GENERAL BUDGET & FINANCIAL POLICIES

Bernalillo County's budget and financial policies are governed by New Mexico State Statute, County policy and generally accepted accounting standards. These standards set budget calendar dates, provide for budget control, and describe ways to amend the budget after adoption and identify appropriate methods for budgeting, accounting and reporting. The County's fiscal year runs from July 1 through June 30.

New Mexico State Statute establishes the property tax system and sets tax levy and assessed valuation limits. The County relies heavily on gross receipts and property taxes as its primary sources of revenue. New Mexico State Statutes prohibit the County from making expenditures in excess of the final approved budget at the fund level and sets total bonded debt limits. Bernalillo County government functions in accordance with Section 6-6-2-(E) NMSA 1978 Compilation - State Local Government Division of Department of Finance and Administration (DFA).

DFA reviews, approves and monitors the budgets of all local public bodies in New Mexico. By law, all local governments are required to annually prepare and submit operating budgets to DFA for approval. When approval is obtained, the local governments are required to operate within those approved budgets.

All budget increases and transfers of funds by a local government must be approved by DFA. Each local public body is required to submit monthly or quarterly financial reports and follow all rules and regulations relating to budgets, records, reports, handling and disbursements of public funds as required by DFA.

BUDGET FORMAT

The mandatory format for the approval of Bernalillo County's operating budget by New Mexico Department of Finance and Administration (DFA) includes the following:

- resolution of budget adoption from the governing body
- recap of the entire budget
- anticipated revenues by fund and source
- planned expenditures by fund, department and category
- planned cash transfers between funds
- personnel schedules showing salaries by position, fund and department
- insurance composite
- general obligation and revenue bonded debt service

BASIS OF ACCOUNTING – The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the County considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures, generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is made.

BUDGET BASIS - Actual amounts on the budgetary basis are prepared on the cash basis of accounting, which recognizes revenues when received, and expenditures when paid for all funds except proprietary and fiduciary. Proprietary and fiduciary funds are prepared on the accrual basis of accounting. Annual budgets are adopted for the general, most special revenue, debt service, proprietary and certain fiduciary agency funds. Budget amounts for Capital Projects Funds and certain Special Revenue Funds are individual project budgets authorized by the County Commission for the entire length of the project. The County Manager has administrative authority to make line item changes within a specific capital project without County Commission approval if the total change does not exceed 10 percent of the original budget. Once the County Commission has approved grant applications for projects, the County Manager is authorized to expend any funds awarded as a result of the grant application.

BIENNIAL BUDGET PROCESS – In an effort to improve long term financial planning, the County has adopted a biennial budget process. Under the biennial budget process, revenues and goals are developed for a two-year period. Approval of the budget provides for a two-year appropriation, with funding made available to departments one fiscal year at a time. The appropriated biennial budget is prepared by line item within object class, program, department and fund; revenues expected to be available are estimated to provide for balanced budgeting, a budget in which revenues and expenditures are equal (no deficit spending). The comprehensive budget package is brought before the County Commissioners for approval by resolutions for each of the two years of the biennial cycle. The proposed biennial budget is then submitted by June 1 to the New Mexico Department of Finance and Administration Local Government Division (DFA) for approval. By law, the County is required to prepare and submit operating budgets to DFA for approval annually, so the County presents mid-cycle budget adjustment resolution to DFA in addition to the resolution submitted at the start of the biennial cycle. DFA certifies a pending budget by July 1 with final certification of the budget by the first Monday of September. The expenditure section of the budget, once adopted, is legally binding. Based on the final certified budget submitted, DFA certifies the allowable tax rates for property taxes in September.

Under the County's biennial budget plan, operating program appropriations not spent during the first year may be carried over for specific, one-time, purposes into the second year with approval of the County Manager. Allowing for the carryover of unexpended operating appropriations from the first year of the financial plan into the second year assists management in achieving three key financial goals:

- eliminating the "use it or lose it" thought that can exist under one-year budget practices when all unspent appropriations lapse at year-end
- providing departments with incentives for effectively using their operating budget
- ensuring resource continuity in accomplishing multi-year objectives

BUDGET ADJUSTMENTS - DFA approval is required to make budget adjustments to the adopted budget under certain circumstances. Adjustments requiring DFA approval are:

- Budget increases and decreases
- Transfer of budget between funds
- Transfers of cash, permanent and temporary, between funds

County financial management may make transfers of appropriations within a fund, with Deputy County Manager or elected official approval. Increases or decreases in the budget of a fund or transfers of appropriations between funds must be presented to the County Commission for approval by resolution and must subsequently have DFA approval.

County Department Directors are held accountable at the department level for maintaining budgetary control. Quarterly budget reviews are held with each department to review the progress of goals and objectives and budget expenditures. If any unfavorable budget variance is experienced, the Deputy County Manager and/or the County Manager will determine the appropriate course of action to reconcile the variance.

Budgets and amendments to the budgets for all funds are adopted in a legally permissible manner. The legal level of budgetary control is the fund level. Expenditures may not legally exceed budgeted appropriations at the fund level.

REVENUE SOURCES - County government receives revenues from varied sources. Examples of County Revenue Sources:

- **Governmental Gross Receipts Tax** – Bernalillo County receives a 0.6875% tax on all gross receipts within the County. This includes a 0.125% County corrections tax, which went into effect on July 1, 2006. The New Mexico Taxation and Revenue Department collects and distributes the tax.
- **Property Taxes** - DFA certifies property tax rates each year for the County. Property taxes may be authorized for the general operation of the County. Property taxes are also used for paying principal and interest on general obligation debt approved by the voters. This tax may also be used to pay for worker's compensation torts or judgements.
  - *By statute, operational property tax rates are subject to the yield control formula. This statute limits the annual tax revenue increase resulting from rates certified by DFA for existing residential and non-residential property to the lower of five percent or the inflation rate.*
- **Local Governments Road Fund -** All funds that are received from taxes, fees and gifts for road or bridge purposes must be reported as revenue in the road fund. The fund was created under the authority of the state statute (Section 67-4-1-, NMSA, 1978 Compilation). Transfers from the County Road Fund to any other fund are not allowed under state statute. The County

Road Fund was integrated with the General Fund in 2003 in order to simplify the administration of combined budgets. The Road Fund is administered as a sub-fund. Use of the fund is restricted for the construction and maintenance of County roads. The State Highway and Transportation Department determines the amount of revenue each county will receive. This determination is based on the miles of roads maintained by the county. State revenue sources for the Road Fund include gasoline tax, forest reserve, and motor vehicle fees.

- **Emergency Medical Services Act** - The Emergency Medical Services Act provides funds to Bernalillo County to be used for the establishment of emergency medical services. The State General Fund supplies funding for Emergency Medical Services. This money cannot be accumulated from year to year. Bernalillo County has twelve fire districts that receive funding from the Emergency Medical Services Act. The distribution formula allows districts to receive up to twenty thousand dollars each depending on the need.

- **Cigarette Tax Act** - The Cigarette Tax Act imposes an excise tax of .0455 per cigarette, or .91 cents per pack, sold in the State of New Mexico. The State Treasurer distributes a portion of this revenue to the County at the end of each month. The revenue is used to fund operations of the County.

RESERVED FUND BALANCE - DFA requires that 3/12 of budgeted expenditures be reserved for subsequent-year expenditures to maintain an adequate cash flow until the next significant property tax collection. DFA also requires a 1/12 reserve for County Road Restricted Funds.

FUND ACCOUNTING - The accounts of the County are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity/retained earnings, revenues and expenditures/ expenses. Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate fund types. The County uses the following fund types:

GOVERNMENTAL FUND TYPES	
General Fund	This fund is used to account for the general operations of the County and all financial activities except those required to be accounted for in another fund or account group.
Special Revenue Funds	These funds account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specific purposes. The authority for the creation of the special revenue funds is by state statute, executive order, or specific authority.
Debt Service Funds	These funds account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.
Capital Projects Funds	These funds account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds.
PROPRIETARY FUND TYPES	
Enterprise Funds	These funds are established to account for operations (1) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing services on a continuing basis be financed or recovered primarily through user charges; and (2) when the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.
Internal Service Fund	This fund accounts for services furnished by a designated department to other departments. Amounts expended by the fund are restored from operating earnings or by transfers from other funds so that the original fund capital is kept intact.
FIDUCIARY FUND TYPE	
Agency Funds	These funds account for assets held by the County as an agent for individuals, private organizations, other governmental units and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

CASH MANAGEMENT – Pursuant to Section 4-43-2, New Mexico Statutes Annotated 1978 (NMSA), the elected Treasurer is responsible for:

- Accounting for all monies received and disbursed by the County, including fees for services, licenses and revenues from bond issues and special assessments;
- Receiving and tracking revenues, including funds received from the state for Bernalillo County's share of gross receipts taxes, gasoline taxes and cigarette taxes;
- Maintaining accounts on all warrants and checks drawn on the County;
- Depositing, investing and safekeeping County funds. The public monies of the County are placed under the supervision of the Treasurer, who makes investment decisions subject to the advice and consent of the Board of Finance (County Commission) and in accordance with Sections 6-10-10(f) and 6-10-44 NMSA 1978. The Treasurer's investment procedures must be consistent with the County Investment Policy established by the Board of Finance.

CAPITAL ASSETS are defined by the County as assets with an initial, individual cost of more than $5,000 and estimated useful life in excess of one year. Assets purchased before July 1, 2005 valued between $1,000 and $5,000 are considered capital assets and are reported as such on the County's Comprehensive Annual Financial Report (CAFR). All assets valued under $5,000 purchased after July 1, 2005 are no longer required to be capitalized per the State Auditors Office. Purchased or constructed assets are recorded at historical cost or estimated cost. Donated capital assets are recorded at estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

ENCUMBRANCE ACCOUNTING is utilized by the County. Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year-end are recorded as reservations of fund balances and are not included in expenditures or liabilities. Encumbered amounts for annual budgets that do not exceed unexpended appropriations at year-end may be reappropriated for the following fiscal year.

PROCUREMENT of goods and services by the County is in accordance with Chapter 13, NMSA 1978, otherwise known as the "Procurement Code." Provisions of the Procurement Code apply to small purchases, sole source procurement, emergency procurement, and purchases requiring competitive sealed bids and requests for proposals. The purposes of the Procurement Code are to provide for the fair and equal treatment of all persons involved in public procurement, to maximize the purchasing value of public funds, and to provide safeguards for maintaining a procurement system of quality and integrity.

DEBT ADMINISTRATION - In accordance with state laws the County is not allowed to become indebted for General Obligation (GO) bonds in an amount exceeding 4 percent of the value of taxable property during the last assessment of property. An exception to the four percent ruling is the purchase or construction of sewer and water systems.

The ratio of net bonded debt (net of balances set aside for GO debt services) to the taxable valuation and the amount of bonded debt per capita are useful indicators of the debt position of the County. At July 1, 2008, the net bonded debt of the County was $103,850,097, which is 20% of the GO bonding capacity. The ratio of net bonded debt to taxable value is 0.80:1 and net bonded debt per capita is 162.59:1 as of July 1, 2008.

GO bond issues for Bernalillo County are developed on a two-year cycle and placed before the electorate for approval. The County maintains Debt Service Funds to administer the debt associated with its GO and revenue bonds. A separate ad valorem tax is levied and collected to provide funds to retire such debt. The County has issued revenue bonds guaranteed by gross receipts tax revenues. County Gross Receipts Tax (GRT) Revenue Bonds require a minimum debt coverage ratio of 2:1. The County's debt coverage ratio for GRT bonds is 6.32:1 as of July 1, 2008.