

Mid-Year Budget Review Fiscal Year 2013/2014

GENERAL DISCUSSION

Otero County's fiscal year begins on July 1 and ends on June 30 of the following year. At the midway point of each fiscal year, it is customary for the Finance Department to prepare a formal presentation to the Board of County Commissioners on the status of receipts and disbursements.

Although the receipts and disbursements are routinely analyzed in detail throughout the fiscal year, this formal process allows opportunity for the data to be presented to interested parties in a summarized and more logical format. Depending on fluctuations in revenues, it could become necessary to amend the spending plan for the fiscal year to compensate for significant reductions in revenues.

The detail operating budget is necessary to properly conduct the business of the County, but it is not conducive to a thorough understanding by our policy makers and our constituency. This presentation provides an opportunity to present the budget, receipts and disbursements in a format that allows interested parties to gain a better understanding of how our revenues are generated and how they are spent. Furthermore, at the conclusion of even-numbered calendar years when there may be changes in Elected Officials, this presentation also ensures that the statutorily required 50% of the total departmental budget remains available for expenditure by the incoming official.

WHERE THE MONEY COMES FROM

Charts 1 thru 3 are intended to give the reader a basic concept of how Otero County's funding is generated while **Charts 4 - 8** show how it is spent.

As we review **Chart 1**, we can see from the heading that Otero County is projecting revenues totaling \$135,055,936 for the current fiscal year. Nearly 80% of the County's projected revenues stem from our enterprise funds which include the prison facilities near Chaparral. The remaining 20%, or \$27,525,936, are the revenues with which we fund all County operations.

As we move on to **Chart 2**, we see how the \$27,525,936 anticipated revenues are classified into six (6) major categories with Property Tax and Other receipts contributing to more than 55% of our total revenue base. As the revenue source classified as "*** Other ***" contributes a significant amount to the total revenues, **Chart 3** sub-categorizes the sources of these revenues for further information.

HOW THE MONEY IS SPENT

As we review **Chart 4**, we see that we have budgeted expenditures of \$142,059,413 for the current fiscal year. Over 75% of the projected expenditures relate to the enterprise funds discussed above. The remaining \$34,705,413 detailed in **Chart 5** supports all other County

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operations. The bulk of this presentation will exclude the enterprise funds which will be discussed later.

The first thing one might notice is that we are projecting \$34,705,413 in expenses compared to revenues totaling \$27,525,936 for fiscal year 2013/2014. The decision to adopt a budget planning to spend \$7.18 million more than we are generating in revenues was made with some measure of confidence based on two (2) points. First, there was a \$13.5 million cash carry-over from the previous fiscal year available to support the expenses in excess of anticipated revenues and second, the total appropriated expenditures are never spent in entirety. Generally, 20% of the budgeted expenditures are unexpended at fiscal year end.

The budgeted expenditures classified as Elected Officials, Public Works and Administrative Services are further broken down on **Charts 6, 7 and 8**.

In analyzing the data provided on **Charts 3 - 6**, we can see that over 65% of all expenditures are dedicated to Detention, Fire & EMS, Roads, Law Enforcement and Health Care.

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REVENUE PERFORMANCE AT MID-YEAR

Having provided a rough synopsis of where the money comes from and where it goes, we will now review and discuss where we stand at mid-year on our receipts and expenditures.

Charts 9 - 14 reveal three (3) interesting comparisons in assessing our budgetary performance at midyear. While it is extremely beneficial to see how our revenues and expenditures are performing compared to the budgeted amounts, it is also relevant to review how they compare to the 5-year averages and to the amounts for the prior fiscal year. These additional comparisons allow us to identify any anomalies or potential problems.

Roughly speaking, we would expect to be at about 50% of the anticipated revenues and expenditures at mid-year. However, not all will follow this trend as some occur only once a year. The more significant of these will be discussed later.

Probably the most important aspect of the mid-year budget review is to provide an analysis of how our revenues are performing. As we review **Chart 9**, we see that we have received 50.72% of our total projected revenues as of December 31, 2013.

Property tax revenues are performing consistently with historical trends and favorably as compared to budget projections.

We further find revenues classified as “** Other **” to be within reasonable tolerances at 53.33% received. The revenues classified as “** Other **” are further broken down on **Chart 10**. With a few exceptions, these sub-categories are performing as expected. Revenues derived from “Federal Distributions” and “Cooperative Road Projects” are normally received in entirety during the 2nd half of the fiscal year. Although a few of these sub-categories are reporting 35 to 40% received, the net dollar amount is not significant enough to cause much concern.

We find that revenues derived from Gross Receipts Taxes to be at 46.45% at mid fiscal year. While that would normally be within acceptable tolerances, at fiscal year end, we could easily find ourselves at only 93% collected. This would amount to a \$403,000 shortfall against a budget of \$5,760,000. ***This is cause for concern.***

Payment In Lieu of Taxes (P.I.L.T.) is shown at zero percent as it is received in entirety in June.

In contrast, we find Fire & EMS funding reported at 96.62% as it is received almost in entirety during the first few months of the fiscal year. We are not particularly concerned that Grant revenues are reported at only 22.16% received as our budget is not dependent on grant proceeds for routine operating expenses.

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EXPENDITURE PERFORMANCE AT MID-YEAR

As we review **Chart 11**, we find that, over all, expenditures are performing within reasonable tolerances at mid-year. We find Fire & EMS expenditures significantly below the 50% mark at mid-year. In an effort to continually upgrade their apparatus and stations, these departments frequently 'save' money for major capital purchases. Therefore, the 21.21% expended at mid-year is normal and no cause for concern.

Although Detention appears to be within an acceptable range at 56% expended, detail research reveals a potential problem. Housing of Adult Prisoners has already expended 123% (\$616,805) of its \$500,000 appropriation. We will be watching this line item very closely over the next few months. If the second half of the fiscal year keeps pace with the first half, we will over-expend this line item by approximately \$733,610 by fiscal year end. As there does not appear to be sufficient resources elsewhere in this department to absorb this cost overrun, a budget increase before fiscal year-end is eminent.

The primary types of expenditures classified as "Other" are debt service payments. Interest payments were made on our NMFA debt in November, but the principal payments are not applied until May causing year-to-date expenditures at mid year to be significantly below the 50% target.

Chart 12 summarizes the activities of the departments under the jurisdiction of elected officials. While they appear to be spending within acceptable tolerances, a potential budget overrun is likely for the Sheriff's Department. The High Intensity Drug Trafficking (HIDTA) grant is on target to overspend by \$60,000 by year end. During the budget preparation process, the Sheriff had offered a cost savings plan that was ultimately rejected by HIDTA causing the eventual cost overrun.

The only function requiring comment on **Chart 13** is the Animal Shelter for which there is currently no budget. This is a new department established after the final operating budget was approved. Prior to the opening of this facility, stray animals were being housed at a private veterinarian's facility. The funding for this purpose is contained within the Sheriff's budget. Upon paying the final billing to the veterinarian, budget adjustments will be made to move the remaining funding totaling approximately \$41,000 from the Sheriff's budget to the Animal Shelter budget.

Chart 14 reveals that all departments are spending within their budgets with some spending significantly less than the expected 50%. The more appreciable of these is Emergency Services at 31.87% and General Government at 37.38%.

The Emergency Services Department being at significantly under 50% expended at mid-year is due to equipment related to the County Community Corrections program having not been made.

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General Government reporting at only 31.38% at mid-year is due to our annual property and liability insurances not being paid until January.

In summary, we find our revenues and expenditures performing within acceptable tolerances at mid-year. However, the pattern of spending into cash carry-over has now become troublesome. By fiscal year-end, we will only have \$3.3 million in unrestricted cash. \$2 million of this is our emergency reserve leaving a mere \$1.3 in unrestricted cash. This, coupled with the uncertainty of PILT and SRS distributions, leaves us in a near critical situation. The following chart summarizes the revenues and expenditures and subsequent gain or loss in cash carry-over for the past few years:

FISCAL YEAR	REVENUES	TRANSFERS	EXPENSES	ENDING CASH	GAIN/ (LOSS)
FY 05/06	17,546,418	72,830	16,470,052	9,378,366	1,149,196
FY 06/07	18,815,113	(532,799)	18,281,526	9,379,153	787
FY 07/08	20,286,320	(88,656)	18,986,203	10,590,615	1,211,462
FY 08/09	24,555,620	(53,958)	20,767,897	14,324,380	3,733,765
FY 09/10	21,816,906	112,000	24,071,409	12,181,876	(2,142,504)
FY 10/11	22,193,559	295,861	23,129,295	11,542,000	(639,876)
FY 11/12	21,590,453	(135,820)	24,133,272	8,863,362	(2,678,638)
FY 12/13	22,308,402	1,141,694	23,830,213	8,483,244	(380,118)
FY 13/14	22,413,490	1,785,279	25,278,012	7,404,000	(1,079,244)
	173,979,863	2,523,600	178,477,828		

It is the Finance Department's recommendation to take immediate steps to reduce recurring expenses. If no action is taken, we will likely find ourselves in a situation where there will be no money available for capital outlay next year and we will begin spending into our emergency reserve.

COUNTY-WIDE REVENUE SOURCES
FY 2013/2014
ADJUSTED BUDGET
\$135,055,936

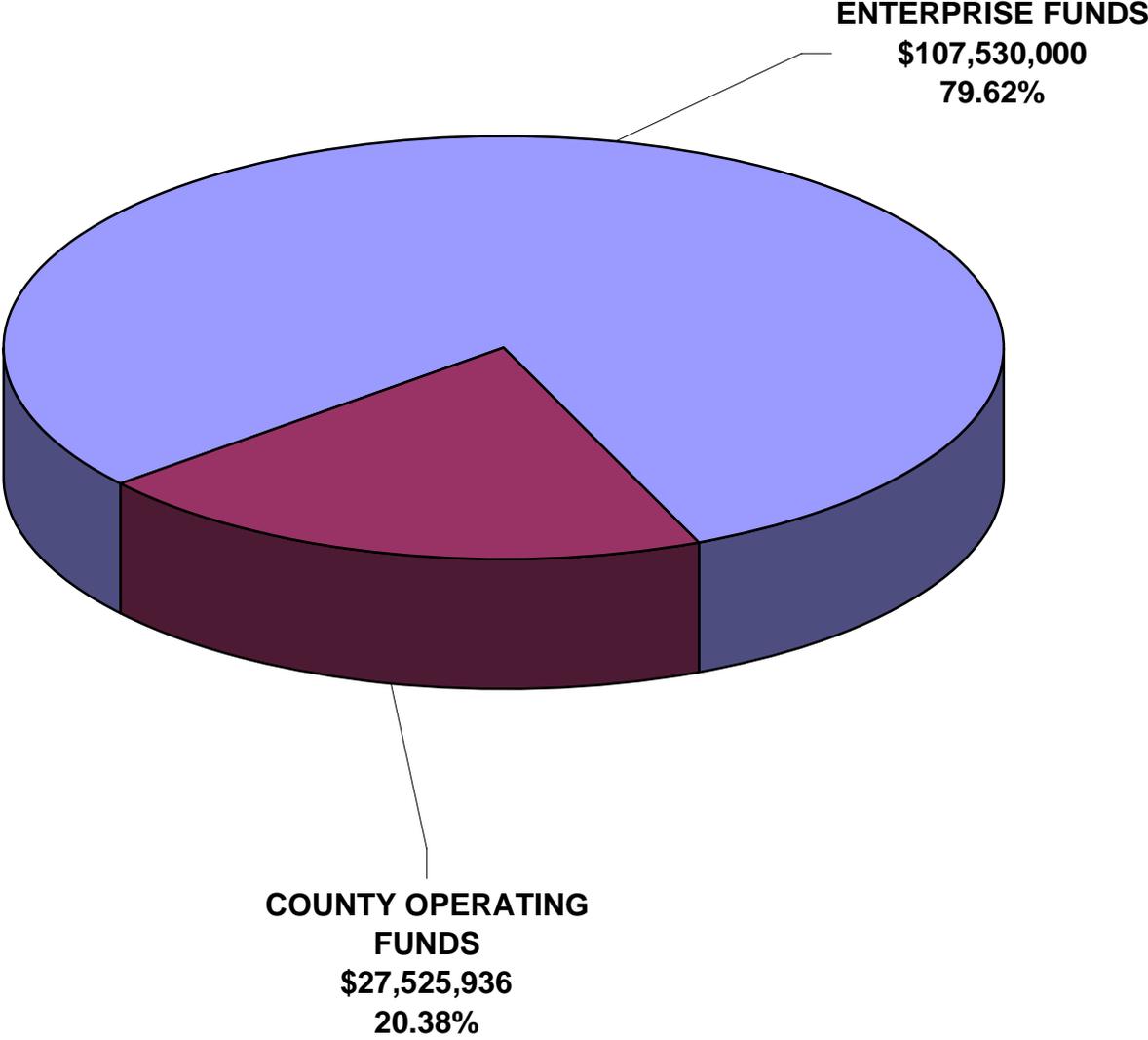


Chart 1

COUNTY-WIDE REVENUE SOURCES
(Excluding Enterprise Funds)
FY 2013/2014
ADJUSTED BUDGET
\$27,525,936

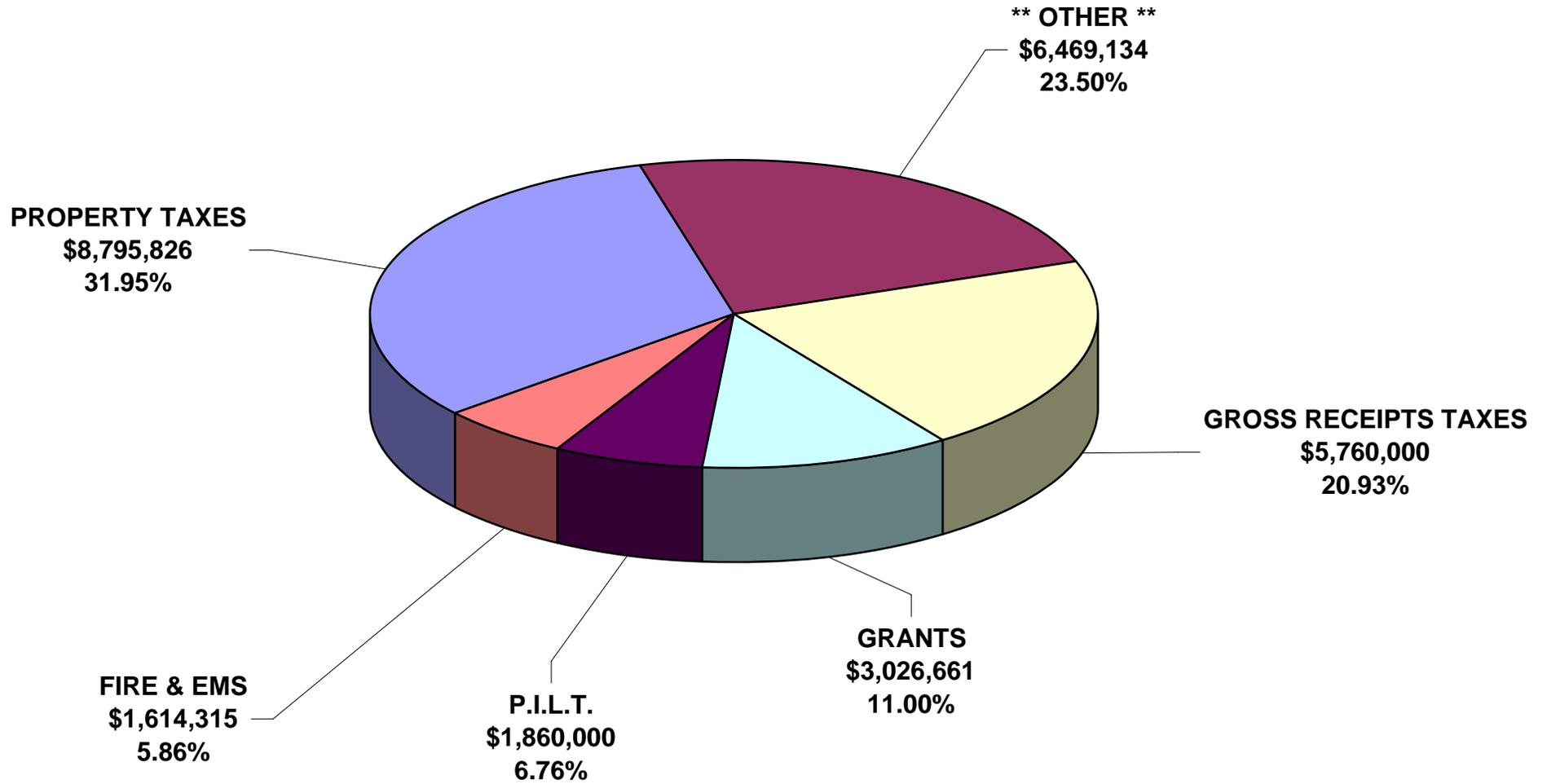


Chart 2

**** OTHER ** REVENUE SOURCES**
FY 2013/2014
ADJUSTED BUDGET
\$6,469,134

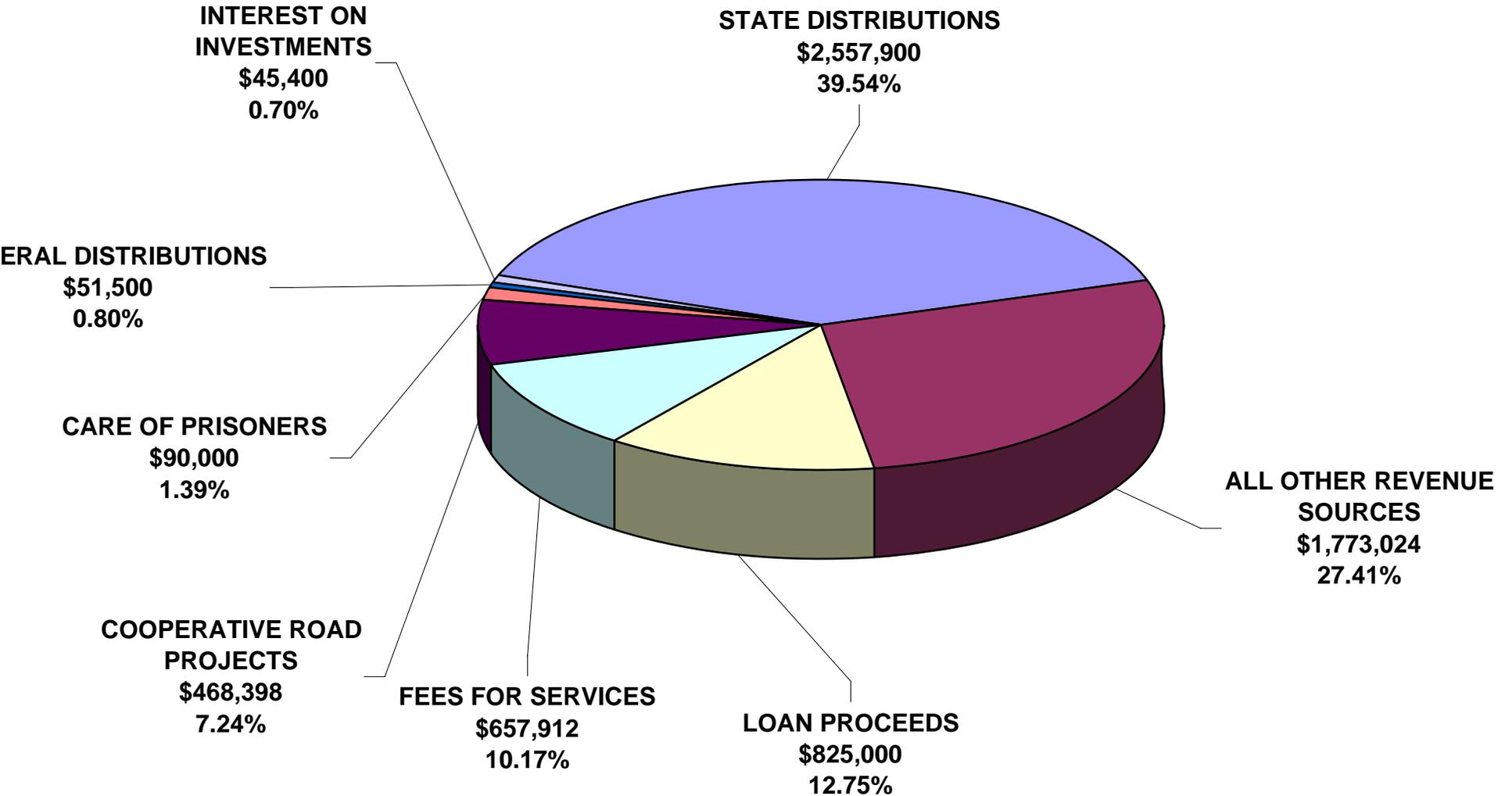


Chart 3

**COUNTY-WIDE EXPENSES
FY 2013/2014
ADJUSTED BUDGET
\$142,059,413**

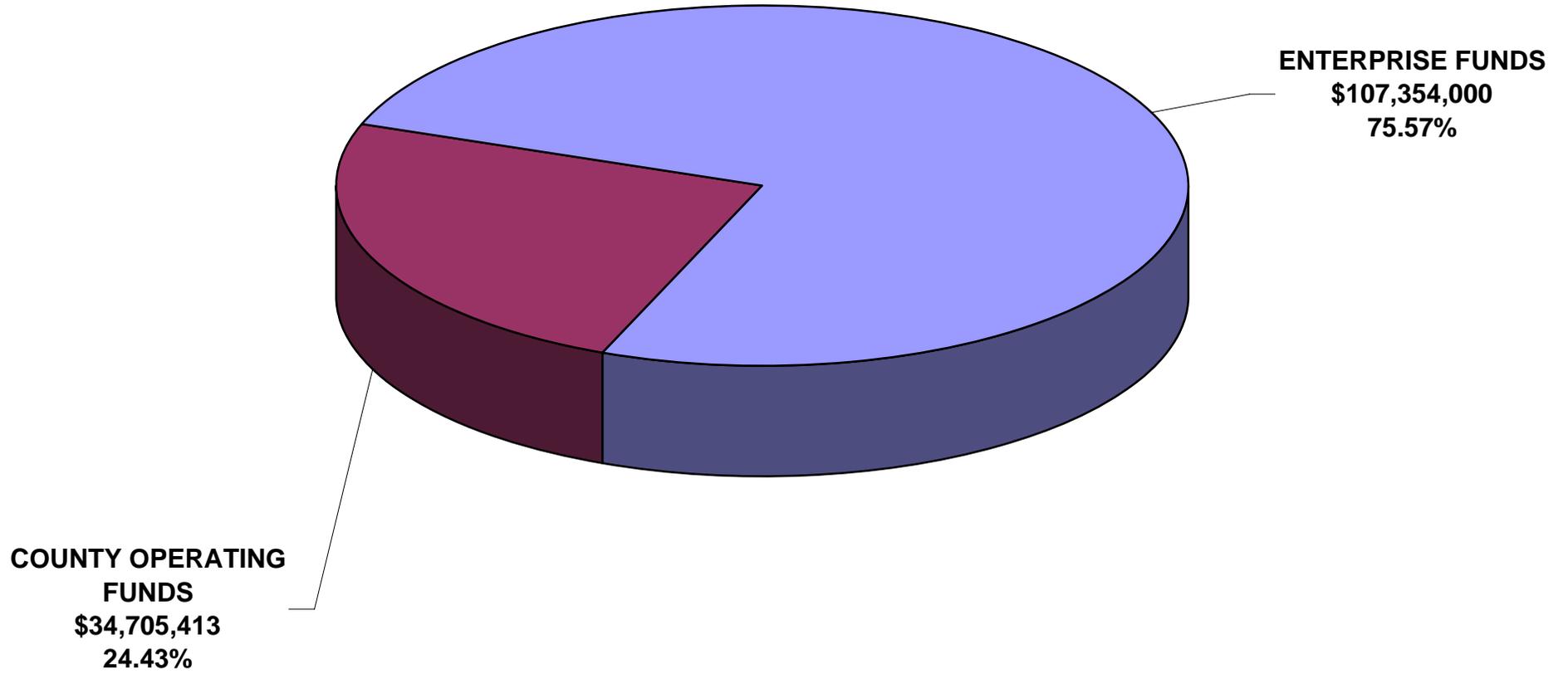


Chart 4

**COUNTY-WIDE EXPENSES
(Excluding Enterprise Funds)
FY 2013/2014
ADJUSTED BUDGET
\$34,705,413**

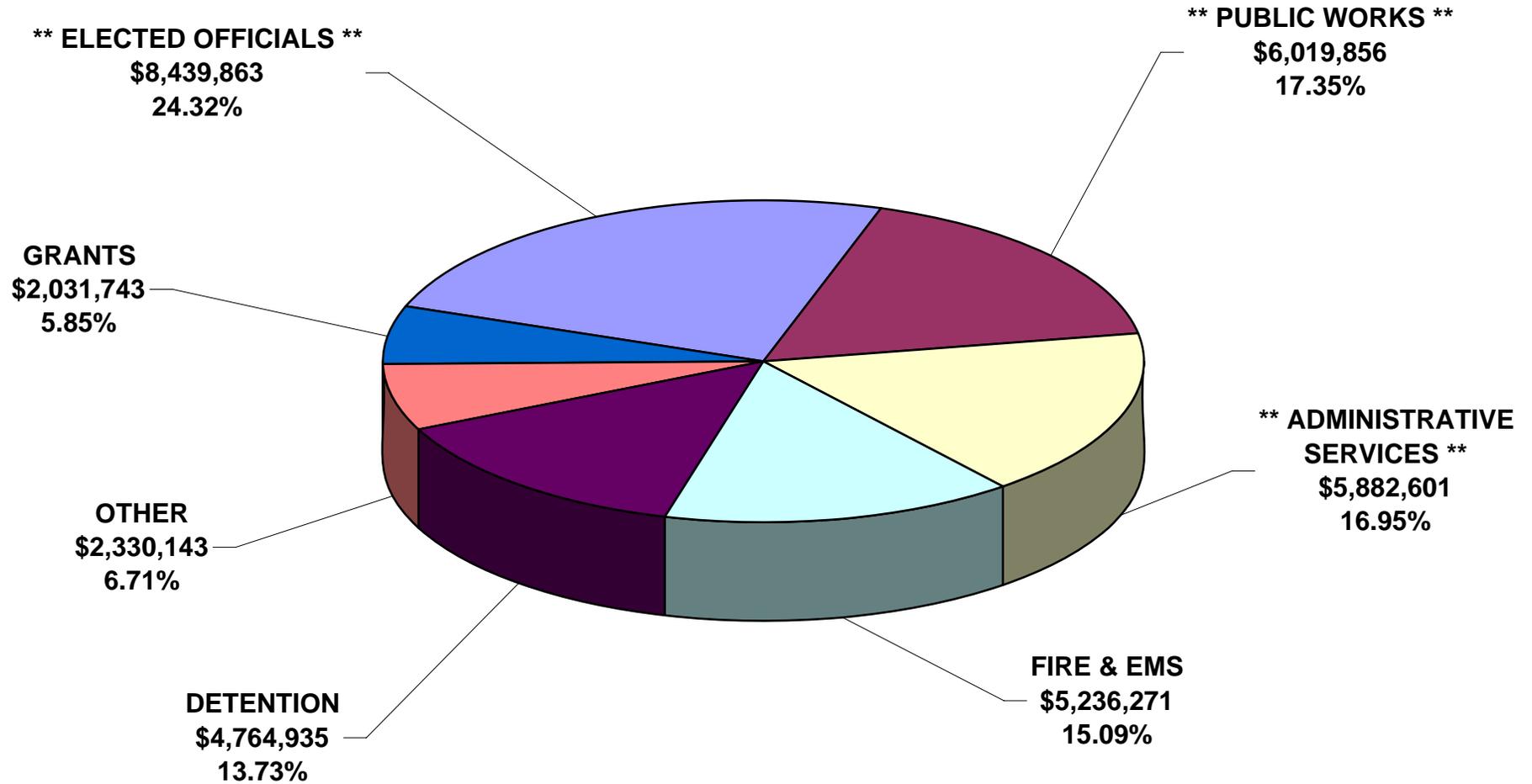


Chart 5

**** ELECTED OFFICIALS ** EXPENSES**
FY 2013/2014
ADJUSTED BUDGET
\$8,439,863

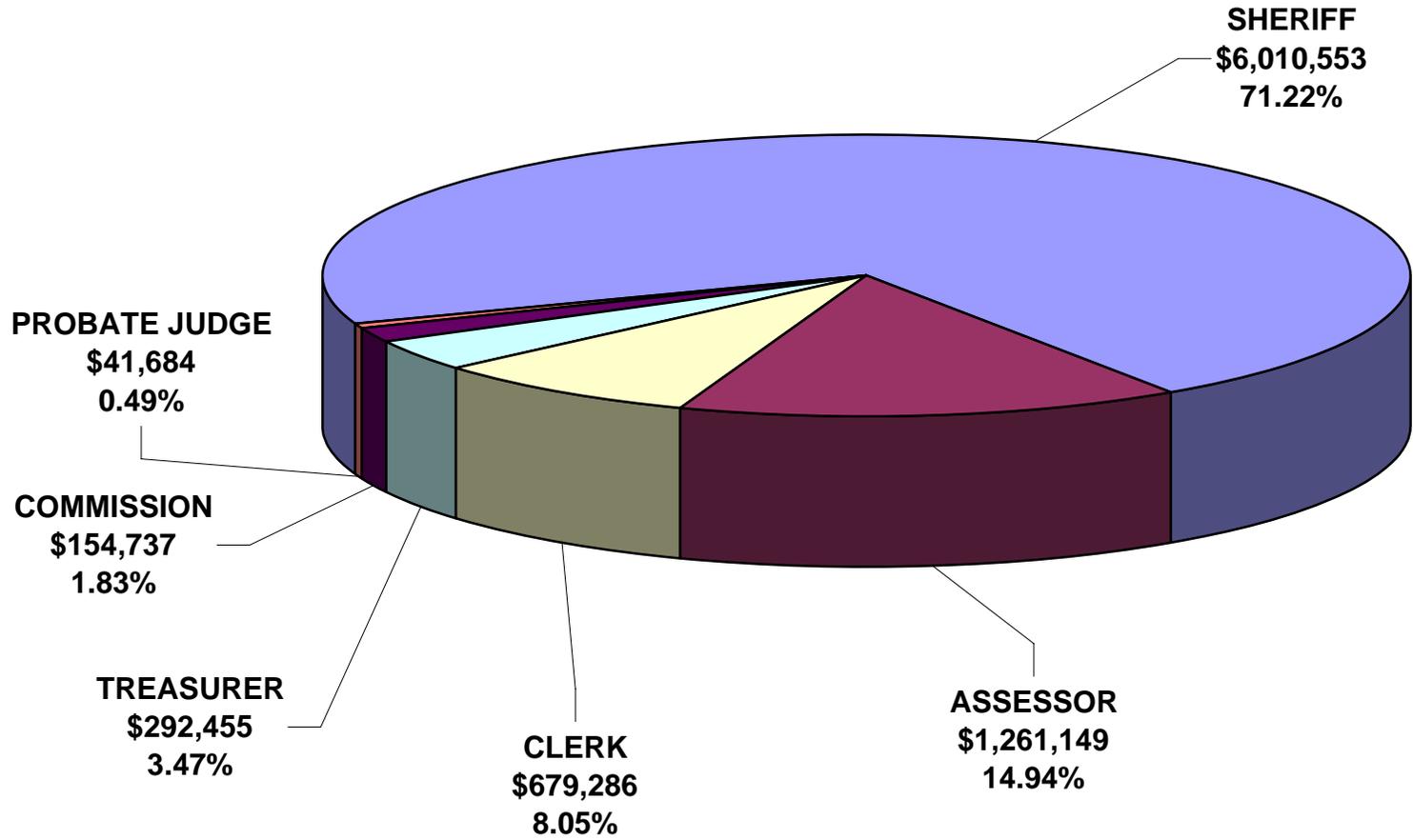


Chart 6

**** PUBLIC WORKS ** EXPENSES**
FY 2013/2014
ADJUSTED BUDGET
\$6,019,856

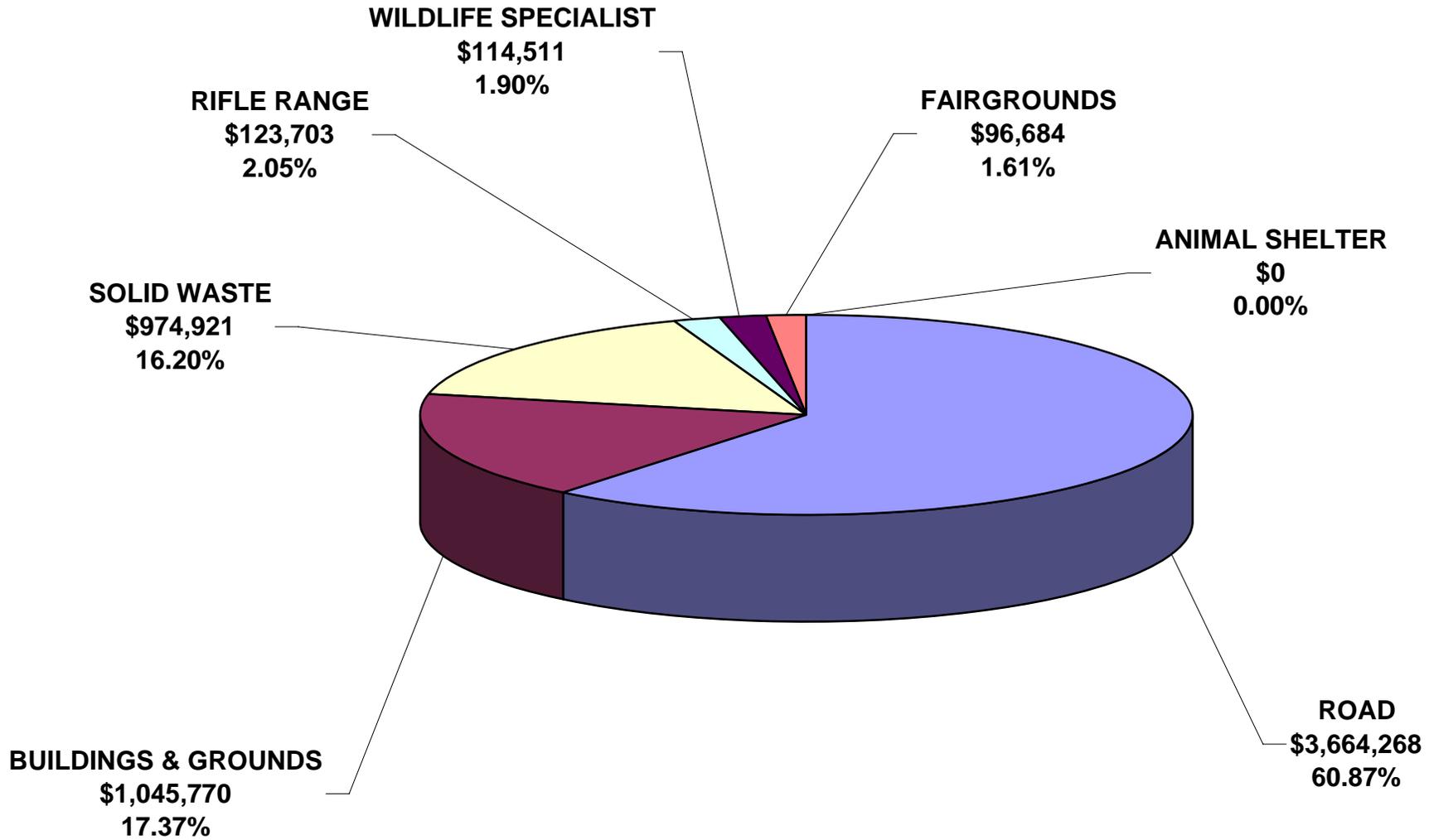


Chart 7

**** ADMINISTRATIVE SERVICES ** EXPENSES**
FY 2013/2014
ADJUSTED BUDGET
\$5,882,601

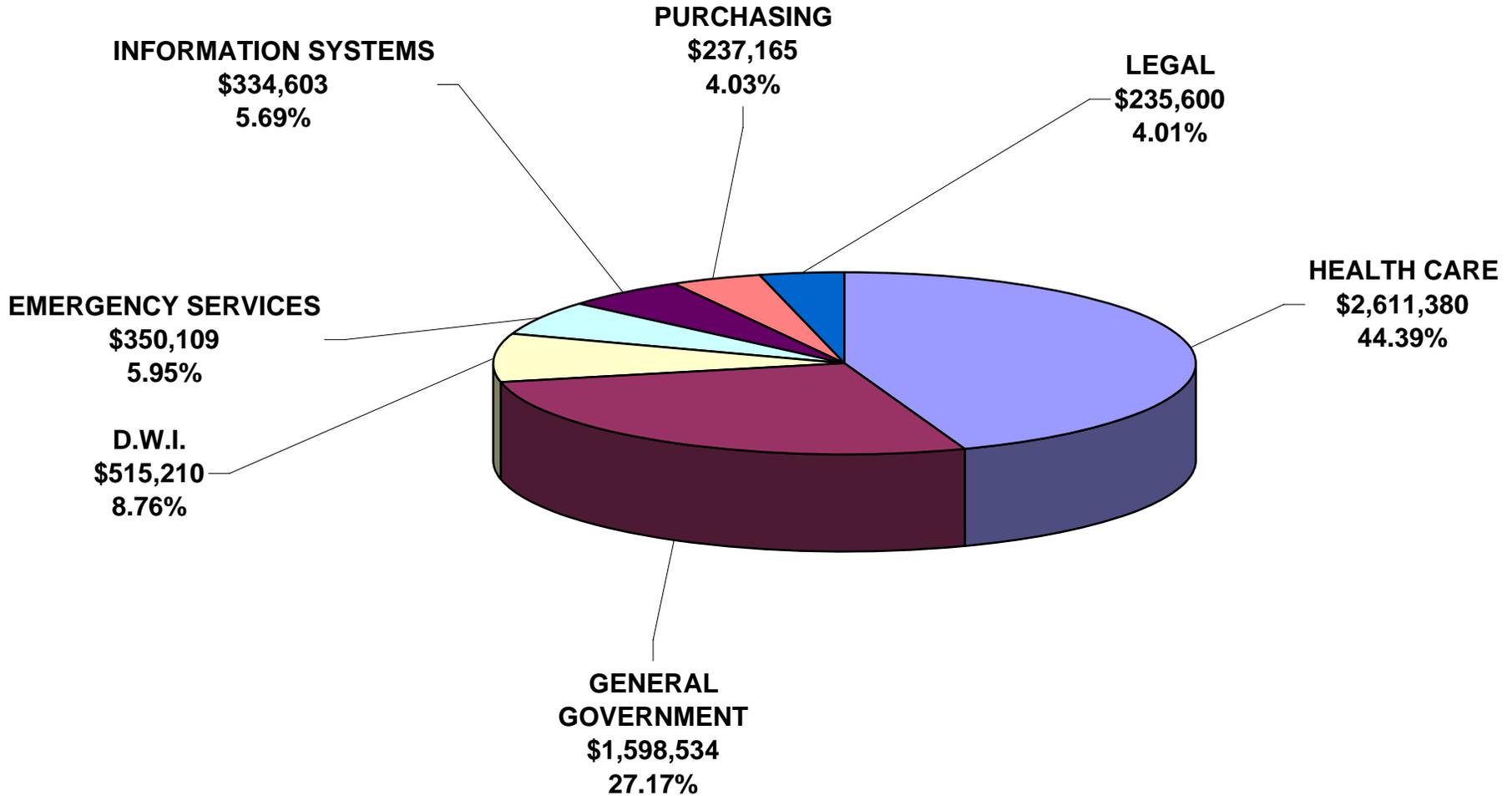


Chart 8

COUNTY-WIDE REVENUES COMPARING YEAR-TO-DATE TO BUDGETED AMOUNT, THIS TIME LAST YEAR AND 5-YEAR AVERAGES

■ CURRENT BUDGET
 ■ RECEIPTS TO DATE
 ■ THIS TIME LAST YEAR
 ■ 5-YEAR AVERAGE

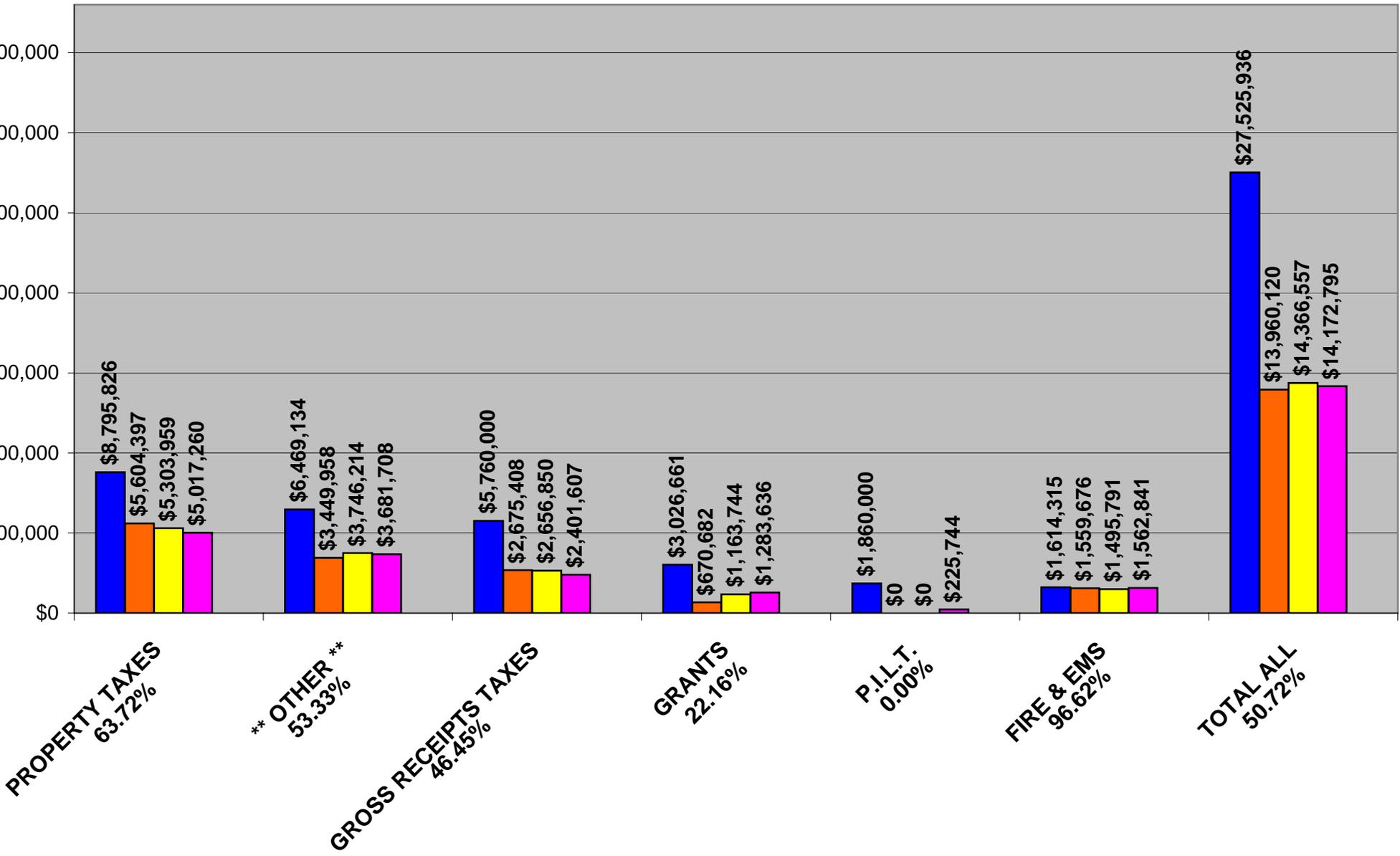


Chart 9

**** OTHER ** REVENUE SOURCES
COMPARING YEAR-TO-DATE TO
BUDGETED AMOUNT, THIS TIME LAST YEAR AND 5-YEAR AVERAGES**

■ CURRENT BUDGET ■ RECEIPTS TO DATE ■ THIS TIME LAST YEAR ■ 5-YEAR AVERAGE

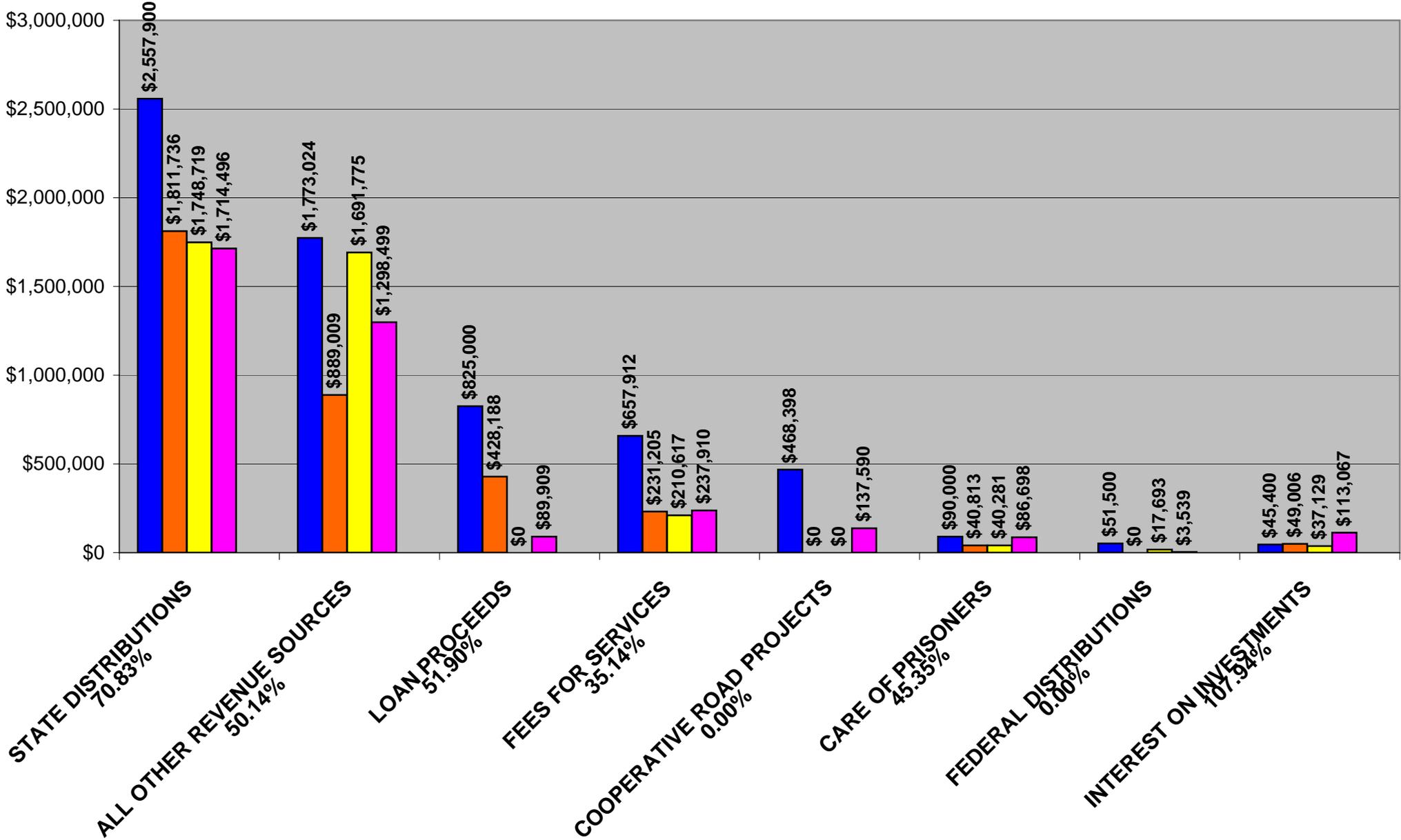


Chart 10

COUNTY-WIDE EXPENSES COMPARING YEAR-TO-DATE TO BUDGETED AMOUNT, THIS TIME LAST YEAR AND 5-YEAR AVERAGES

■ CURRENT BUDGET
 ■ DISBURSEMENTS TO DATE
 ■ THIS TIME LAST YEAR
 ■ 5-YEAR AVERAGE

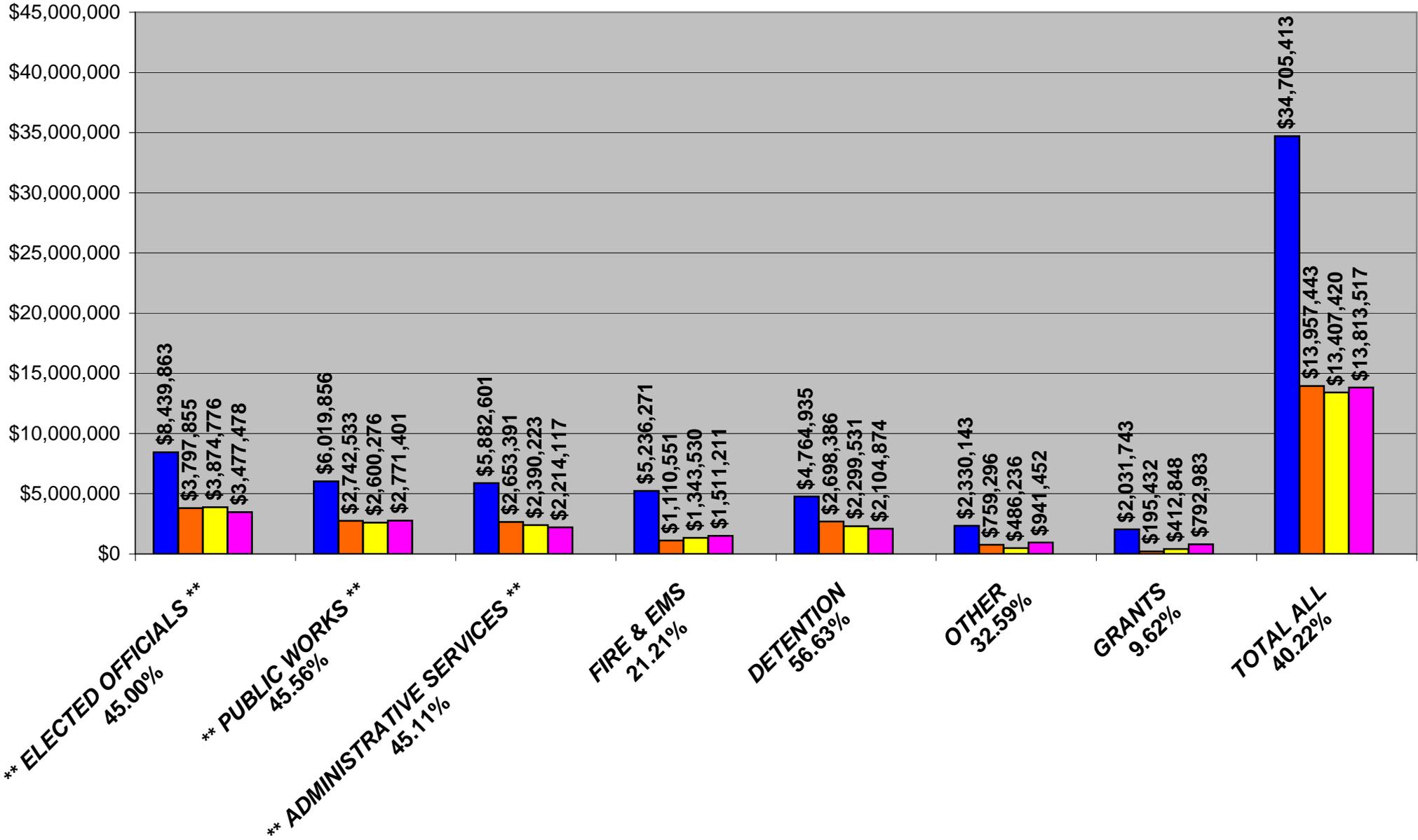


Chart 11

**** ELECTED OFFICIAL ** EXPENSES
COMPARING YEAR-TO-DATE TO
BUDGETED AMOUNT, THIS TIME LAST YEAR AND 5-YEAR AVERAGES**

■ CURRENT BUDGET ■ DISBURSEMENTS TO DATE ■ THIS TIME LAST YEAR ■ 5-YEAR AVERAGE

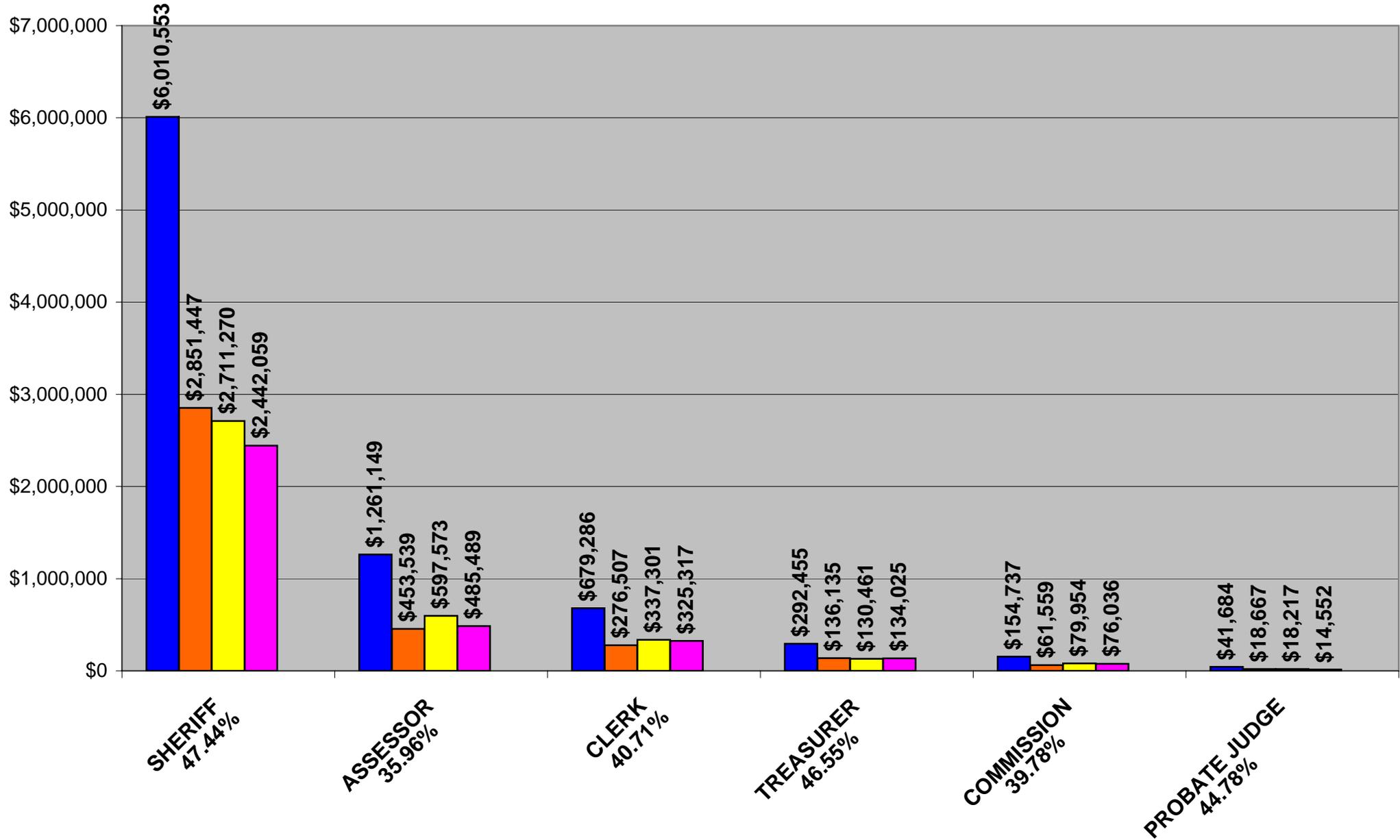


Chart 12

**** PUBLIC WORKS ** EXPENSES
COMPARING YEAR-TO-DATE TO
BUDGETED AMOUNT, THIS TIME LAST YEAR AND 5-YEAR AVERAGES**

■ CURRENT BUDGET ■ DISBURSEMENTS TO DATE ■ THIS TIME LAST YEAR ■ 5-YEAR AVERAGE

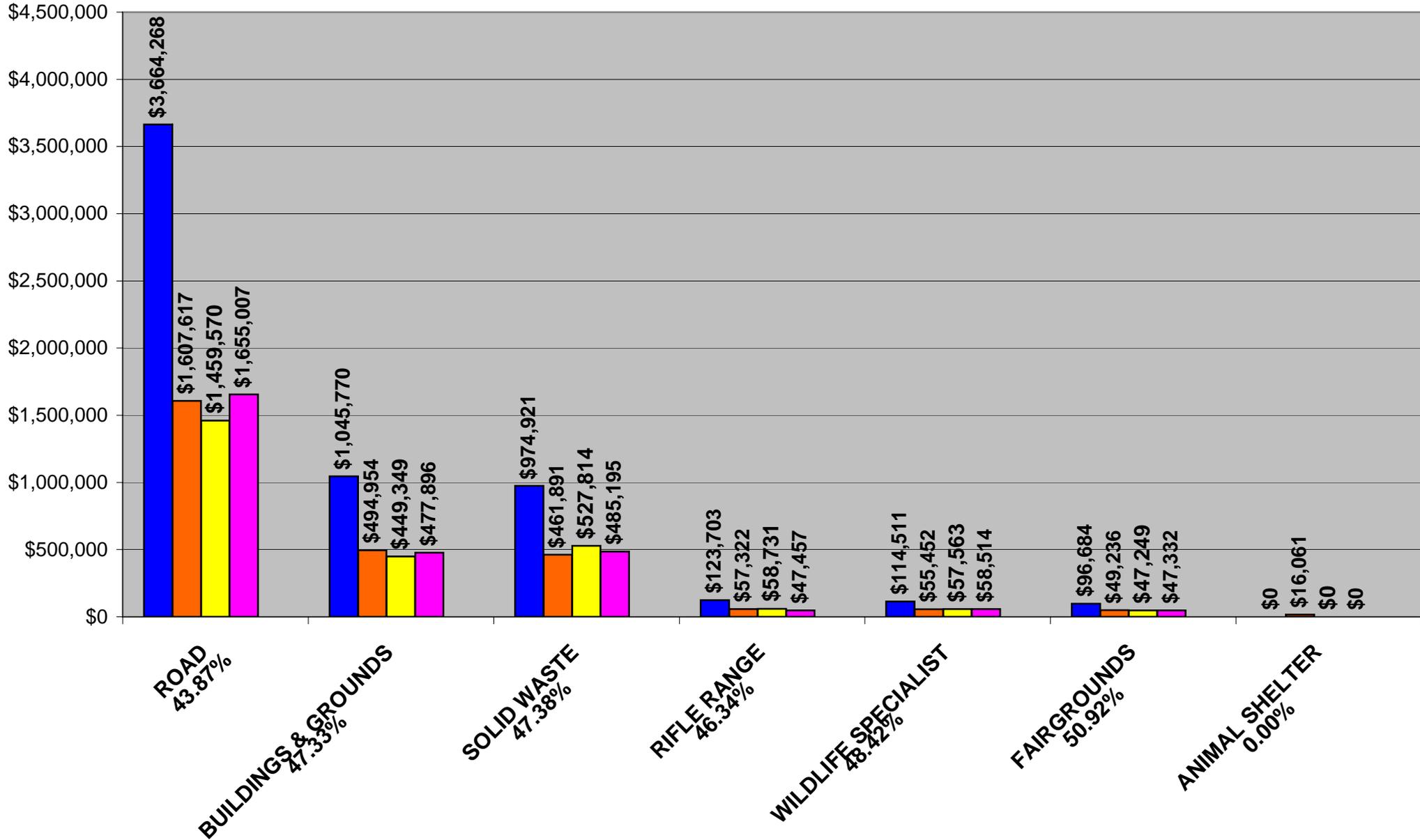


Chart 13

**** ADMINISTRATIVE SERVICES ** EXPENSES
COMPARING YEAR-TO-DATE TO
BUDGETED AMOUNT, THIS TIME LAST YEAR AND 5-YEAR AVERAGES**

■ CURRENT BUDGET ■ DISBURSEMENTS TO DATE ■ THIS TIME LAST YEAR ■ 5-YEAR AVERAGE

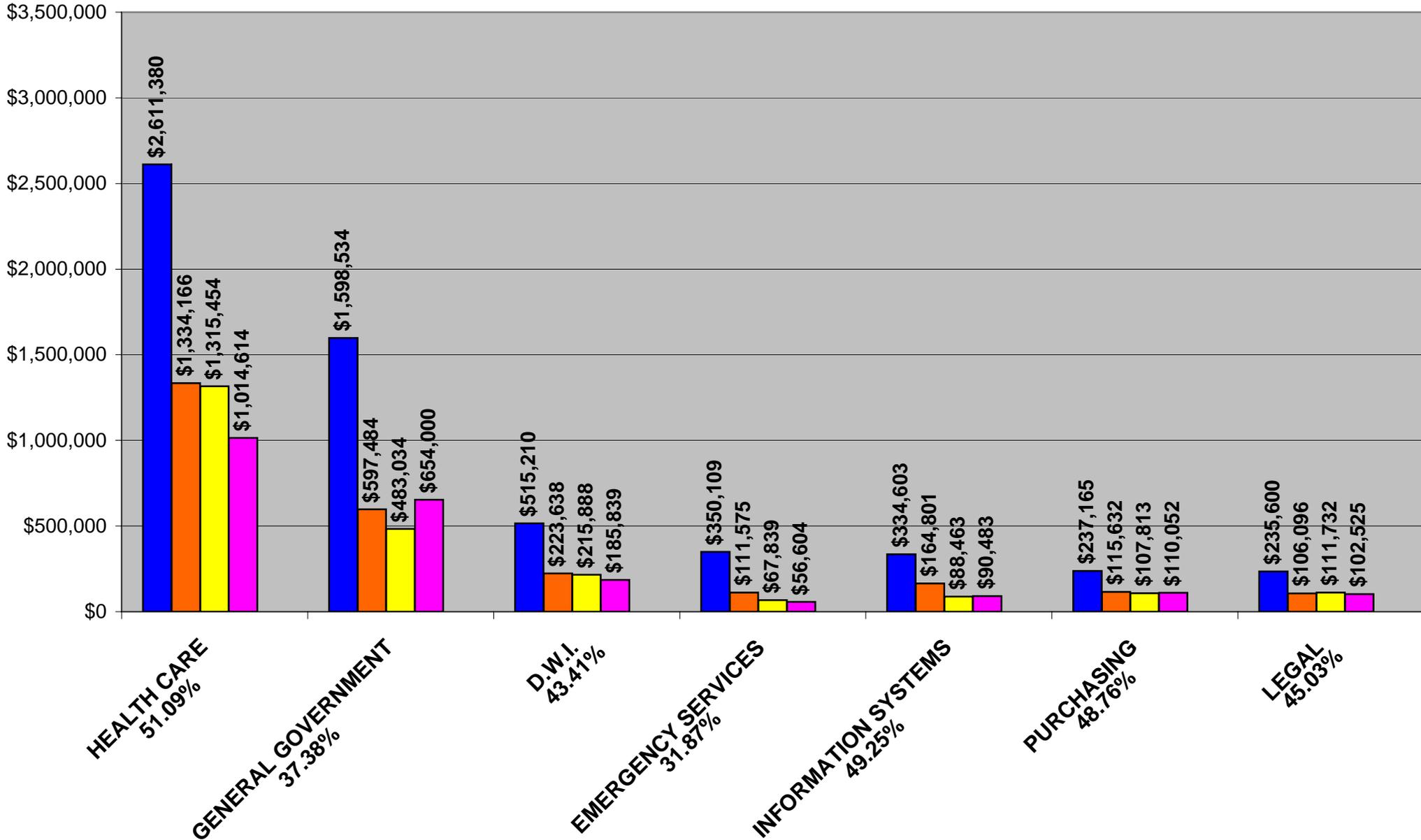


Chart 14

FISCAL YEAR	REVENUES	TRANSFERS	EXPENSES	ENDING CASH	GAIN/(LOSS)
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	173,979,863	2,523,600	178,477,828		
	176,503,463				

Chart 15