1.2%	1.0%	0.9%
Mining & Agriculture	7.1%	1.6%	0.4%	3.4%	0.9%	1.2%	1.1%	1.1%
Construction	6.9%	8.2%	0.0%	3.9%	3.5%	0.9%	-0.8%	0.4%
Manufacturing	-4.7%	0.8%	2.3%	0.9%	0.0%	0.5%	0.4%	-0.5%
Wholesale Trade	-0.9%	-0.6%	0.1%	0.3%	0.3%	0.2%	-0.1%	0.0%
Retail Trade	-0.9%	-0.1%	-0.6%	-1.0%	-0.6%	-0.1%	0.0%	-0.4%
Transportation, Warehousing & Utilities	2.4%	1.3%	1.0%	0.3%	0.8%	1.1%	0.9%	0.9%
Information	-0.1%	-8.2%	-7.6%	-0.2%	3.0%	0.4%	0.6%	0.4%
Finance & Insurance	3.4%	2.3%	2.2%	0.9%	0.7%	0.5%	0.4%	0.4%
Real Estate, Rental & Leasing	-0.8%	2.4%	2.6%	0.7%	0.4%	1.0%	0.8%	0.7%
Professional & Technical Services	3.2%	2.5%	3.3%	3.4%	3.2%	2.5%	2.1%	2.0%
Management of Companies & Enterprises	1.1%	2.9%	1.0%	0.3%	0.5%	0.5%	0.5%	0.5%
Administrative & Waste Services	2.2%	3.6%	1.5%	2.1%	1.2%	1.2%	0.8%	0.1%
Educational Services	-0.7%	-2.2%	2.2%	3.0%	1.3%	1.6%	1.5%	1.5%
Healthcare & Social Assistance	2.4%	0.2%	2.0%	2.3%	2.0%	2.2%	2.1%	2.4%
Arts, Entertainment & Recreation	5.0%	-0.3%	5.3%	3.5%	1.5%	1.8%	1.5%	1.6%
Accommodation & Food Services	1.2%	1.6%	1.2%	1.0%	1.1%	1.2%	1.3%	1.0%
Other Services & Unclassified	2.2%	0.7%	1.6%	0.4%	0.3%	0.4%	0.3%	0.1%
Government	0.1%	-0.7%	0.6%	1.5%	0.5%	0.6%	0.4%	0.4%
Local Government	-0.6%	-0.4%	1.4%	1.1%	1.0%	1.0%	0.7%	0.6%
State Government	0.8%	-0.7%	0.0%	1.7%	1.3%	1.1%	0.6%	0.8%
Federal Government	1.0%	-1.2%	-0.3%	2.3%	-2.3%	-1.3%	-0.6%	-0.6%
Military Employment	0.0%	0.9%	0.8%	1.3%	0.0%	0.2%	0.3%	0.6%
Other Variables								
Personal Income, in \$Billions	2.8%	3.1%	5.4%	4.5%	4.1%	4.5%	4.6%	4.9%
Labor Force, NSA, in Thousands	1.0%	0.9%	1.6%	1.1%	0.7%	0.9%	0.9%	0.9%
Total Housing Units Authorized, in Thousands (City of Albuquerque Only)	12.1%	-17.6%	7.6%	6.6%	6.5%	2.6%	1.3%	1.5%
Single-Family Housing Units, in Thousands	-1.2%	37.7%	-37.3%	41.1%	4.7%	2.0%	1.9%	2.6%
Multi-Family Housing Units, in Thousands	32.9%	-81.8%	402.0%	-31.3%	10.8%	4.0%	-0.1%	-1.0%

REVENUE OUTLOOK

Overview

The following forecast of revenues is presented in tables following this section. They rely on the October 2019 IHS Global Insights (IHS) and University of New Mexico Bureau of Business and Economic Research (BBER) baseline forecasts. The presentation provides unaudited FY/19 receipts, the FY/20 budget and revised estimates for FY/20 and the baseline forecast receipts for FY/21 through FY/24. In all cases, the figures reflect the accrual to 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.

In FY/20, recurring revenue is expected to increase 7.0%, or \$40.4 million, over FY/19 actuals. Contributing to this growth is additional revenue due to the first full year of the 3/8ths hold harmless tax increment that began in FY/19, new revenue from internet sales that the State began sharing with the City in FY/20, and an increase due to an accounting change requiring the City to recognize Taxation and Revenue Department (TRD) administrative fees, which offsets with corresponding expenses. The remaining growth is largely attributed to a base growth rate of about 3.5%, reflective of an improved economy over recent years.

Total revenue for FY/20 is expected to be 8.0%, or \$46.6 million, over FY/19 actuals. The additional increase is largely due to a one-time hold harmless revenue distribution from the State associated with an amended tax return from a large retailer. Unfortunately, hold harmless distributions in the first several months of FY/20 have continued to be erratic despite new measures taken by TRD to ensure taxpayer compliance. These fluctuations further compound the challenge of estimating revenues as the City contends with declines in the total value of these distributions, which are estimated at over

\$35 million, and being phased out over 15 years beginning in FY/16.

Overall, employment growth is steady but slow, led by private sector jobs. Single family building permits are expected to pick up in FY/20, after slowing substantially in FY/19. Consequently, GRT revenue for construction is expected to improve for FY/20 as well. Building permit revenue dropped substantially 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. For FY/20 building permit revenue is projected to grow nearly 6% over FY/19 actuals.

Property tax revenue growth increased on residential properties. Yield control is based on inflation, and due to lower inflation, is less of a limiting factor in current years than it was from FY/16 to FY/18.

The long-term baseline forecast anticipates that General Fund recurring revenue growth is expected to be 7.0%, 2.3%, 3.9%, 2.7%, and 2.3%, in FY/20, FY/21, FY/22, FY/23 and FY/24, respectively.

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

General Fund Revenue Estimates

Gross Receipts Tax

The GRT revenues for FY/19 were \$3.9 million above the amount estimated in the approved FY/20 budget process. It is estimated that \$3 million of this is one-time revenue, about \$2 million of which is from Hospitality and Lodger's tax to support the National Senior Games and smaller amounts from one-time franchise revenue and department-level fees. The remaining one-time revenue is the estimated loss from the phase out of hold harmless distributions (hold harmless revenue received in the

PROJECTED REVENUES FOR FISCAL YEARS 2020 TO 2024

current year that will not be received in the following year).

GRT growth continued to be erratic throughout FY/19. Revenue fluctuated from month to month, due in part to problems with food hold harmless distributions. As in FY/18, food hold harmless distributions were down due to taxpayers incorrectly filing their hold harmless deductions. While medical hold harmless distributions were down substantially in FY/18, they were mostly offset by growth in the overall Health Services sector which continued into FY/19.

While TRD undertook audits and implemented new outreach measures to new businesses which resulted in the identification of some filing errors, the problems have continued into FY/20, including a one-time distribution of \$6.8 million received at the beginning of FY/20 to correct a tax filing error that was discovered after several years of non-compliance.

For FY/20, GRT revenue growth has demonstrated a relatively strong start. In addition to the \$6.8 million one-time hold harmless distribution received in the first month, base GRT growth has exceeded the projected rate of 3.5% by as much as 1%. Additionally, in a complete turn from a year ago, construction showed gains in the first four months of the fiscal year, pulling the 5-month cumulative percent change to 10.5% over the previous year.

The FY/20 budget assumed GRT base distributions would increase by 3.4%, and the current estimate for base growth has changed to about 3.5% over FY/19 actuals. However, the effective growth rate for the year is closer to 8% when other factors that impact FY/20 are taken into account, including the \$6.8 million one-time hold harmless payment. In FY/20, the City will receive an additional \$6 million in internet sales revenue the State began sharing with municipalities as part of legislation passed in the 2019 legislative session. Another \$5.4 million was added to the budget due to an accounting change that requires the City to recognize the gross revenue distributions

from TRD as well as the offsetting expense of applicable administrative fees. Finally, FY/20 will be the first full year of the 3/8ths hold harmless tax increment, expected to generate about \$56.4 million.

Deductions for the Tax Increment Development Districts (TIDDs) are largely expected to be postponed into the future, with the first small reduction taking place in FY/20. The details of these additional deductions are detailed in the following table.

Adjustments to GRT Growth

Adjustments Made to Gross Receipts (base growth)					
	FY/20	FY/21	FY/22	FY/23	FY/24
Growth w/o adjustments	3.5%	3.4%	3.5%	3.5%	3.2%
F&M hold harmless	3.1%	-2.2%	-0.4%	-0.7%	-0.8%
TIDDs and Incentives	-0.1%	-0.2%	-0.4%	-0.1%	0.0%
Adjusted Rate	6.5%	1.0%	2.8%	2.7%	2.4%

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

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

Property Tax

FY/19 revenues were slightly above the FY/19 budget expectations, primarily due to a 3%, or \$2.1 million, increase in current property taxes. Delinquent taxes were 18%, or \$504.5 thousand below expectations. Still, FY/19 revenues were 3.9% above FY/18 actuals. In FY/20 revenues were increased \$1.2 million from the budgeted level. Yield control is expected to be limited due to a higher level of inflation projected going forward.

Franchise Taxes

Recurring FY/19 franchise tax revenues were \$1.2 million below the estimate with all franchises coming in below expectations for the year. Natural gas revenue was low due

PROJECTED REVENUES FOR FISCAL YEARS 2020 TO 2024

to relatively warm weather and low gas prices. Electricity revenue was also lower, possibly due to the renegotiation of a coal contract. The City received \$9.0 million in franchise fees from PNM in FY/19 compared with \$9.1 million in FY18; however, PNM's revenues are not projected to decrease again substantially in FY/20 because the utility it is expected to file a rate case at the end of the calendar year. The FY/19 budget included one-time revenue of \$452 thousand in other telecommunications due to a build out of a fiber system to provide Albuquerque Public Schools (APS) with high speed internet access; however, the project is 97% complete and FY/19 revenue fell short of the estimate by about \$129 thousand.

For FY/20 to FY/24, growth is limited in all franchises, largely due to slow to moderate household and business formation. While employment and construction have continued to improve, housing construction and population growth have remained relatively weak. Telephone franchise revenues have been flat to negative; the FY/20 budget reduces the estimate by \$191 thousand, to be more in line with FY/19 actual revenues. For FY/20, growth in the natural gas franchise is increased 2.8% over the FY/19 actual, due in part to a rate increase of 1.4% over two years. Growth in future years is based on limited population growth and increases in natural gas prices forecasted by IHS. The other telecommunications franchise includes companies other than Century Link. For FY/20, revenue is reduced by \$300 thousand from the FY/19 actual to account for the completion of the fiber build-out for APS including a small amount of additional recurring revenue resulting from the project. Revenues are conservatively held at this level for the remainder of the forecast. Cable franchise revenues are reduced to be more in line with FY/19 actuals and are expected to grow slowly with population growth. The Water Authority franchise revenue estimate is reduced to be more in line with the FY/19 level and then increased by 4% every other year consistent with stated policy to seek rate increases of 3% to 4.5% every other year. No additional growth is expected except for

these rate increases. Any growth in the number of customers is expected to be offset by water conservation.

Payments-In-Lieu-Of-Taxes (PILOT)

PILOT revenues are maintained at the FY/20 budgeted level, with growth limited by continued slow to moderate population and economic growth.

Building Permits

Building inspection permit revenues reached a peak in FY/06, then from FY/06 to FY/10 the level of permits fell 63%. In FY/18, revenue was above the estimate allowing an increase in FY/19 revenues of \$213 thousand from the budget—with FY/19 actual revenue exceeding that estimate by another \$639 thousand for a growth rate over FY/18 of 11.3%. The FY/18 revenue experienced a decline from FY/17 based on a fall in the value of permits and a reduction of \$1 million due to Albuquerque Public Schools (APS) moving its permitting process to the State. Consequently, the City no longer receives revenue or provides permitting for APS projects. FY/20 and FY/21 revenue is expected to grow at 5.8% and 6.5%, respectively, consistent with residential housing permits in the UNM BBER forecast and expected construction employment.

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 of Albuquerque permitting process and the City receives no permit revenue. However, GRT is paid both by the State and the federal governments on construction projects.

Other Licenses/Fees

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/20 revenue is held at the FY/20 budget level, but will be re-

PROJECTED REVENUES FOR FISCAL YEARS 2020 TO 2024

evaluated during the FY/21 budget process. Growth is slightly elevated for FY/21, and thereafter limited somewhat, reflecting growth in population and businesses.

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. However, revenue for FY/20 was adjusted upward slightly to reflect FY/19 actuals; FY/20 and FY/21 revenues could be impacted by the influx of oil and gas revenues into state coffers.

The other source of intergovernmental revenue is the State Shared Municipal Road Gas Tax. Since this is a per unit tax, reductions in price may increase usage and increase revenues. Revenues declined in FY/15, but grew in FY/16 and FY/17, and are increased by \$350 thousand for FY/20.

For FY/21 and the remainder of the forecast, the estimate assumes all intergovernmental revenue remains at a growth of .5%, or a conservative estimate of population growth.

Charges for Services

Charges for services include fees charged for entry into City venues and services provided to citizens and other entities. FY/20 revenues are adjusted downward slightly to account for some estimated revenues that will likely not materialize; for example, an estimated one million in new Emergency Cost Recovery Fees were removed from the Albuquerque Fire Rescue Department, while other minor changes were made within the Department of Cultural Services. The remainder of the forecast is limited to growth of 1%.

Internal Service

FY/20 revenues are kept at the budgeted level. FY/21 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/20 is held at the budgeted level. FY/21 through the remainder of the forecast is increased at the rate of wage and salary compensation forecasted by IHS.

CIP-Funded Positions

FY/20 is kept at the budgeted level and FY/21 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. The FY/20 revenues are increased slightly from the budgeted level, then increased at 0.5% per year for the remainder of the forecast.

Interest Earnings

Interest earnings have been at depressed levels. FY/20 is held at the budgeted level. FY/17 and FY/18 showed a negative interest earnings due to a GASB adjustment for unrealized losses. The GASB entry is ultimately offset by an adjustment in the fund balance. In the forecast it is assumed earnings do not reflect the adjustment for unrealized losses. The fund balance table will also not have an adjustment to offset the unrealized losses or gains. FY/21 to FY/24 are assumed to grow with the expected increases in two year treasury rates as forecasted by IHS.

Interfund Transfers

Interfund transfers for FY/20 remained at the FY/20 budgeted amount, which excluded some one-time transfers that had been in place for FY/19 such as support for the National Senior Games. Transfers are kept at this level for the remainder of the forecast.

PROJECTED REVENUES FOR FISCAL YEARS 2020 TO 2024

	Unaudited	Budget	Five year					Growth				
	FY/19	FY/20	FY/20	FY/21	FY/22	FY/23	FY/24	FY/20	FY/21	FY/22	FY/23	FY/24
GRT												
State Shared 1.225%	202,469	207,917	215,601	217,755	223,752	229,849	235,439	6.5%	1.0%	2.8%	2.7%	2.4%
Local GRT (w/o public safety)	93,520	97,053	101,073	100,869	103,189	105,530	107,620	8.1%	-0.2%	2.3%	2.3%	2.0%
GRT 1/4 Public Safety	40,500	42,063	43,281	43,598	44,734	45,887	46,935	6.9%	0.7%	2.6%	2.6%	2.3%
local distribution compensating tax	1,542	1,628	1,565	1,588	-	-	-	1.5%	1.5%	N/A	N/A	N/A
Penalty and Interest	2,640	2,613	2,732	2,826	2,926	3,028	3,125	3.5%	3.4%	3.5%	3.5%	3.2%
3/8th Hold Harmless	49,992	57,937	56,417	58,432	60,500	62,619	64,619	12.9%	3.6%	3.5%	3.5%	3.2%
Internet Sale	-	4,560	6,012	6,012	18,000	19,300	19,600	N/A	0.0%	199.4%	7.2%	1.6%
Total GRT	390,663	413,771	426,681	429,930	450,423	463,207	474,304	9.2%	0.8%	4.8%	2.8%	2.4%
One-Time GRT*	1,946											
Total GRT	390,663	413,771	426,681	429,930	450,423	463,207	474,304	9.2%	0.8%	4.8%	2.8%	2.4%
Property Taxes	86,508	87,895	89,121	91,509	94,088	97,233	100,217	3.0%	2.7%	2.8%	3.3%	3.1%
Telephone	1,241	1,425	1,234	1,228	1,228	1,228	1,228	-0.5%	-0.5%	0.0%	0.0%	0.0%
Electric	9,044	9,376	9,059	9,279	9,554	9,854	10,154	0.2%	2.4%	3.0%	3.1%	3.0%
Gas	3,692	3,524	3,795	3,895	3,971	4,053	4,129	2.8%	2.6%	2.0%	2.1%	1.9%
Cable TV	3,964	4,282	3,984	4,004	4,024	4,044	4,064	0.5%	0.5%	0.5%	0.5%	0.5%
Water Authority Franchise	7,766	8,303	8,077	8,077	8,400	8,400	8,736	4.0%	0.0%	4.0%	0.0%	4.0%
Telecommunications	562	269	259	259	259	259	259	-53.9%	0.0%	0.0%	0.0%	0.0%
Franchise (subtotal)	26,269	27,179	26,408	26,741	27,435	27,839	28,570	0.5%	1.3%	2.6%	1.5%	2.6%
Other Intergovl	5,219	4,886	5,480	5,508	5,535	5,563	5,591	5.0%	0.5%	0.5%	0.5%	0.5%
Building Permits	7,422	7,853	7,853	8,367	8,688	8,824	9,012	5.8%	6.5%	3.8%	1.6%	2.1%
Other Licenses/Fees	6,212	5,740	5,740	5,855	5,943	6,002	6,062	-7.6%	2.0%	1.5%	1.0%	1.0%
Charges for Services	22,669	26,025	24,943	25,193	25,445	25,699	25,956	10.0%	1.0%	1.0%	1.0%	1.0%
Fines and Penalties	523	205	205	205	205	205	205	-60.8%	0.0%	0.0%	0.0%	0.0%
Interest on Invest	871	1,236	1,236	1,264	1,297	1,334	1,373	41.9%	2.2%	2.6%	2.9%	2.9%
Other Miscellaneous	2,610	3,287	3,437	3,014	3,029	3,044	3,060	31.7%	0.5%	0.5%	0.5%	0.5%
Interfund Transfers	3,243	2,349	2,349	2,349	2,349	2,349	2,349	-27.6%	0.0%	0.0%	0.0%	0.0%
PILOT	1,966	2,212	2,212	2,241	2,269	2,297	2,326	12.5%	1.3%	1.3%	1.3%	1.3%
Indirect Overhead	16,650	19,521	19,521	20,176	20,209	20,910	20,950	17.2%	3.4%	3.5%	3.6%	3.7%
Internal Service	77	209	209	216	216	224	224	172.0%	3.4%	3.5%	3.6%	3.7%
Transfers for CIP-Funded Positions	9,554	11,673	11,673	12,065	12,085	12,503	12,528	22.2%	3.4%	3.5%	3.6%	3.7%
Total Revenue	580,457	614,041	627,069	634,631	659,216	677,234	692,728	8.0%	1.2%	3.9%	2.7%	2.3%
Non-Recurring Revenue	2,965	1,332	9,189	2,361	2,522	2,696	2,908	209.9%	-74.3%	6.8%	6.9%	7.9%
Recurring Revenue	577,492	612,709	617,879	632,270	656,694	674,538	689,820	7.0%	2.3%	3.9%	2.7%	2.3%

Top Golf				(250)	(250)	(250)	(250)
Winrock	-	-	-		(1,500)	(1,800)	(1,800)
Mesa Del Sol (MDS)	(309)	(309)	(900)	(927)	(955)	(983)	
Total for TIDDS & Incentives	-	(309)	(309)	(1,150)	(2,677)	(3,005)	(3,033)

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 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 dollar 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 has taken place, much of the plan has not happened as rapidly as expected. It is assumed that TIDDs have little impact in FY/19 and FY/20 and then begin reducing GRT by \$1.2 million in FY/21, and then reduce by \$2.7 million in

ESTIMATING GROSS RECEIPTS TAXES

FY/22 and \$3 million in FY/23 and FY/24. 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 are smaller and have remained flat since the GRT is primarily due to residential construction.

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/20 to FY/24. The positive impact on revenue and the cost in incentives for other LEDA projects are not explicitly included in this report. For example, the report was not modified to separately reflect the tax revenue from Netflix's committed \$1 billion in expenditure over 10 years or the related payments of up to \$4.5 million from the City.

EXPENDITURE OUTLOOK

EXPENDITURE ESTIMATING METHODOLOGY

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/20 through FY/24. For the current fiscal year ending June 30, 2020, 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 \$4.96 million in re-appropriated encumbrances. The assumption is that the departments will spend their full appropriations by the end of FY/20.

FY/21 estimated costs are, for the most part, derived independently of FY/20 estimates. The FY/21 forecast is compiled using the latest available information, including actual position information updated in November with vacant positions assumed to be fully funded at the first 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 their impact.

The FY/21 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/21 is largely driven by inflationary factors applied to the FY/21 through FY/24 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 a 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/21	FY/22	FY/23	FY/24
CPI - All Urban Consumers, All Items	CPI-U	2.1%	2.0%	2.4%	2.1%
EMPLOYMENT COST INDEX - Wages & Salary, Private Nonfarm	WAGES	3.7%	3.8%	3.9%	3.9%
Price Index Consumer Exp Medical Care	MEDICAL	2.4%	2.3%	2.6%	2.6%
PRICE INDEX - Consumer Expenditures, New Cars	NEWAUTO	-0.7%	-0.3%	-0.4%	-0.2%
PRICE INDEX - Consumer Exp, Transportation Services	AUTOREP	1.9%	1.7%	1.9%	1.6%
PRICE INDEX - Consumer Exp, House Oper, Natural Gas	NATGAS	2.0%	4.0%	4.3%	3.8%
PRICE INDEX - Consumer Exp, Gasoline & Oil	FUEL	1.7%	2.2%	7.2%	3.1%
PPI - Fuels & Related Products, Electric Power	ELECT	1.7%	2.2%	2.4%	2.3%
PRICE INDEX - Govt Consumption, Noncompensation	GOVT	3.0%	2.6%	3.0%	3.0%
PRICE INDEX - Cons Exp, Tires/Tubes/Accessories/Parts	TIRES	-0.2%	-0.2%	-0.3%	0.2%
Growth of Gross Receipts Tax Revenue	GRT	4.7%	3.7%	2.9%	3.3%

EXPENDITURE ESTIMATING METHODOLOGY

**TABLE B
FIVE YEAR FORECAST
GENERAL FUND - BASELINE SCENARIO
RESOURCES, APPROPRIATIONS AND FUND BALANCES**

(\$000's)	UNAUDITED ACTUAL FY/19	REVISED BUDGET FY/20	FORECASTS			
			FY/21	FY/22	FY/23	FY/24
RESOURCES:						
Recurring Revenue	577,492	617,879	632,270	656,694	674,538	689,820
% Change Recurring Revenue		7.0%	2.3%	3.9%	2.7%	2.3%
Total Non-recurring	<u>2,965</u>	<u>9,189</u>	<u>2,361</u>	<u>2,522</u>	<u>2,696</u>	<u>2,908</u>
TOTAL REVENUES	580,457	627,069	634,631	659,216	677,234	692,728
% Change Total Revenue		8.0%	1.2%	3.9%	2.7%	2.3%
BEGINNING FUND BALANCE	<u>54,637</u>	<u>91,084</u>	<u>59,208</u>	<u>30,939</u>	<u>1,231</u>	<u>(27,606)</u>
TOTAL RESOURCES	<u>635,094</u>	<u>718,152</u>	<u>693,839</u>	<u>690,155</u>	<u>678,465</u>	<u>665,122</u>
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	559,719	617,765	653,664	679,686	696,834	733,845
% Change Recurring Appropriation		10.4%	5.8%	4.0%	2.5%	5.3%
Non-recurring Exp/App: One-time Items	<u>20,212</u>	<u>41,179</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>
TOTAL EXPEND/APPROP	<u>579,931</u>	<u>658,944</u>	<u>662,901</u>	<u>688,923</u>	<u>706,071</u>	<u>743,082</u>
UNADJUSTED FUND BALANCE	<u>55,163</u>	<u>59,208</u>	<u>30,939</u>	<u>1,231</u>	<u>(27,606)</u>	<u>(77,960)</u>
ADJUSTMENTS:						
Encumbrances	(5,286)	0	0	0	0	0
Unrealized Gains on Investments	(242)	(242)	(242)	(242)	(242)	(242)
Other Accounting Adjustments	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>
TOTAL ADJUSTMENTS	<u>(5,558)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>
ADJUSTED FUND BALANCE	<u>49,605</u>	<u>58,936</u>	<u>30,667</u>	<u>959</u>	<u>(27,878)</u>	<u>(78,232)</u>
RESERVES:						
1/12th Operating Reserve	48,328	54,496	55,242	57,410	58,839	61,923
Reserve for the Cost of Labor	108	0	0	0	0	0
Increase to Reserve	0	0	0	0	0	0
RunOff Election	<u>0</u>	<u>1,192</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL RESERVES	48,436	55,688	55,242	57,410	58,839	61,923
AVAILABLE FUND BALANCE	<u>1,169</u>	<u>3,248</u>	<u>(24,575)</u>	<u>(56,451)</u>	<u>(86,717)</u>	<u>(140,155)</u>
1/12th Operating Reserve	48,328	54,912	55,242	57,410	58,839	61,923
Recurring Surplus/(Deficit)	17,665	114	(21,394)	(22,992)	(22,296)	(44,025)

EXPENDITURE ESTIMATING METHODOLOGY

TABLE C EXPENSES BY MAJOR CATEGORY (\$000's)										
	ACTUAL	BUDGET		%	%	%	%		%	
	FY/19	FY/20	FY/21	change	FY/22	change	FY/23	change	FY/24	change
PERSONNEL	364,611	416,456	428,464	2.9%	444,931	3.8%	462,474	3.9%	480,861	4.0%
OPERATING	111,261	116,870	109,922	-5.9%	112,964	2.8%	117,335	3.9%	120,760	2.9%
CAPITAL	1,211	2,089	0	NA	0	NA	0	NA	0	NA
TRANSFERS	102,848	106,141	100,835	-5.0%	97,522	-3.3%	97,523	0.0%	108,037	10.8%
ADDITIONAL ITEMS FACTORED	0	17,388	23,680	NA	33,506	41.5%	28,738	-14.2%	33,424	16.3%
GRAND TOTAL	579,931	658,944	662,901	0.6%	688,923	3.9%	706,071	2.5%	743,082	5.2%

This forecast does not assume any reductions in recurring expenses for FY/21 which drives a recurring gap between revenues and expenses. As shown in Table C, the total percentage increase in expenses peaks in FY/24, mostly due to the assumed cost increases for medical, police officer growth, pension obligations, and bringing capital on-line.

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/21. 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/21.

FY/21 Non-Recurring Baseline		
Department	Purpose	Amount (\$000's)
City Clerk	Audit and Contract for Election	30
City Support	City Vehicles	700
Council Services	One Time Contracts	125
Cultural Services	One Time Special Events Contracts	730
Economic Development	One Time Contracts	487
Family & Comm. Services	One Time Contracts	1,254
Fire	ADAPT Program	300
	Fleet Operations	105
	Operating Increases for Equipment and Personnel	920
	Overtime Appropriation Increase	79

EXPENDITURE ESTIMATING METHODOLOGY

FY/21 Non-Recurring Baseline		
Department	Purpose	Amount (\$000's)
Human Resources	Harassment Avoidance Training	70
Inspector General	Contracted Investigator Services	100
Legal	Travel	30
	Citizenship Program	25
Municipal Development	Street Lighting	1,000
Parks and Recreation	New Mexico Games	25
	Park Security	259
	Reforestation Program	50
	UNM Summer Camp	40
Police	APD Overtime Appropriation	960
	CIT ECHO Project	74
	DWI Prevention Lot Lease	175
	Electronic Control Weapon Lease	359
Senior Affairs	SW Cares Hep C Awareness	75
	Tarde de Oro	15
All Departments	Risk Recovery	1,250
TOTAL		9,237

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 requested again in fiscal year 2021. Departments estimate a need of \$8.6 million in additional funding to operate projects coming-on-line in FY/21. Including Transit, the estimates for FY/22 through FY/24 are \$18.9 million, \$23.9 million, and \$27.9 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.)

EXPENDITURE ESTIMATING METHODOLOGY

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category	Opening	FY 20	FY 21	FY 22	FY 23	FY 24
Department/Division	Date	Budget				
<u>Animal Welfare</u>						
Two (2) Veterinary Clinic Assistants (cleaning)		87,423	120,936	-	-	-
Kennel D Project Phase II remodel Bldg operation costs: utilities & supplies (1872sf)		17,000	17,000	-	-	-
Mobile Clinic -Supplies		-	5,000	-	-	-
Mobile Clinic-Veterinary Supplies		-	40,000	-	-	-
Mobile Clinic -Supplies Operating (Microchips)		-	10,000	-	-	-
Mobile Clinic -Veterinarian Drugs & Medicine (DHLP,FVRCP,Rabies)		-	12,500	-	-	-
Mobile Clinic- Contractual Services (Spay & Neuter Vouchers)		-	420,500	-	-	-
Mobile Clinic- Vehicle Maintenance		-	8,000	-	-	-
Mobile Clinic- Vehicle Fuel		-	4,000	-	-	-
Total Animal Welfare Department		\$104,423	\$637,936	\$0	\$0	\$0
<u>Cultural Services</u>						
Bio Park Exhibits		-	-	-	-	-
Penguins	June/July 2019	27,427	27,427	27,427	27,427	27,427
Farm	2021	-	312,873	312,873	312,873	312,873
Asia/Australia	Dec 2020	-	176,265	691,584	691,584	691,584
International District Library	Jan 2021	-	472,536	945,072	945,072	945,072
Total Cultural Services Department		\$27,427	\$989,101	\$1,976,957	\$2,295,435	\$2,553,299
<u>Family and Community Services</u>						
Pat Hurley Community Center	Nov 2017	75,000	153,807	153,807	153,807	153,807
Dennis Chavez Community Center	Nov 2017	75,000	159,807	159,807	159,807	159,807
West Gate Community Center	July 2020	-	374,395	374,395	374,395	374,395
Sing Arrow Community Center	July 2020	-	194,673	194,673	194,673	194,673
Loma Linda Community Center Expansion	July 2020	-	78,450	78,450	78,450	78,450
Snow Park Community Center	March 2021	-	5,750	23,000	23,000	23,000
McKinley Community Center	March 2021	-	5,750	23,000	23,000	23,000
Alamosa Health and Human Service Center	March 2021	-	1,250	5,000	5,000	5,000
Homeless Facility	July 2019	-	-	6,216,307	6,216,307	6,216,307
Total Department of Family and Community Services		\$150,000	\$973,881	\$7,228,438	\$7,228,438	\$7,228,438

EXPENDITURE ESTIMATING METHODOLOGY

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category <i>Department/Division</i>	Opening Date	FY 20 Budget	FY 21	FY 22	FY 23	FY 24
<u>Fire</u>						
BLS 3- 2 positions (1 Suppression Lt., 1 Suppression Driver) Recurring	July 2019	214,541	220,088	225,801	225,801	232,575
Operating cost for Part Two of BLS program		10,000	10,300	10,609	10,927	11,255
Ladder 9- (1 Captain, 2 Suppression Lt, 4 Suppression Driver, 8 Firefighter positions) Recurring	June 2022	-	-	121,288	1,455,461	1,499,125
Operating cost for Ladder 9		-	-	2,575	30,900	31,827
New Fleet Building	January 2020	-	-	-	-	-
Operating cost for Fleet Building- Utilities		105,000	105,000	105,000	105,000	105,000
Total Fire Department		\$329,541	\$335,388	\$465,273	\$4,290,071	\$4,415,623
<u>DMD/Roadways/ Traffic Engineering Division</u>						
Intersection Signalization		-	210,000	260,000	310,000	340,000
Albuquerque Traffic Management System/Intelligent Traffic Systems		-	440,000	480,000	520,000	540,000
Street Light maintenance & marking/signage		-	1,200,000	1,200,000	1,200,000	1,200,000
Increase in electricity costs due to additional equipment and rate increases of 2%		-	250,000	250,000	250,000	250,000
New Street lighting staff, equipment and materials		-	340,000	360,000	380,000	400,000
Repairs and Maintenance (Facilities)		-	75,000	85,000	95,000	105,000
New Expanded Roadways		-	1,000,000	1,300,000	1,600,000	1,600,000
New drainage systems		-	400,000	475,000	550,000	575,000
Facilities Coming-On-Line [Fire station 9, RTMC, NDB addition, Respite Center, Boys and Girls Club]		450,000	450,000	470,000	490,000	500,000
Total Department of Municipal Development		\$450,000	\$4,365,000	\$4,880,000	\$5,395,000	\$5,510,000
<u>Parks & Recreation</u>						
Aquatics		50,000	150,000	150,000	150,000	150,000
Balloon Fiesta Park Improvements		-	-	200,000	200,000	200,000
Open Space associated with trails and Land Acquisition		40,000	80,000	80,000	80,000	80,000
New Park Development & Land Acquisition		108,000	250,000	250,000	250,000	250,000
New Trail Development		-	20,000	40,000	40,000	40,000
Total Parks & Recreation Department		\$198,000	\$500,000	\$720,000	\$720,000	\$720,000

EXPENDITURE ESTIMATING METHODOLOGY

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category <i>Department/Division</i>	Opening Date	FY 20 Budget	FY 21	FY 22	FY 23	FY 24
<u>Planning</u>						
Route 66 Wayfinding signs	Open	-	25,000	25,000	25,000	25,000
Eplan Software License/Maintenance Fees (DRB, DRC, EPC, ZHE, Board of Appeals)	Open	-	31,984	33,264	34,594	35,978
IDO requirements to do Annual Community Planning Area Assessments	Open	-	100,000	100,000	100,000	100,000
Posse additional maintenance fees (10% per year)	Open	-	8,429	9,272	10,299	11,329
Total Planning Department		\$0	\$165,413	\$167,536	\$169,893	\$172,307
<u>Police</u>						
Southeast Area Command: \$100K annual recurring costs, \$50K furniture	June, 2022	-	-	50,000	100,000	100,000
Total Police Department		\$0	\$0	\$50,000	\$100,000	\$100,000
<u>Senior Affairs</u>						
North Domingo Baca Phase III (Gym)		122,612	239,838	239,838	239,838	239,838
Palo Duro Fitness Addition		88,962	124,088	124,088	124,088	124,088
Adult Day Care Facility		-	21,000	21,000	21,000	21,000
Total Department of Senior Affairs		\$211,574	\$384,926	\$384,926	\$384,926	\$1,529,893
<u>Technology and Innovation</u>						
Infrastructure						
Mitsubishi UPS batteries		25,000	-	-	-	-
Vmware		-	10,000	10,000	10,000	10,000
HPE Nimble Storage		-	-	15,000	20,000	20,000
Cisco UCS		-	-	20,000	50,000	50,000
Applications						
Samaritan- Volunteer Program annual maintenance		9,700	-	-	-	-
Rec Trac annual maintenance - 150 users		123,000	-	-	-	-
Clerkbase annual maintenance		-	-	7,000	7,000	7,000
BlueInk		-	25,000	25,000	25,000	25,000
I-payment		-	10,000	10,000	10,000	10,000
ERP						
Mythics - Peoplesoft License expansion		15,630	97,000	15,630	97,000	15,630
Shi - Phire license fee/support and maintenance		-	58,000	58,000	58,000	58,000

EXPENDITURE ESTIMATING METHODOLOGY

5-Year Forecast CIP Coming-On-Line Estimates						
Funding Allocation Category	Opening	FY 20	FY 21	FY 22	FY 23	FY 24
Department/Division	Date	Budget				
Mythics - Lease Administration License support and maintenance		-	24,600	24,600	24,600	24,600
Total Department of Technology and Innovation		\$173,330	\$224,600	\$185,230	\$312,600	\$231,230
Total General Fund Departments CIP Coming-On-Line	-	\$1,644,295	\$8,576,246	\$16,058,360	\$20,896,363	\$22,460,790
Transit						
Annual ART Operations		4,494,046	4,569,943	4,798,441	5,038,363	5,290,281
CMAQ Operating Grants to Pay		(2,132,096)	(2,132,096)	(2,112,785)	(2,112,785)	-
Daytona CNG Station - Monthly Maintenance - Begin January 2021		-	65,000	130,000	130,000	130,000
Total Transit Department Subsidy		\$2,361,950	\$2,502,847	\$2,815,656	\$3,055,578	\$5,420,281
Total GF Subsidized CIP Coming-On-Line		\$2,361,950	\$2,502,847	\$2,815,656	\$3,055,578	\$5,420,281
Total CIP Coming-On-Line		\$4,006,245	\$11,079,093	\$18,874,016	\$23,951,941	\$27,881,071

**REVENUES AND EXPENDITURES
UNDER ALTERNATIVE SCENARIOS**

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 2019 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 55%.

The sections presented below provide revenue and expenditure estimates in separate sections for 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 (in \$000's)				
	FY/21	FY/22	FY/23	FY/24
Baseline	(24,575)	(56,451)	(86,717)	(140,155)
Optimistic	(12,890)	(41,733)	(66,315)	(105,895)
Pessimistic	(49,864)	(114,767)	(165,379)	(223,164)

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.

OPTIMISTIC SCENARIO

IHS assigns the optimistic scenario a 10% probability of occurring. This scenario assumes there is a boost in consumer confidence and worker productivity that lead to increased incomes and consumer spending without a large increase in the inflation rate. The U.S. and New Mexico economies grow at accelerated rates compared to the baseline.

In the optimistic scenario, the Albuquerque economy grows somewhat faster in FY/21, with employment growth of 1.4% in FY/21 or 0.2% above the baseline. Growth is slightly below baseline in FY/22 and FY/23, and then improves in FY/24 by 0.2%. Although somewhat counterintuitive, overall growth in the optimistic scenario results in about 350 fewer jobs than the baseline by the end of FY/24. Construction employment growth is significantly above the baseline beginning in FY/21, with 1,800 more jobs by FY/24. Residential housing permits increase and are nearly 560 units above the baseline by FY/24. The unemployment rate

continues to stay relatively low at 4.6% by FY/24, or 0.4% below the 5% of the baseline scenario. This strong growth, particularly in construction, helps GRT grow faster than the baseline. In FY/24, GRT is \$5.7 million above the baseline and total revenues are \$5.2 million above the baseline. In addition to changes in GRT, there are substantial increases in building permits and interest earnings that show up as miscellaneous revenues.

Note: Even in the optimistic scenario, growth in revenue does not equal growth in expenditures and available fund balance is negative in the last four years of the forecast. The recurring deficit is a negative \$11.8 million in FY/21 and settles at a negative \$30.9 million in FY/24.

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

OPTIMISTIC SCENARIO INFLATION FACTORS

GLOBAL INSIGHT OPTIMISTIC SCENARIO						
		2020	2021	2022	2023	2024
All Items	CPI-U	2.3%	2.1%	2.0%	2.4%	2.1%
Employment Cost Index-Wages & Salary	WAGES	2.7%	3.1%	3.2%	3.2%	3.4%
Medical Care	MEDICAL	2.0%	2.4%	2.3%	2.6%	2.6%
New Cars	NEWAUTO	0.1%	-0.7%	-0.3%	-0.4%	-0.2%
Transportation	AUTOREP	2.1%	1.9%	1.7%	1.9%	1.6%
Natural Gas	NATGAS	-4.1%	2.0%	4.0%	4.3%	3.8%
Gasoline & Oil	FUEL	2.7%	1.7%	2.2%	7.2%	3.1%
Electricity Chained Price Index	ELECT	-0.3%	1.7%	2.2%	2.4%	2.3%
Price Index-Govt Consumption Noncompensation	GOVT	2.6%	3.0%	2.6%	3.0%	3.0%
Tires/Tubes/Accessories/Parts	TIRES	0.7%	-0.2%	-0.2%	-0.3%	0.2%

General Fund Revenues

	Unaudited	Budget	Five Year Forecast					Growth				
			FY/19	FY/20	FY/20	FY/21	FY/22	FY/23	FY/24	FY/20	FY/21	FY/22
Gross Receipts	390,663	413,771	428,257	436,563	458,010	468,468	480,024	9.6%	1.9%	4.9%	2.3%	2.5%
Taxes	114,743	117,286	117,720	120,559	123,466	126,127	129,169	2.6%	2.4%	2.4%	2.2%	2.4%
Shared	5,219	4,886	5,271	5,324	5,377	5,420	5,464	1.0%	1.0%	1.0%	0.8%	0.8%
Permits	13,635	13,593	14,252	15,700	16,442	16,716	17,085	4.5%	10.2%	4.7%	1.7%	2.2%
Charges for Services	22,669	26,025	24,943	25,242	25,545	25,801	26,059	10.0%	1.2%	1.2%	1.0%	1.0%
Intra City	19,970	22,079	22,079	22,690	22,709	23,350	23,404	10.6%	2.8%	0.1%	2.8%	0.2%
Misc	4,004	4,728	4,878	4,085	4,125	4,172	4,223	21.8%	-16.3%	1.0%	1.1%	1.2%
CIP Funded	9,554	11,673	11,673	12,034	12,046	12,425	12,457	22.2%	3.1%	0.1%	3.1%	0.3%
Total Revenue	580,457	614,041	629,074	642,198	667,720	682,478	697,884	8.4%	2.1%	4.0%	2.2%	2.3%

OPTIMISTIC SCENARIO

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

(\$000's)	UNAUDITED ACTUAL FY/19	REVISED BUDGET FY/20	FORECASTS			
			FY/21	FY/22	FY/23	FY/24
RESOURCES:						
Recurring Revenue	577,492	619,980	639,913	665,218	679,788	694,934
% Change Recurring Revenue		7.4%	3.2%	4.0%	2.2%	2.2%
Total Non-recurring	<u>2,965</u>	<u>9,094</u>	<u>2,285</u>	<u>2,502</u>	<u>2,690</u>	<u>2,950</u>
TOTAL REVENUES	580,457	629,074	642,198	667,720	682,478	697,884
% Change Total Revenue		8.4%	2.1%	4.0%	2.2%	2.3%
BEGINNING FUND BALANCE	<u>54,637</u>	<u>91,084</u>	<u>61,214</u>	<u>42,461</u>	<u>16,358</u>	<u>(7,206)</u>
TOTAL RESOURCES	<u>635,094</u>	<u>720,158</u>	<u>703,411</u>	<u>710,181</u>	<u>698,836</u>	<u>690,678</u>
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	559,719	617,765	651,713	684,586	696,804	725,811
% Change Recurring Appropriation		10.4%	5.5%	5.0%	1.8%	4.2%
Non-recurring Exp/App:						
One-time Items	<u>20,212</u>	<u>41,179</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>
TOTAL EXPEND/APPROP	<u>579,931</u>	<u>658,944</u>	<u>660,950</u>	<u>693,823</u>	<u>706,041</u>	<u>735,048</u>
UNADJUSTED FUND BALANCE	<u>55,163</u>	<u>61,214</u>	<u>42,461</u>	<u>16,358</u>	<u>(7,206)</u>	<u>(44,369)</u>
ADJUSTMENTS:						
Encumbrances	(5,286)	0	0	0	0	0
Unrealized Gains on Investments	(242)	(242)	(242)	(242)	(242)	(242)
Other Accounting Adjustments	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>
TOTAL ADJUSTMENTS	<u>(5,558)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>
ADJUSTED FUND BALANCE	<u>49,605</u>	<u>60,942</u>	<u>42,189</u>	<u>16,086</u>	<u>(7,478)</u>	<u>(44,641)</u>
RESERVES:						
1/12th Operating Reserve	48,328	54,496	55,079	57,819	58,837	61,254
Reserve for the Cost of Labor	108	0	0	0	0	0
Increase to Reserve	0	0	0	0	0	0
Runoff Election	<u>0</u>	<u>1,192</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL RESERVES	48,436	55,688	55,079	57,819	58,837	61,254
AVAILABLE FUND BALANCE	<u>1,169</u>	<u>5,254</u>	<u>(12,890)</u>	<u>(41,733)</u>	<u>(66,315)</u>	<u>(105,895)</u>
1/12th Operating Reserve	48,328	54,912	55,079	57,819	58,837	61,254
Recurring Surplus/(Deficit)	17,665	2,215	(11,801)	(19,368)	(17,017)	(30,877)

PESSIMISTIC SCENARIO

This scenario is based on the IHS pessimistic alternative and is assigned a probability of 35%. This scenario is characterized by broad based loss in confidence with the U.S. economy falling into recession, causing substantial reductions in consumption and growth. In Albuquerque, the unemployment rate increases to 6.3% in FY/22, and 6.2% in FY/23, rising more than 1.4% above the baseline of 4.8% for the same years. Employment growth drops to 0.2% in FY/21 as the U.S. falls into recession, and recovers in FY/23 with a growth rate 0.4% above the baseline. Total City employment is nearly 6,000 below the baseline in FY/24, with construction employment 1,300 jobs below the baseline. Residential housing falters and is 786 units below the baseline in FY/22, with a difference of over 2,000 fewer units permitted from FY/20 to FY/24.

The slowdown in employment and construction have a substantial impact on GRT and other revenues. Revenue growth slows, with GRT reaching nearly \$27 million below the baseline by FY/22, recovering somewhat in FY/24 to \$21.4 million below the baseline. Total unadjusted GRT revenue growth is 0.9% below the baseline in FY/20 and 2.6% below the baseline in FY/22. Total revenue is just over \$32 million below the baseline in FY/22 and \$30.5 million below the baseline in FY/23. In addition to declines in GRT there are substantial impacts on building permits.

Note: Revenues grow slower than expenses and available fund balance is a negative \$49.9 million in FY/21. Assuming the initial deficit is not addressed, the recurring deficit compounds to a negative \$49.5 million by FY/24.

Pessimistic Scenario Inflation Factors

GLOBAL INSIGHT PESSIMISTIC SCENARIO						
		2020	2021	2022	2023	2024
All Items	CPI-U	2.2%	1.8%	2.0%	2.5%	2.2%
Employment Cost Index-Wages & Salary	WAGES	3.0%	2.8%	2.2%	2.4%	2.5%
Medical Care	MEDICAL	1.8%	2.3%	1.8%	1.9%	2.0%
New Cars	NEWAUTO	0.4%	-0.5%	-1.1%	-0.9%	-0.9%
Trasportation	AUTOREP	2.1%	1.9%	1.3%	1.3%	1.1%
Natural Gas	NATGAS	-16.3%	0.9%	6.9%	5.8%	4.6%
Gasoline & Oil	FUEL	-0.2%	-5.2%	0.9%	7.6%	3.3%
Electricity Chained Price Index	ELECT	-0.3%	2.2%	1.9%	1.9%	1.8%
Price Index-Govt Consumption Noncompensation	GOVT	2.4%	2.5%	2.1%	2.3%	2.4%
Auto Parts and Aecessories	TIRES	0.9%	0.1%	-0.6%	-0.8%	-0.2%

General Fund Revenues

	Unaudited	Budget	Five Year Forecast					Growth				
			FY/19	FY/20	FY/20	FY/21	FY/22	FY/23	FY/24	FY/20	FY/21	FY/22
Gross Receipts	390,663	413,771	423,354	413,375	423,449	438,663	452,943	8.4%	-2.4%	2.4%	3.6%	3.3%
Taxes	114,743	117,286	117,701	120,563	123,405	125,979	128,937	2.6%	2.4%	2.4%	2.1%	2.3%
Shared	5,219	4,886	5,193	5,219	5,245	5,271	5,298	-0.5%	0.5%	0.5%	0.5%	0.5%
Permits	13,635	13,593	13,593	12,452	13,201	13,802	14,062	-0.3%	-8.4%	6.0%	4.6%	1.9%
Charges for Services	22,669	26,025	23,122	23,238	23,354	23,588	23,823	2.0%	0.5%	0.5%	1.0%	1.0%
Intra City	19,970	22,079	22,079	22,628	22,516	23,108	23,022	10.6%	2.5%	-0.5%	2.6%	-0.4%
Misc	4,004	4,728	4,836	4,056	4,069	4,092	4,121	20.8%	-16.1%	0.3%	0.6%	0.7%
CIP Funded	9,554	11,673	11,673	11,998	11,932	12,282	12,231	22.2%	2.8%	-0.6%	2.9%	-0.4%
Total Revenue	580,457	614,041	621,551	613,528	627,170	646,783	664,438	7.1%	-1.3%	2.2%	3.1%	2.7%

PESSIMISTIC SCENARIO

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

(\$000's)	UNAUDITED ACTUAL FY/19	REVISED BUDGET FY/20	FORECASTS			
			FY/21	FY/22	FY/23	FY/24
RESOURCES:						
Recurring Revenue	577,492	612,356	611,157	624,634	644,070	661,538
% Change Recurring Revenue		6.0%	-0.2%	2.2%	3.1%	2.7%
Total Non-recurring	<u>2,965</u>	<u>9,195</u>	<u>2,371</u>	<u>2,537</u>	<u>2,713</u>	<u>2,900</u>
TOTAL REVENUES	580,457	621,551	613,528	627,170	646,783	664,438
% Change Total Revenue		7.1%	-1.3%	2.2%	3.1%	2.7%
BEGINNING FUND BALANCE	<u>54,637</u>	<u>91,084</u>	<u>53,690</u>	<u>5,547</u>	<u>(57,017)</u>	<u>(107,040)</u>
TOTAL RESOURCES	<u>635,094</u>	<u>712,634</u>	<u>667,219</u>	<u>632,717</u>	<u>589,766</u>	<u>557,398</u>
EXPENDITURES/APPROPRIATIONS:						
Recurring Expenditures/Appropriations	559,719	617,765	652,435	680,496	687,570	711,031
% Change Recurring Appropriation		10.4%	5.6%	4.3%	1.0%	3.4%
Non-recurring Exp/App: One-time Items	<u>20,212</u>	<u>41,179</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>	<u>9,237</u>
TOTAL EXPEND/APPROP	<u>579,931</u>	<u>658,944</u>	<u>661,672</u>	<u>689,733</u>	<u>696,807</u>	<u>720,268</u>
UNADJUSTED FUND BALANCE	<u>55,163</u>	<u>53,690</u>	<u>5,547</u>	<u>(57,017)</u>	<u>(107,040)</u>	<u>(162,870)</u>
ADJUSTMENTS:						
Encumbrances	(5,286)	0	0	0	0	0
Unrealized Gains on Investments	(242)	(242)	(242)	(242)	(242)	(242)
Other Accounting Adjustments	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>	<u>(30)</u>
TOTAL ADJUSTMENTS	<u>(5,558)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>	<u>(272)</u>
ADJUSTED FUND BALANCE	<u>49,605</u>	<u>53,418</u>	<u>5,275</u>	<u>(57,289)</u>	<u>(107,312)</u>	<u>(163,142)</u>
RESERVES:						
1/12th Operating Reserve	48,328	54,496	55,139	57,478	58,067	60,022
Reserve for the Cost of Labor	108	0	0	0	0	0
Increase to Reserve	0	0	0	0	0	0
Runoff Election	<u>0</u>	<u>1,192</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL RESERVES	48,436	55,688	55,139	57,478	58,067	60,022
AVAILABLE FUND BALANCE	<u>1,169</u>	<u>(2,270)</u>	<u>(49,864)</u>	<u>(114,767)</u>	<u>(165,379)</u>	<u>(223,164)</u>
1/12th Operating Reserve	48,328	54,912	55,139	57,478	58,067	60,022
Recurring Surplus/(Deficit)	17,665	(5,409)	(41,278)	(55,863)	(43,500)	(49,493)

COMPARISON OF SCENARIOS

Comparison of Scenarios—National and Local Variables						
Indicator/FY	SCENARIO			Difference		
	Optimistic	Baseline	Pessimistic	Optimistic	Pessimistic	
GRT- Total (before deductions)						
2020	3.9%	3.5%	2.6%	0.4%	-0.9%	
2021	4.7%	3.4%	0.0%	1.3%	-3.5%	
2022	3.7%	3.5%	0.9%	0.2%	-2.6%	
2023	2.9%	3.5%	4.4%	-0.6%	0.9%	
2024	3.3%	3.2%	4.2%	0.1%	1.0%	
Employment -Albuquerque MSA						
2020	1.5%	1.5%	1.4%	0.1%	-0.1%	L
2021	1.4%	1.2%	0.2%	0.2%	-1.0%	O
2022	0.7%	1.1%	0.0%	-0.3%	-1.1%	C
2023	0.8%	0.9%	1.2%	-0.1%	0.4%	A
2024	1.0%	0.8%	1.2%	0.2%	0.4%	L
Unemployment Rate -Albuquerque MSA						
2020	4.7%	4.7%	4.8%	0.0%	0.0%	
2021	4.5%	4.7%	5.3%	-0.3%	0.5%	
2022	4.5%	4.8%	6.3%	-0.2%	1.6%	
2023	4.6%	4.8%	6.2%	-0.3%	1.3%	
2024	4.6%	5.0%	5.8%	-0.5%	0.8%	
GRT Construction						
2020	3.0%	2.9%	2.6%	0.1%	-0.3%	
2021	10.8%	6.6%	-0.8%	4.2%	-7.4%	
2022	8.7%	5.1%	-2.5%	3.6%	-7.6%	
2023	2.8%	1.8%	4.2%	1.0%	2.4%	
2024	3.9%	2.8%	5.8%	1.1%	3.0%	
MSA Construction Employment						
2020	0.0%	3.9%	0.0%	-3.9%	-3.9%	I D
2021	4.4%	3.5%	3.6%	0.9%	0.0%	I
2022	5.8%	0.9%	-1.3%	4.8%	-2.2%	C
2023	2.9%	-0.8%	-2.5%	3.7%	-1.8%	A
2024	0.3%	0.4%	0.6%	-0.1%	0.2%	T
Residential Housing Permits-Inside City						
2020	1,885	1,685	1,580	201	(105)	O R
2021	2,270	1,795	1,488	475	(307)	S
2022	2,362	1,842	1,056	520	(786)	
2023	2,397	1,866	1,310	531	(556)	
2024	2,450	1,893	1,457	557	(436)	
Real GDP						
2020	2.2%	1.9%	1.6%	0.3%	-0.3%	
2021	3.1%	2.1%	-1.1%	1.0%	-3.2%	
2022	2.9%	1.8%	2.1%	1.1%	0.3%	
2023	2.8%	1.6%	2.3%	1.2%	0.7%	
2024	2.9%	1.5%	2.2%	1.3%	0.7%	
Unemployment Rate						
2020	3.5%	3.6%	3.6%	-0.1%	0.0%	
2021	3.2%	3.5%	4.8%	-0.3%	1.2%	N
2022	3.4%	3.7%	5.7%	-0.2%	2.0%	A
2023	3.6%	4.0%	5.3%	-0.4%	1.4%	T
2024	3.7%	4.4%	5.1%	-0.7%	0.7%	I
Price Index Consumer Price Index-Urban Consumers						
2020	2.3%	2.2%	2.2%	0.1%	0.0%	O N
2021	2.1%	1.8%	1.8%	0.3%	0.0%	A
2022	2.0%	2.2%	2.0%	-0.1%	-0.2%	L
2023	2.4%	2.6%	2.5%	-0.2%	-0.1%	
2024	2.1%	2.4%	2.2%	-0.2%	-0.2%	
Interest Rates-Federal Funds Rate						
2020	2.2%	1.8%	1.7%	0.4%	-0.1%	I
2021	2.5%	1.8%	0.3%	0.8%	-1.5%	N
2022	3.0%	2.3%	0.1%	0.7%	-2.1%	D
2023	3.2%	2.5%	0.7%	0.7%	-1.8%	I
2024	3.4%	2.6%	1.6%	0.7%	-1.0%	C
Interest Rates-Ten Year Treasury Bonds						
2020	1.8%	1.8%	1.6%	0.0%	-0.2%	A T
2021	2.4%	2.4%	1.3%	0.0%	-1.1%	O
2022	2.9%	2.9%	2.1%	0.0%	-0.8%	R
2023	3.2%	3.2%	2.8%	0.0%	-0.5%	S
2024	3.3%	3.3%	3.0%	0.0%	-0.3%	
West Texas Intermediate Dollars per Barrel						
2020	64.0	61.0	61.0	3.0	-	
2021	66.1	56.1	56.1	10.0	0.0	
2022	68.4	57.4	57.4	11.0	0.0	
2023	74.9	62.9	63.9	11.0	0.0	
2024	77.8	66.8	66.8	11.0	-	

COMPARISON OF SCENARIOS

REVENUE COMPARISON
(In Thousands of Dollars)

	Pessimistic - Baseline					Optimistic - Baseline				
	FY/20	FY/21	FY/22	FY/23	FY/24	FY/20	FY/21	FY/22	FY/23	FY/24
Gross Receipts	(3,327)	(16,555)	(26,974)	(24,545)	(21,361)	1,576	6,633	7,587	5,260	5,720
Taxes	(40)	73	(387)	(1,390)	(2,176)	(21)	69	(326)	(1,242)	(1,945)
Shared	(287)	(289)	(290)	(291)	(293)	(209)	(183)	(158)	(142)	(127)
Permits	0	(1,770)	(1,430)	(1,024)	(1,012)	659	1,479	1,811	1,889	2,011
Charges for Services	(1,821)	(1,955)	(2,091)	(2,111)	(2,133)	0	50	101	102	103
Intra City	0	(113)	(259)	(375)	(501)	0	(52)	(66)	(133)	(120)
Misc	(42)	(427)	(462)	(491)	(516)	0	(398)	(406)	(411)	(415)
CIP Funded	0	(67)	(153)	(222)	(297)	0	(31)	(39)	(78)	(71)
Total Revenue	(5,518)	(21,103)	(32,046)	(30,451)	(28,289)	2,006	7,567	8,504	5,244	5,156
Recurring Growth	-0.96%	-2.52%	-1.66%	0.39%	0.45%	0.36%	0.89%	0.09%	-0.53%	-0.04%

COMPARISON OF SCENARIOS

US Macro Forecast Snapshot: October 2019*

	Baseline (55%)	Pessimistic (35%)	Optimistic (10%)
GDP growth	Growth slows to 2.1% in 2019 amid slowing global growth, and weaker stock price growth, and remains at 2.1% in 2020	Growth slips below baseline to 2.0% in 2019; GDP contracts 1.2% in 2020, with a recession running from the third quarter of 2020 through the first quarter of 2021	Growth chugs along at 2.3% in 2019; growth remains roughly 1 percentage point higher than baseline over forecast interval
Consumer Spending	Growth edges up to 2.8% in 2019 then falls to 2.6% in 2020	Rises 2.8% in 2019, slows to 1.3% in 2020 and 2021 amid a broad-based loss of confidence before bouncing back to 2.0% in 2022	Growth expands 3.0% in 2019 then jumps to 3.5% in 2020 thanks to faster real income growth
Business and Fixed Investment	Growth is projected to fall to 0.8% in 2019 as nonfarm business sector output slows, then climbs to 2.8% in 2020	Slows to 0.5% growth in 2019, and then drops 7.3% in 2020 as businesses trim capex in the face of falling demand, recovering 1.5% in 2021	Cools to 0.8% growth in 2019, before rising 4.6% in 2020
Housing	Housing starts rise from 1.19 million in fourth quarter 2018 to 1.27 million in fourth quarter 2019	Housing starts drop below their baseline levels in 2020 and never surpass 1.1 million units thereafter	Young adults form households in greater numbers due to strengthening economy, resulting in nearly 1.50 million starts by 2022
Exports	Falls 0.2% in 2019 and rises 4.3% in 2020	Falls 0.2% in 2019 and continues to decline by 2.9% in 2020 before recovering 6.1% in 2021	Falls 0.2% in 2019 and rises 5.3% in 2020
Fiscal Policy	Personal tax cuts extended, while entitlement spending will follow current program guidelines	Same assumptions as in baseline	Same assumptions as in baseline
Monetary Policy	Fed makes one more rate cut in 2019	Fed lowers the federal funds rate from third-quarter 2019 to the fourth quarter of 2020, reaching the zero bound	The federal funds rate eventually rises to 3.25–3.50%, around 0.75 percentage point higher than the baseline
Credit Conditions	Gradually easing	Lending standards remain high	Rapidly easing
Productivity Growth	Averages 1.5% from 2019 through 2022	Averages 1.4% during 2019–22, 0.1 percentage point below the baseline	Averages 2.4% during 2019–22, 0.9 percentage point above the baseline
Consumer Confidence	Gradually declines from the third qu	Declines through the recession and continues below the baseline through the end of forecast	Outperforms baseline over the entire forecast interval
Oil Prices (Dollars/Barrel)	Brent crude oil averages \$66 in 2019 and \$64 in 2020	Unchanged from baseline	Higher than the baseline over the forecast interval
Stock Markets	The S&P 500 recovers some of its recent losses, gaining 20.0% over 2019, but registers no change in 2020 (Dec. to Dec.)	The S&P 500 increases by 20.0% in 2019 before declining 9.4% in 2020 (Dec. to Dec.)	The S&P 500 climbs 20.9% in 2019 and rises 5.1% in 2020 (Dec. to Dec.)
Inflation (PCE)	Core personal consumption expenditures (PCE) price inflation rises 1.9% in 2019, then grows at 2.1% in 2020 and 2.0% in 2021	Core PCE inflation rises 1.9% in 2019, then grows at 2.2% in 2020 and 1.5% in 2021	Core PCE inflation is lower than the baseline from 2020 through the end of the forecast
Foreign Growth	In 2019, Eurozone growth cools to 1.1%, while China's growth eases to 6.2%	Foreign growth slows during US recession period	Foreign growth improves thanks to a rebound in productivity growth
US Dollar	The real dollar strengthens until 2023, before slowly depreciating through the end of the forecast period	Roughly unchanged from baseline	Eventually depreciates further than the baseline

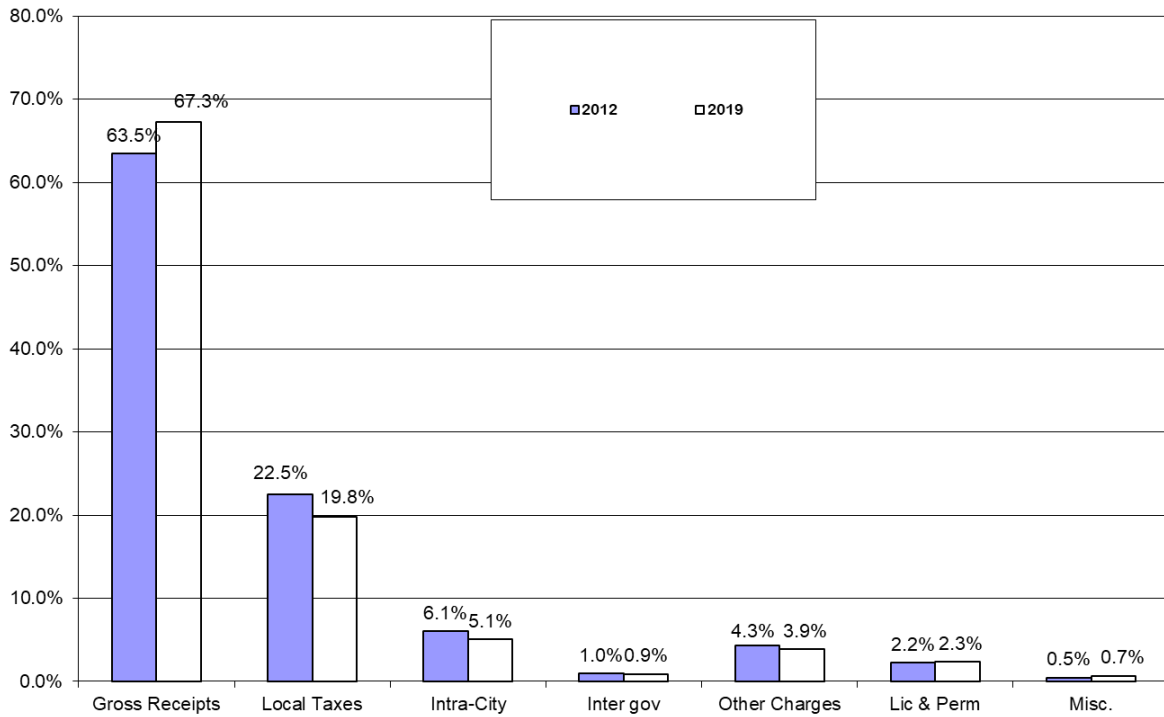
REVENUE HISTORY

GENERAL FUND REVENUE HISTORY

A history of major revenue sources for the General Fund from FY/12 to FY/19 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. The FY/19 amounts represent unaudited numbers and may change. Total receipts increased 24.6% or a compound annual rate of 3.2%. Recurring revenues for the same period showed annual growth of 3.2%.

The bar chart below compares the composition, by major revenue category, of General Fund recurring revenues in FY/12 and FY/19. The City's General Fund has become more reliant on Gross Receipts Taxes and less on local taxes (franchises and property tax). Licenses and permits increased a small amount to 2.3%. Charges for services became somewhat lower and miscellaneous revenues became a fraction higher.

**Shares of Recurring
General Fund Revenues
FY/12 to FY/19**



The following sections present changes that occurred from FY/12 to FY/19, as well as detailed historical perspective, by category.

GENERAL FUND REVENUE HISTORY

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

REVENUE SOURCE	FY/12	FY/13	FY/14	FY/15	FY/16	FY/17	FY/18	FY/19	COMPOUND	
									GROWTH FY/12 TO 19	ANNUAL RATE
GROSS RECEIPTS TAX	256,661	259,787	265,745	276,573	280,550	284,466	296,408	348,621	35.8%	4.5%
GRT PUBLIC SAFETY	34,981	35,436	36,239	37,606	38,236	38,720	40,283	40,500	15.8%	2.1%
LOCAL COMPENSATING TAX	1,690	1,485	1,570	2,361	1,325	1,269	1,557	1,542	-9%	-1.3%
TOTAL GRT	293,331	296,708	303,554	316,540	320,111	324,456	338,248	390,663	33.2%	4.2%
OTHER LOCAL TAXES	104,779	104,957	105,273	107,542	108,010	111,203	111,584	114,743	9.5%	1.3%
LICENSES AND PERMITS	10,370	11,343	11,705	11,307	11,899	13,049	11,545	13,634	31.5%	4.0%
INTER-GOVERNMENTAL AID	4,837	4,750	4,808	4,327	4,739	4,887	4,753	5,219	7.9%	1.1%
INTRA-CITY CHARGES (1)	29,941	26,897	28,054	27,630	29,577	30,734	30,426	29,524	-1.4%	-0.2%
OTHER SERVICE CHARGES	19,758	20,599	22,301	20,841	21,537	22,924	24,161	22,669	14.7%	2.0%
MISCELLANEOUS	2,783	2,998	2,235	1,568	4,002	3,925	3,437	4,004	43.9%	5.3%
TOTAL REVENUES	465,799	468,252	477,930	489,756	499,875	511,179	524,154	580,457	24.6%	3.2%
LESS NON-RECURRING	3,724	2,330	3,199	4,836	4,210	4,577	9,850	2,965	-20%	-3.2%
RECURRING REVENUES	462,075	465,922	474,731	484,920	495,665	506,602	514,304	577,492	25.0%	3.2%

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 slightly reduced its share of total recurring revenues from 22.5% in FY/12 to 19.8% in FY/19. Overall, property tax revenues increased at an annual compound rate of 1.7%. 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 has shown slight new growth following the decline in existing values that persisted during the recession. Since commercial property values can be based on the income the property can earn, a sluggish economy can be a drag on earning capabilities. New non-residential property tax values increased at an average annual rate of 1% from FY/12 to FY/19, and at \$3.2 billion, remain below the 2010 high of \$3.7 billion. However, residential property

valuations grew at a 3% compound annual growth, surpassing the 2010 high of \$8.6 billion at nearly \$10.5 billion.

Historical slumps were due to several factors. Residential property values declined with the 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 recession continued to limit the increases. In FY/12, residential rates were at a maximum and the yield control mechanisms will no longer increase rates. In

GENERAL FUND REVENUE HISTORY

fact, 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.

Rates were already at a maximum on commercial properties, so yield control offered no relief. In the future, should commercial property values increase greater than the rate of inflation, they will be limited by yield control.

The compound annual rate for total franchise revenues were flat from FY/12 to FY/19, in part due to a decline in revenues from FY18 to FY/19 in all but gas and telecom. PILOT, not including the Water Authority, had annual compound growth of 1.6%. Historically, slow population growth and household formation contributed to sluggish growth, as well as mild winters and modest rate increases.

Licensing and Permits

The share for this category increased slightly to 2.3% in FY/19. The limited share was due to the fall in building permit and licensing revenue that occurred in FY/07 through FY/09. From FY/12, building permits have increased at an average compound annual rate of 4.8%, but as of FY/19 are only 60.5% of the FY/06 high. Other licenses and permits increased an average of 0.1%. This reflects a decline from previous years when there was increased use of barricading permits on roads and charging the Albuquerque Bernalillo County Water Utility Authority for the permits.

Intergovernmental Aid

Revenues from other governments not including GRT shared distributions accounted for 1.0% of General Fund recurring receipts in FY/12 and 0.9% in FY/19. Revenues increased 1.1% in this period due to losses of several shared revenue sources in the past. The only recurring revenues are the municipal gasoline tax, state shared vehicle taxes and county shared revenues. 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/12 these accounted for 6.1% of recurring revenues and 5.1% in FY/19.

Revenues for CIP-funded positions increased substantially in FY/10 and FY/11 as both the Parks 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.

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

GENERAL FUND REVENUE HISTORY

\$21.3 million in uncollectable revenue. In FY/14 there was a one-time transfer of \$2.3 million from the Operating Grants Fund.

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. In FY/19 revenues were only \$77 thousand.

Indirect overhead (IDOH) revenues in FY/12 were \$13.5 million, increasing to approximately \$16.7 million in FY/19. 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 4.3% of General Fund recurring revenues in FY/12 and 3.9% in FY/19. 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 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 one million dollars 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, that 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 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 FY19 due to in part to construction and delayed exhibit openings, revenues for the BioPark exceeded \$4 million.

Miscellaneous

This category has only a small share of recurring revenue and increased slightly from 0.5% in FY/12 to 0.7% in FY/19. One of the largest components of miscellaneous revenue is interest earnings. Interest earnings have 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. If the Federal Reserve continues to increase interest rates, unrealized losses will have a negative effect on interest earnings.

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.

GENERAL FUND REVENUE HISTORY

Gross Receipts Tax

GRT remains the major contributor to the General Fund, making up 67.3% of recurring revenues in FY/19. Non-recurring GRT revenue was about \$3 million, most of which is the amount that revenues will be reduced in the upcoming year due to the phase out of the hold harmless distributions. In FY/05, the City imposed a new ¼ cent tax for public safety. On January 1, 2000 the ¼ cent transportation tax was imposed; this replaced the ¼ cent quality of life tax that expired June 30, 1999. In January 2007 and July 2008 the ¼ cent tax basic services increment was removed in two ⅛ 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/19 by revenue source. The locally imposed GRT consists of the municipal imposed ½ cent (two quarters), public safety ¼ cent, infrastructure 1/16 cent, the transportation infrastructure ¼ 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 to 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. The tax generated about \$50 million for 11 months received in FY/19. 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 is 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.

Total Gross Receipts Tax revenues, including shared compensating tax, in the General Fund increased by 4.2% from FY/12 to FY/19. The increased growth is partly due

to 3/8ths hold harmless tax increment that went into effect July 1, 2018. However, to more clearly determine growth in the tax base and ignore changes in tax rates and other technical changes, it is best to look at the one-percent state shared distribution. The one-percent distribution had annual growth of 2.2% in this period. 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 removed for food and medical hold harmless distributions. In FY/11 positive growth of 2.9% was achieved and the distribution increased in every year FY/12 to FY/19. Since the recession in real terms, only FY/14, FY/15, FY/16, FY/18 and FY/19 had growth that exceeded the rate of inflation.

GENERAL FUND REVENUE HISTORY

GROSS RECEIPTS TAX REVENUES, FISCAL YEARS 2012 - 2019 (\$000's)

DETAIL ON GROSS RECEIPTS:	FY12 ⁽⁵⁾	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY'S 12-19 PERCENT CHANGE	COMPOUND ANNUAL RATE
GENERAL FUND:										
MUNICIPAL IMPOSED 1/2 CENT	72,081	73,006	74,661	77,481	78,796	79,817	83,052	83,534	15.9%	2.1%
PUBLIC SAFETY 1/4 CENT(3)	34,981	35,436	36,239	37,606	38,236	38,720	40,283	40,500	15.8%	2.1%
INFRASTRUCTURE 1/16 CENT (2)	8,576	8,685	8,895	9,237	9,387	9,523	9,913	9,986	16.4%	2.2%
HOLD HARMLESS 3/8 CENT								49,992		
	115,637	117,127	119,795	124,324	126,419	128,061	133,248	184,011	59.1%	6.9%
STATE SHARED RECEIPTS										
1% DISTRIBUTION	141,780	143,688	147,162	152,725	155,223	157,529	163,962	165,276	16.6%	2.2%
.225% DISTRIBUTION	31,906	32,336	33,117	34,366	34,931	35,450	36,898	37,194	16.6%	2.2%
Municipally Shared Compensating Tax	1,690	1,485	1,570	2,361	1,326	1,381	1,557	1,542	-8.7%	-1.3%
	175,375	177,509	181,849	189,452	191,480	194,361	202,417	204,012	16.3%	2.2%
TOTAL TAX RECEIPTS	291,013	294,636	301,644	313,776	317,899	322,422	335,665	388,023	33.3%	4.2%
PENALTY & INTEREST	2,318	2,072	1,910	2,765	2,212	2,078	2,583	2,640	13.9%	1.9%
TOTAL GENERAL FUND DISTRIBUTION(6)	293,331	296,708	303,554	316,540	320,111	324,500	338,248	390,663	33.2%	4.2%
MUNICIPAL IMPOSED 1/4 CENT										
TRANSPORTATION2000 (4)										
TRANSPORTATION2010 (4)	34,349	34,815	35,585	36,777	37,616	38,154	39,720	40,011	16.5%	2.2%
	34,349	34,815	35,585	36,777	37,616	38,154	39,720	40,011	16.5%	2.2%
CAPITAL PURPOSES IMPOSED 1/8 CENT										
BIO PARK PROJECTS TAX(7)						15,579	17,773	18,361		
TOTAL GROSS RECEIPTS TAX REVENUES(1)	327,680	331,524	339,138	353,318	357,728	378,233	395,741	449,035	37.0%	4.6%

(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

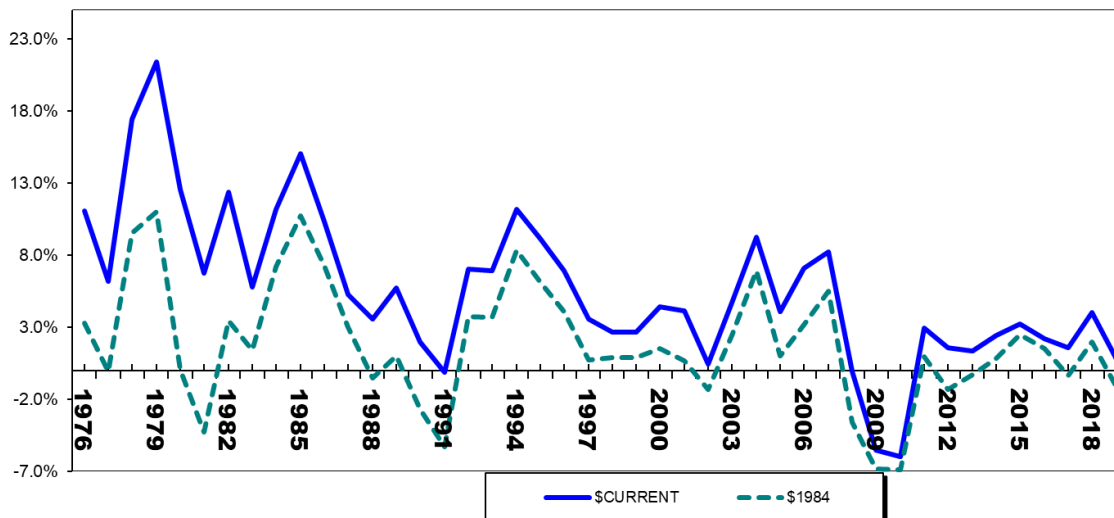
(5) An administrative fee of 3.25% was added to the food and medical hold harmless portion of all the GRT distributions and is the only admin fee on the state shared distribution in FY/16 of \$2.3 million is counted as one-time revenue. Finally there were one-time revenues associated with compensating tax and penalty and interest of \$826 thousand.

(7) The tax is to be used only for BioPark capital projects. It sunsets on June 30, 2031.

(8) Went into effect July 1, 2018.

GENERAL FUND REVENUE HISTORY

GROWTH IN THE GRT 1% DISTRIBUTION % CHANGE OVER PRIOR YEAR, FY'S 1976-2019



FY/12 growth is reduced due to the new admin fee on the hold harmless distribution
FY/15 is recurring only (excludes one-time TIDD payback)

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. Looking at the one-percent distribution avoids the problem of changes in tax rates. For FY/12, a newly imposed administrative fee on food and medical distributions made a slight reduction of approximately 0.3% in that year. The 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 negative real growth in FY/81, FY/91, FY/02 and FY/09 corresponds to recessions. The recent recession shows a far larger decline than in any of the past recessions. The only other year to decline in current terms was FY/91, with a minimal decline of 0.2%. Since the recession only FY/11, FY/14 through FY/16, FY/18 and FY/19 have posted real growth in GRT. FY/17 shows a decline in real terms, in part, due to the phase out of the hold harmless distributions.

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.

Changes to Gross Receipts Tax Base

Between FY/99 and FY/16 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,

GENERAL FUND REVENUE HISTORY

- 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.

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 over five years beginning with a half year in FY/13.

ACCURACY OF THE REVENUE ESTIMATES

ACCURACY OF THE REVENUE ESTIMATES

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 6-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 4-months out.

The first set of columns report the accuracy of the 4-month revised estimates. The second set of columns report the error of the 6-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/19.

ACCURACY OF THE REVENUE ESTIMATES

ACCURACY OF THE GENERAL FUND REVENUE ESTIMATES

ESTIMATING ERROR (ACTUAL - ESTIMATED REVENUES)

(in \$000s)

	MARCH REVISION		FIVE YEAR FORECAST		APPROVED BUDGET	
	4 MONTH ESTIMATE		6 MONTH ESTIMATE		16 MONTH ESTIMATE	
	AMOUNT	PERCENT	AMOUNT	PERCENT	AMOUNT	PERCENT
FISCAL YEAR 2019 (Unaudited Results)						
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%
FISCAL YEAR 2011						
Gross Receipts Tax	477	0.4%	1,931	1.7%	1,037	0.9%
Recurring Revenues Less CIP	880	0.2%	2,855	0.6%	(1,907)	-0.4%
Non-Recurring	-	0.0%	(731)	-24.1%	313	10.3%
FISCAL YEAR 2010						
Gross Receipts Tax	1,584	0.6%	(8,721)	-3.1%	(21,302)	-7.6%
Recurring Revenues Less CIP	328	0.1%	(11,195)	-2.6%	(28,818)	-6.7%
Non-Recurring	-	0.0%	849	7.2%	5,637	47.5%

ACCURACY OF THE REVENUE ESTIMATES

ACTUAL AND ESTIMATED REVENUE IN FY/19											
All figures in \$1,000's											
REVENUE SOURCES:	UNAUDITED	ESTIMATES									
	ACTUAL	2nd Revision (March 2019)			1st Revision (Dec. 2018)			Approved Budget (May 2018)			
	FY/19	Estimate	Difference	Percent	Estimate	Difference	Percent	Estimate	Difference	Percent	
Total GRT	390,663	390,558	105	0%	389,649	1,014	0.3%	386,792	3,871	1.0%	
Property Tax	86,508	86,374	134	0%	85,800	708	0.8%	84,885	1,624	1.9%	
Franchise Tax-Telephone	1,241	1,425	(184)	-15%	1,425	(184)	-14.8%	1,513	(272)	-22.0%	
Franchise Tax-Electric	9,044	9,313	(269)	-3%	9,313	(269)	-3.0%	9,396	(352)	-3.9%	
Franchise Tax-Gas	3,692	3,581	111	3%	3,581	111	3.0%	3,769	(77)	-2.1%	
Franchise Tax-Cable TV ABQ	3,964	4,240	(276)	-7%	4,240	(276)	-7.0%	4,240	(276)	-7.0%	
Franchise Tax - Water Auth	7,766	7,984	(218)	-3%	7,984	(218)	-2.8%	7,890	(124)	-1.6%	
Franchise Tax-Telecom	562	691	(129)	-23%	691	(129)	-22.9%	691	(129)	-22.9%	
Other Intergovernmental Assistance	5,219	4,953	266	5%	4,953	266	5.1%	4,928	291	5.6%	
Building Permit Revenue	7,422	6,996	426	6%	6,996	426	5.7%	6,783	639	8.6%	
Permit Revenue	6,212	5,245	967	16%	5,245	967	15.6%	5,245	967	15.6%	
Service Charges	22,669	24,209	(1,540)	-7%	23,889	(1,220)	-5.4%	25,076	(2,407)	-10.6%	
Fines & Penalties	523	295	228	44%	295	228	43.6%	295	228	43.6%	
Earnings on Investments	871	988	(117)	-13%	988	(117)	-13.4%	1,215	(344)	-39.5%	
Miscellaneous	2,610	3,269	(659)	-25%	3,254	(644)	-24.7%	3,254	(644)	-24.7%	
Transfers From Other Funds	3,243	3,243	0	0%	3,300	(57)	-1.8%	3,552	(309)	-9.5%	
Payments In Lieu of Taxes	1,966	2,146	(180)	-9%	2,126	(160)	-8.1%	2,126	(160)	-8.1%	
IDOH	16,650	18,865	(2,215)	-13%	18,865	(2,215)	-13.3%	18,865	(2,215)	-13.3%	
Services Charges-Internal	77	205	(128)	-167%	205	(128)	-166.8%	266	(189)	-246.2%	
Transfers For CIP Positions	9,554	11,792	(2,238)	-23%	11,817	(2,263)	-23.7%	11,817	(2,263)	-23.7%	
									0		
TOTAL REVENUE	580,457	586,372	(5,915)	-1%	584,615	(4,158)	-0.7%	582,597	(2,140)	-0.4%	
			-			-			-		
LESS: NON-RECUR	2,965	2,965	0	0%	2,965	0	0.0%	4,335	(1,370)	-46.2%	
			-			-			-		
RECURRING REVENUE	577,492	583,407	(5,915)	-1%	581,650	(4,158)	-0.7%	578,262	(770)	-0.1%	