Minutes of the Special Meeting of the Gallup City Council, City of Gallup, New Mexico, held at the El Morro Events Center, 210 South Second Street, at 2:00 p.m. on Tuesday, March 29, 2016.

At such meeting, the following were present, constituting a quorum:

Mayor:	Jackie McKinney
Councilors:	Linda Garcia Allan Landavazo Yogash Kumar Fran Palochak
Also present:	Maryann Ustick, City Manager

The Mayor and Councilors conducted a Work Session on the following topic:

1. Long Range Financial Projection and Strategic Planning for the City of Gallup

Robert Leland, Management Partners, presented a power point presentation on a ten-year budget forecast for the City of Gallup. A copy of the power point presentation is attached hereto and made a part of these official Minutes.

Lyle Sumek, Lyle Sumek Associates, Inc., facilitated a leadership and strategic planning workshop with the Mayor, Councilors, City Manager and Department Directors. The purpose of the workshop included the following areas:

- To review and celebrate the City's achievements and successes for 2015-2016.
- To look to the City of Gallup's future: challenges, opportunities, actions, and projects.
- To update the 5-Year Plan: 2016-2021 – outcomes, challenges/opportunities-short term, and actions.
- To establish a 1-Year Action Agenda with priorities, activity outlines and deliverables.
- To enhance the performance and effectiveness of the City Team: Mayor, Councilors, Management and Employees.

There was no official action taken by the Mayor and Councilors during the Work Session. The Work Session adjourned at 8:00 p.m.

Jackie McKinney, Mayor

ATTEST:

Alfred Abeita II, City Clerk

Approved 4/12/2016

City of Gallup
Ten-Year Budget Forecast

Robert Leland, Management Partners

City Council Study Session

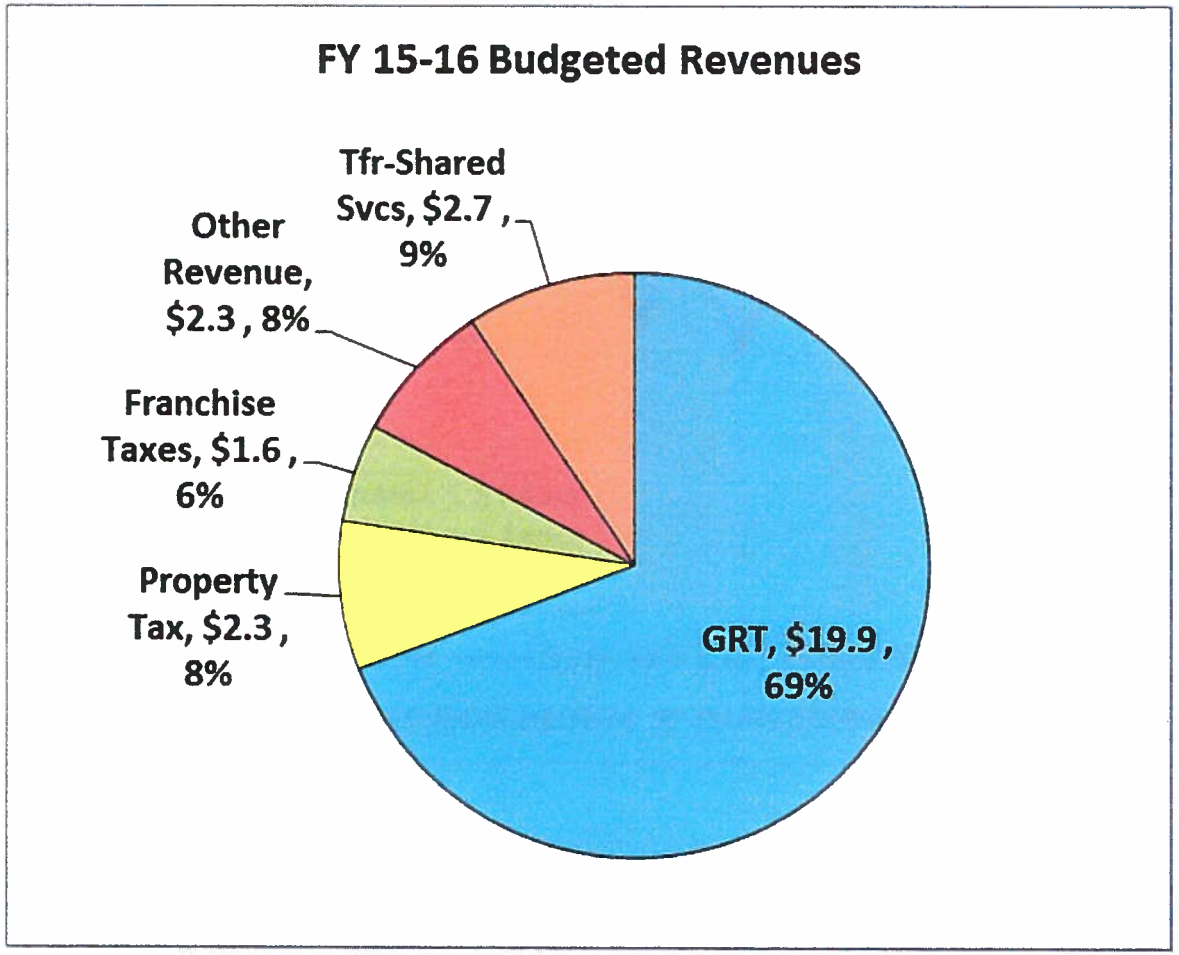
March 29, 2016

Management Partners

Project Purpose

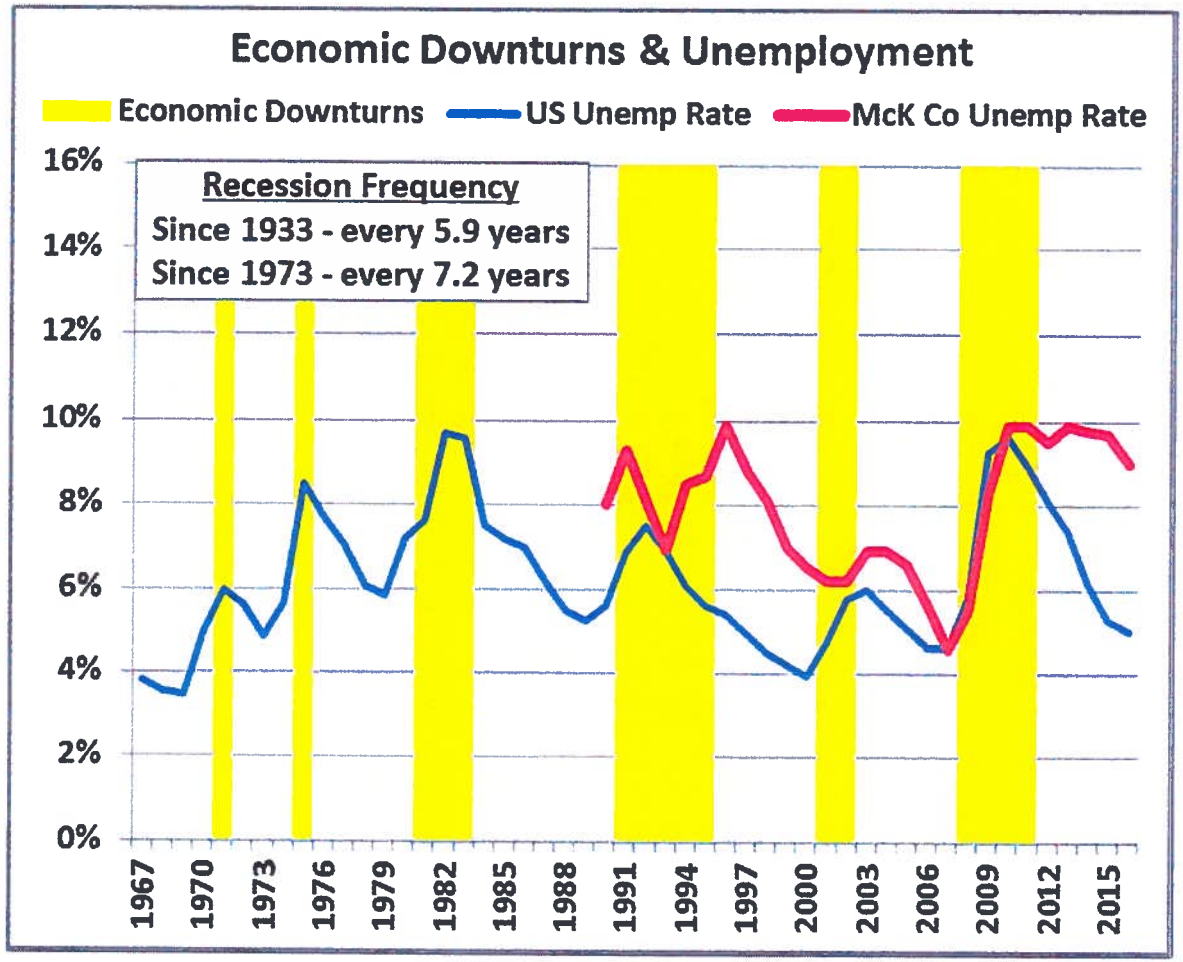
- Create long-term budget forecast for General Fund and utilities
  - Goals 2020: "Financially sound city providing exceptional services"
  - Management Agenda 2015: "Long-range financial plan with projection"
- Forecasting is a best practice
  - Valuable planning tool, avoids "tunnel vision" of looking at only one year at a time
  - Early warning of adverse trends; provides ability for City to craft timely and prudent budget solutions
  - Shows downstream effects of today's decisions
  - Demonstrates impact of alternative policies or economic outcomes
- Budget model can be updated annually by staff to assist in setting budget parameters

General Fund Revenues



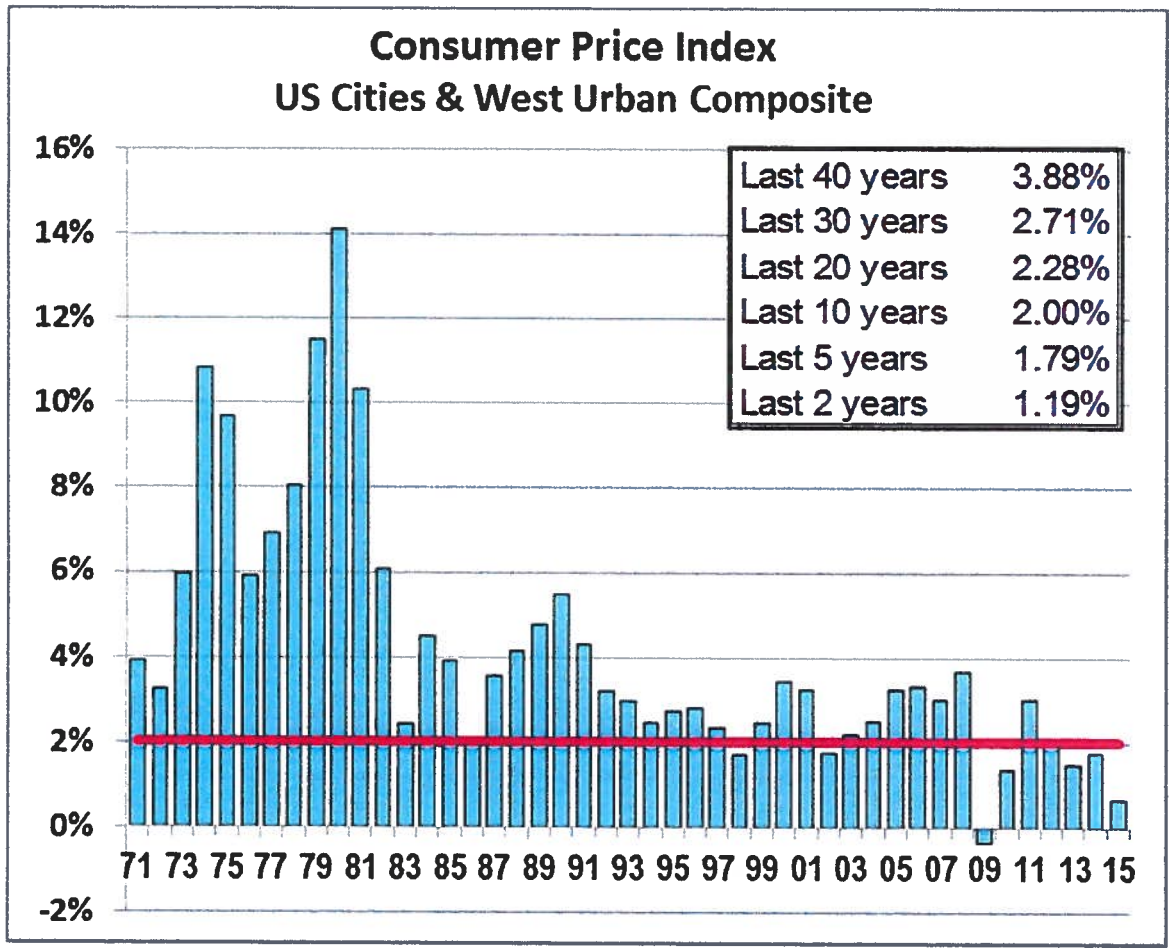
- GRT alone is 69% of total GF revenue
- Such reliance on a single source is less typical nationally
  - Product of New Mexico's public finance system
- Top three sources comprise 83% of total GF revenue

Need to Plan for Recessions



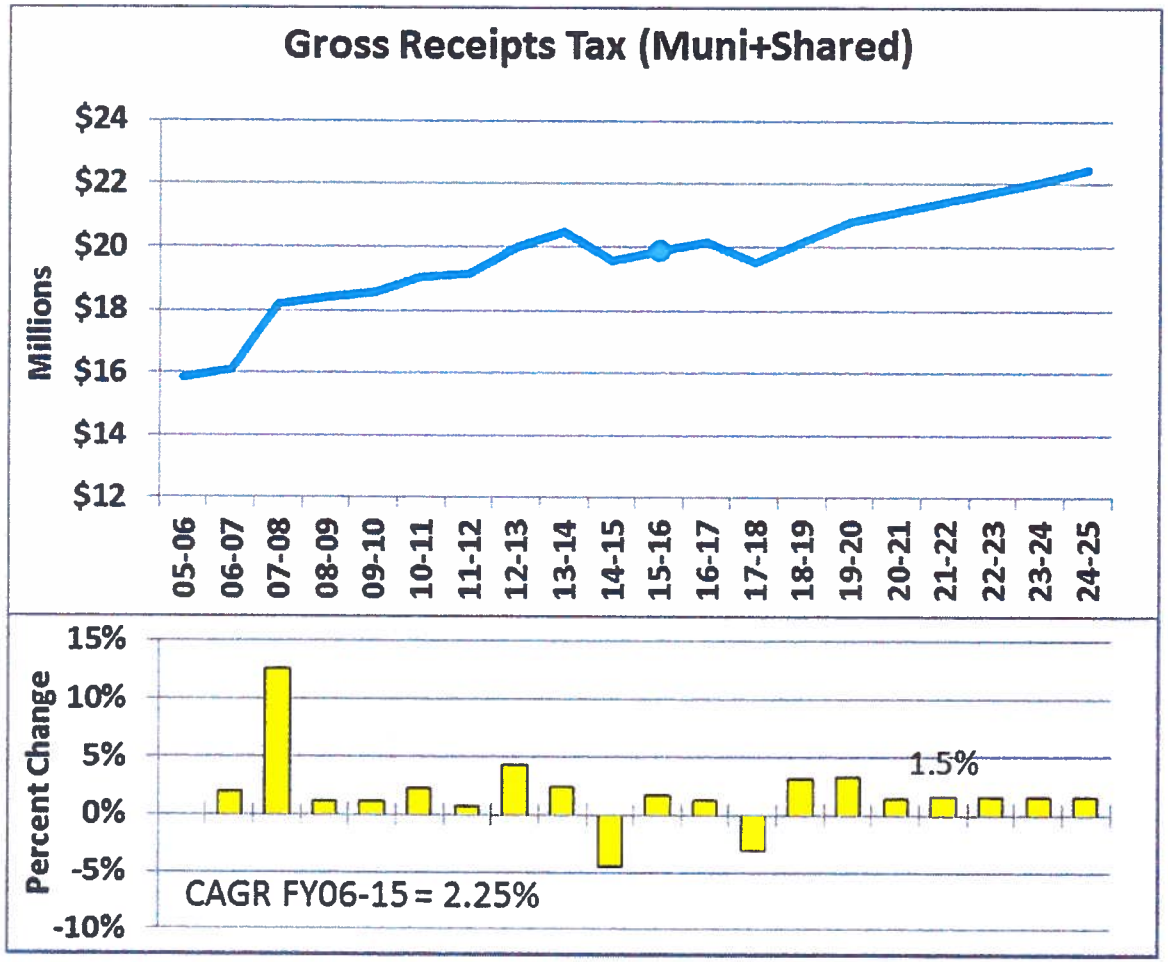
- Recessions every six years since 1933, every seven years since 1973
- Forecast assumes next recession in 2018
- Modest impact with recovery over following two years
  - GRT: -5% from normal growth levels
  - Property: -2.5%
  - Franchise: -2.5%

Inflation History



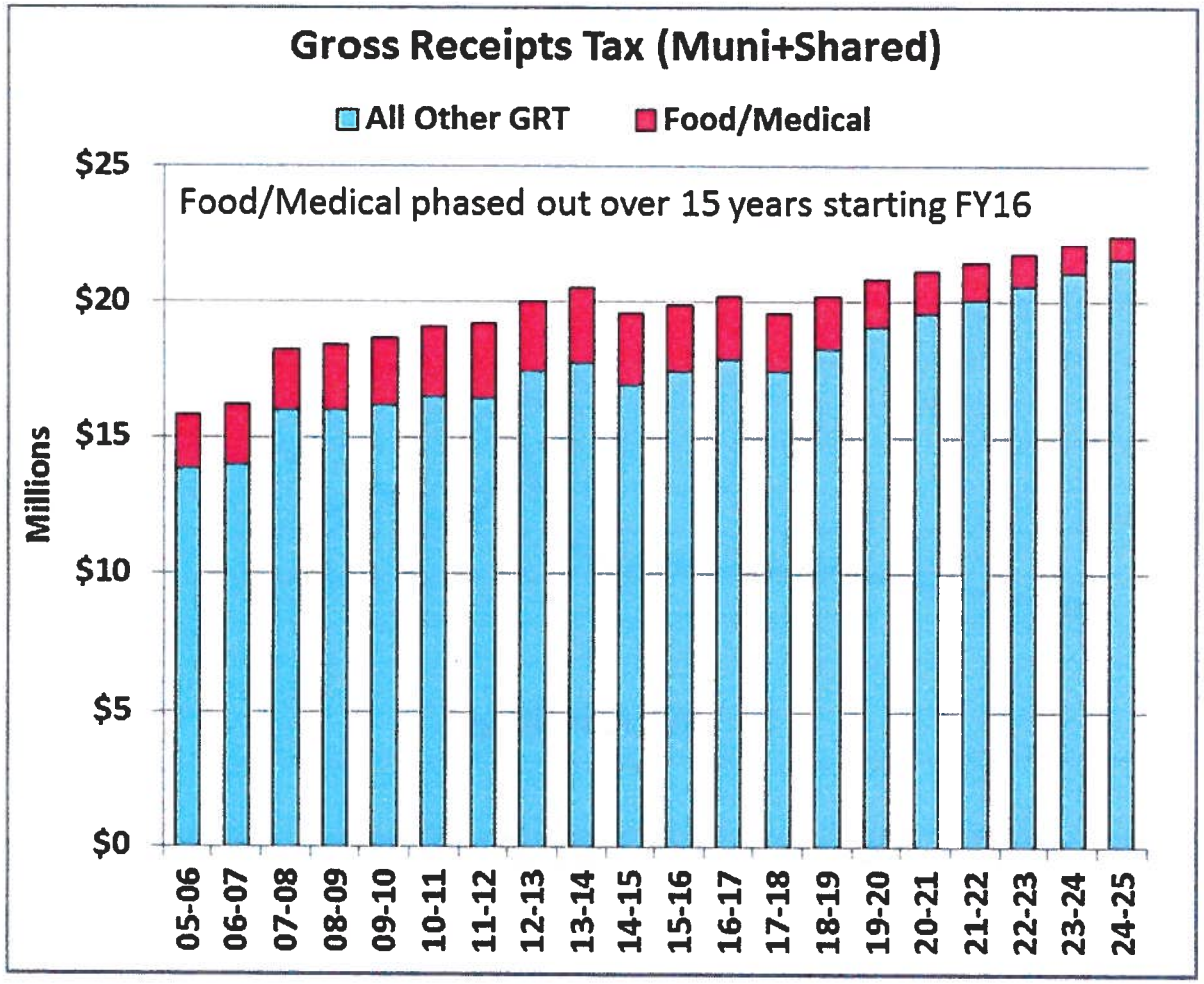
- High inflation a product of the 1980s
- Average last 10 years is 2.00%, which is forecast assumption
- Average of last two years just over 1%
- Federal Reserve target is still 2%

GRT (Muni and State Shared)



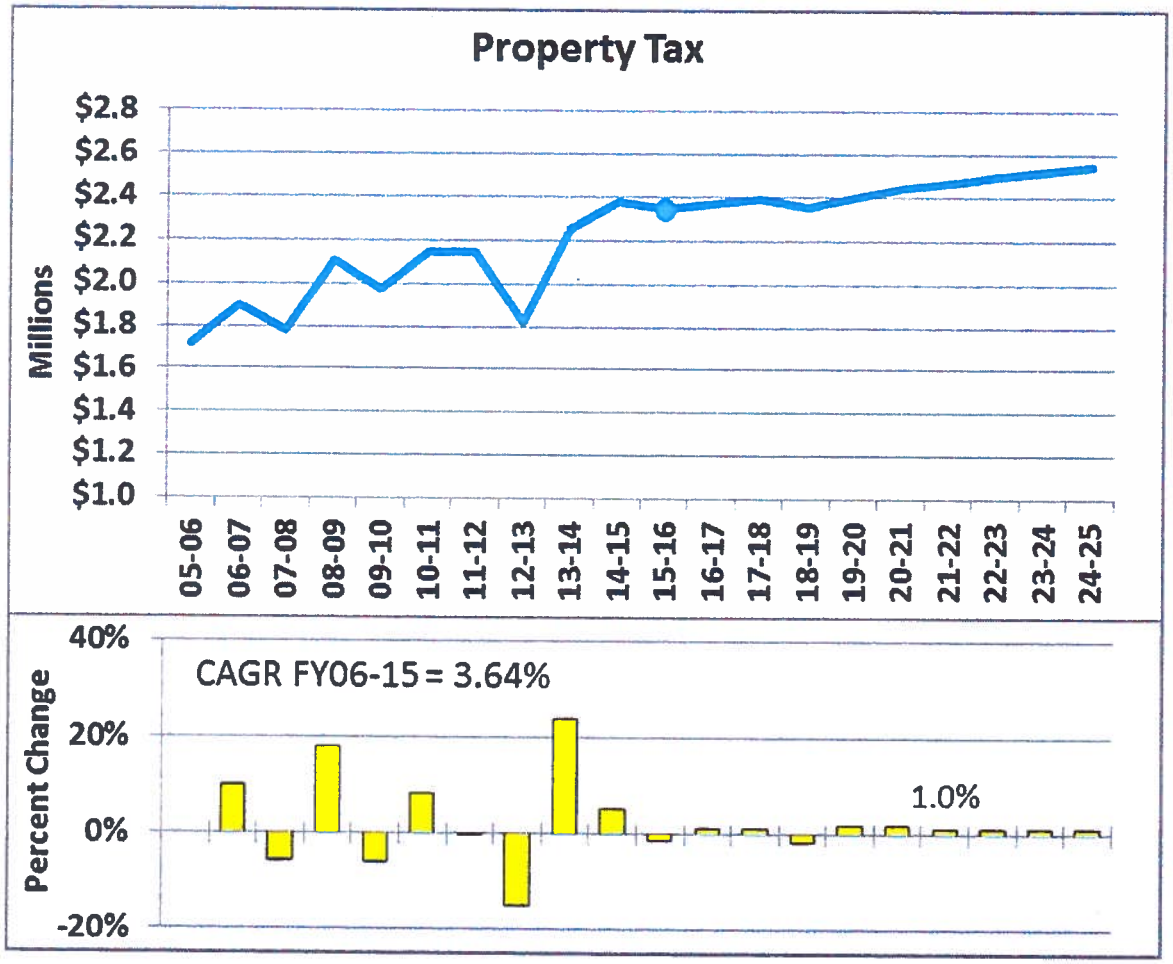
- Excludes GRT-Infrastructure
- Slowdown assumed from a 2018 recession
- Assumes GRT excluding food and medicine grows at 2.5%,
  - 15-year phase-out of food/med hold harmless loses around $200K per year, cuts net growth to 1.5%

GRT Food/Medicine Loss



- Food and medicine share:
  - Averaged $2.64M in prior five years
  - Estimated $2.43M in FY 2015-16
- State law allows cities to enact a hold-harmless GRT up to three-eighths of 1%
- Current Gallup gross receipts would generate $2.54M

Property Tax

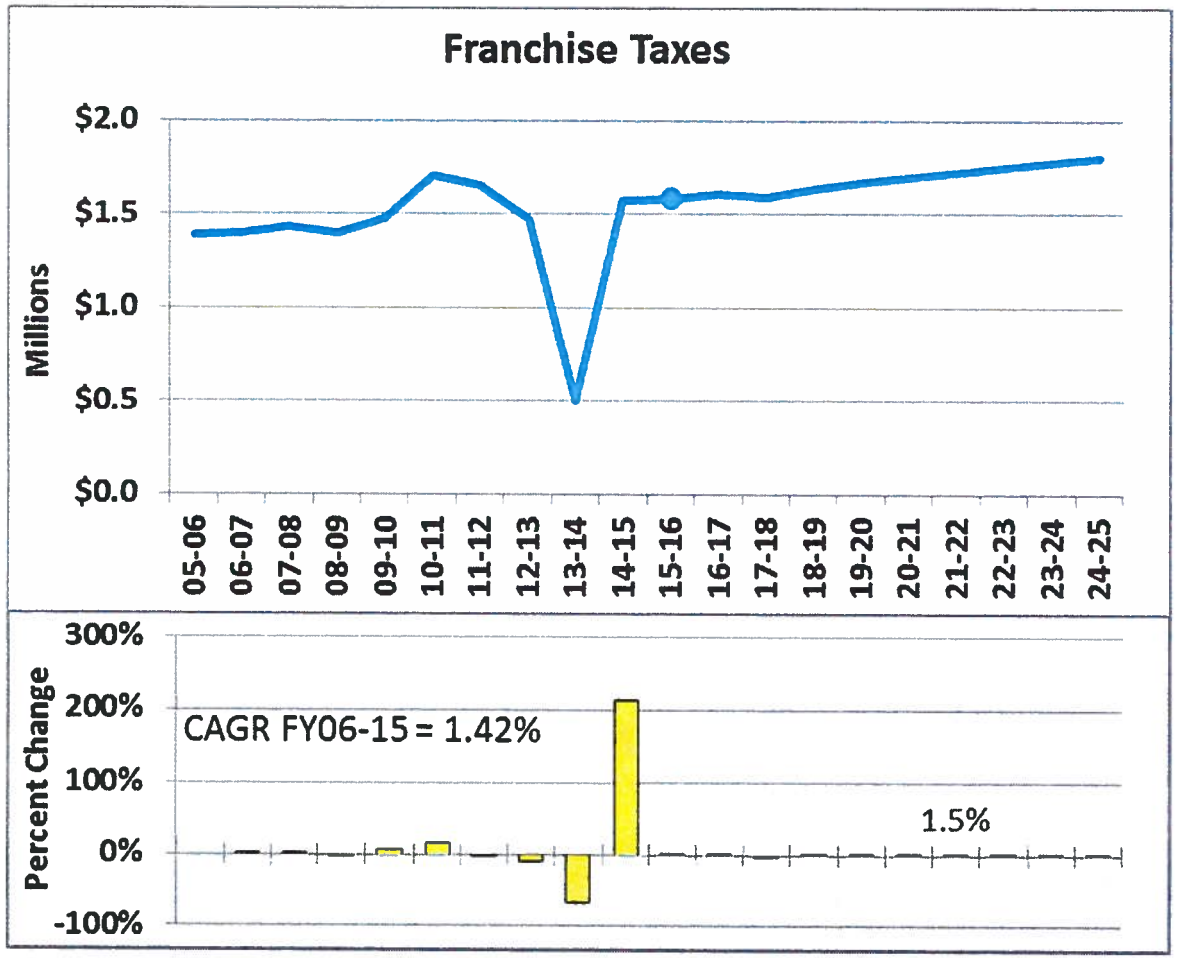


Tax Year	AV (mil)	% Chng	Tax Levy*
2006	303.67	3.23%	6.322
2007	335.82	10.59%	7.106
2008	341.70	1.75%	7.288
2009	350.30	2.52%	7.355
2010	351.83	0.44%	7.405
2011	351.80	-0.01%	6.664
2012	351.78	0.00%	7.152
2013	348.47	-0.94%	7.091
2014	353.20	1.36%	6.716
2015	345.83	-2.08%	7.225

*Per $1000 residential assessed valuation

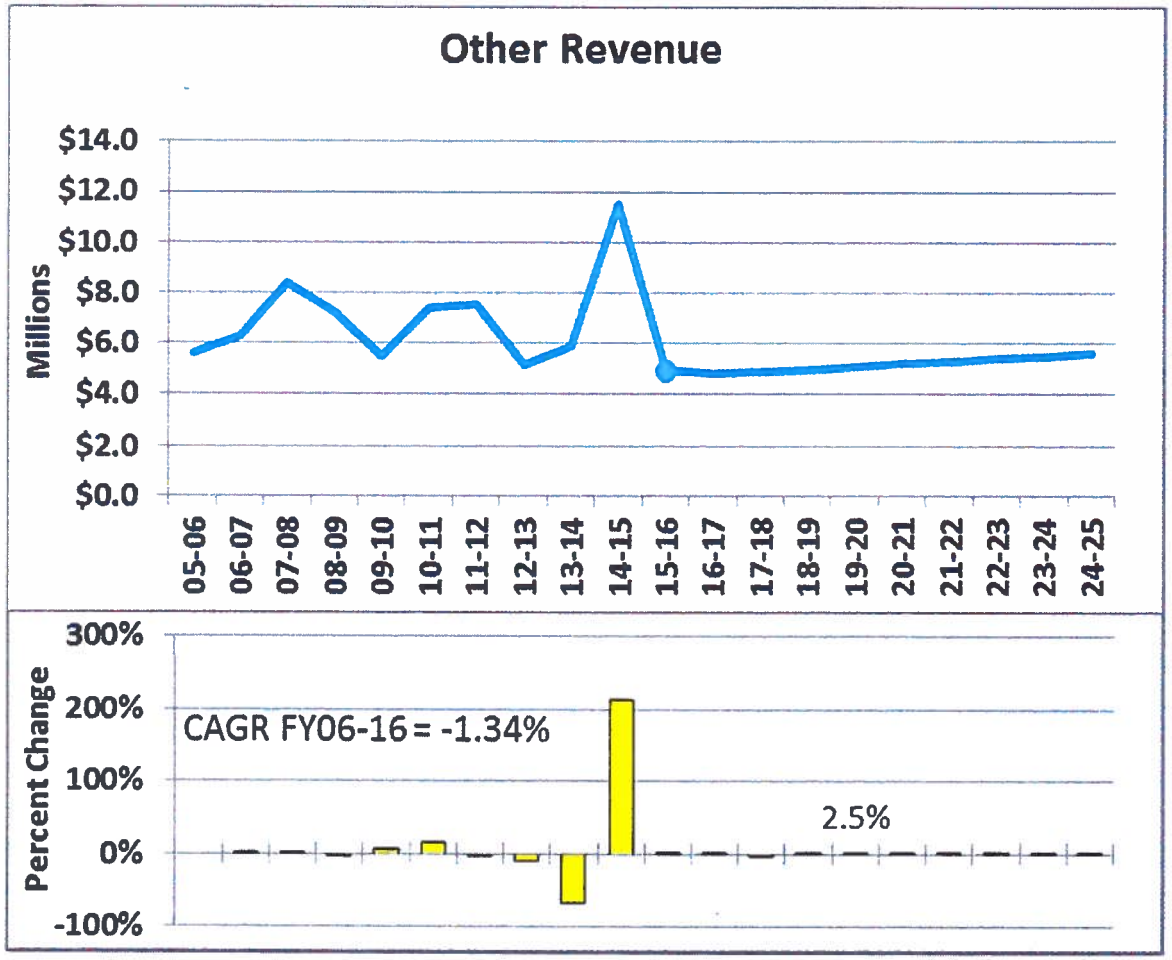
- Assessed values flat for several years
- Assumes 1% future growth
- Recession impact lags one year

Franchise Taxes



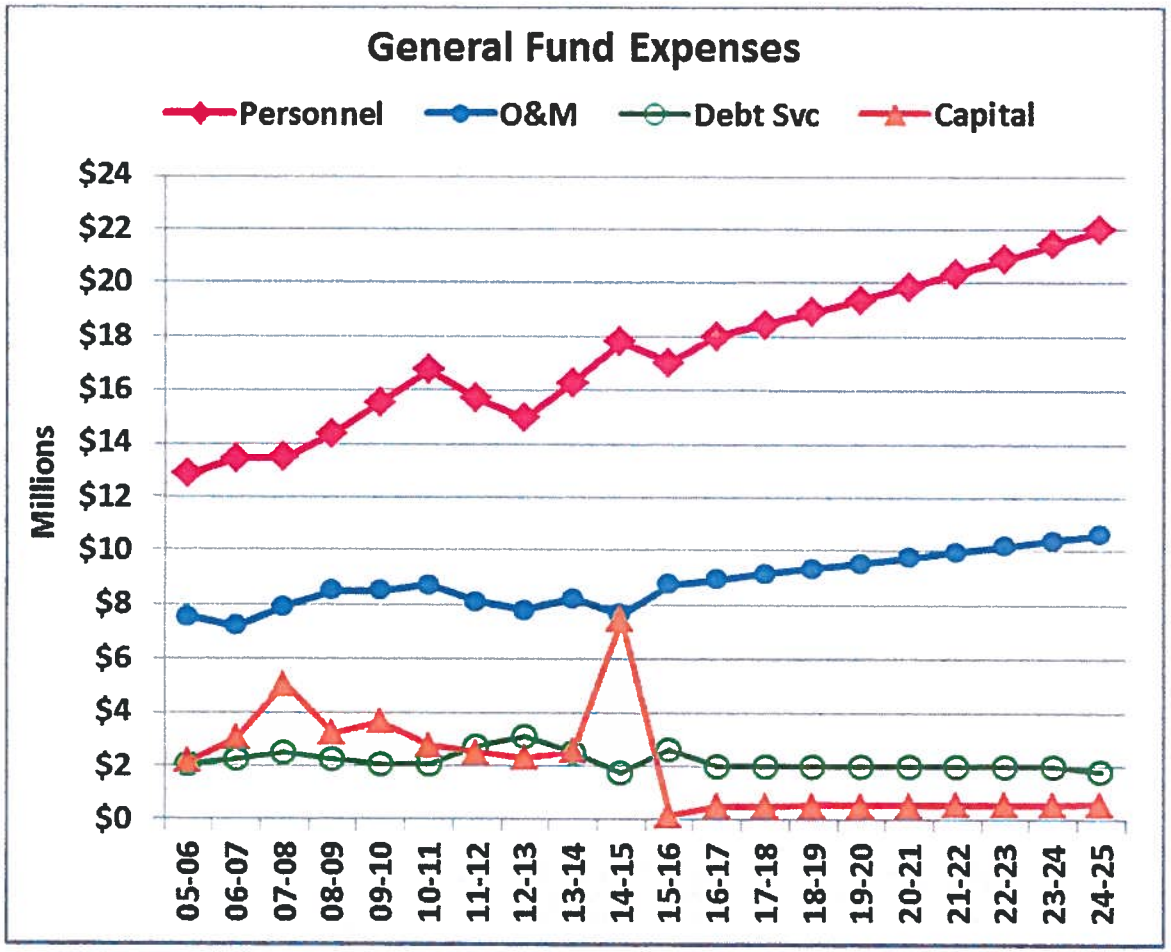
- Franchises are for solid waste, electric, cable
- Major reduction in FY 2013-14 due to City services not being charged (clean-up year for utility finances)
- Average 1.5% annual growth

All Other Revenues



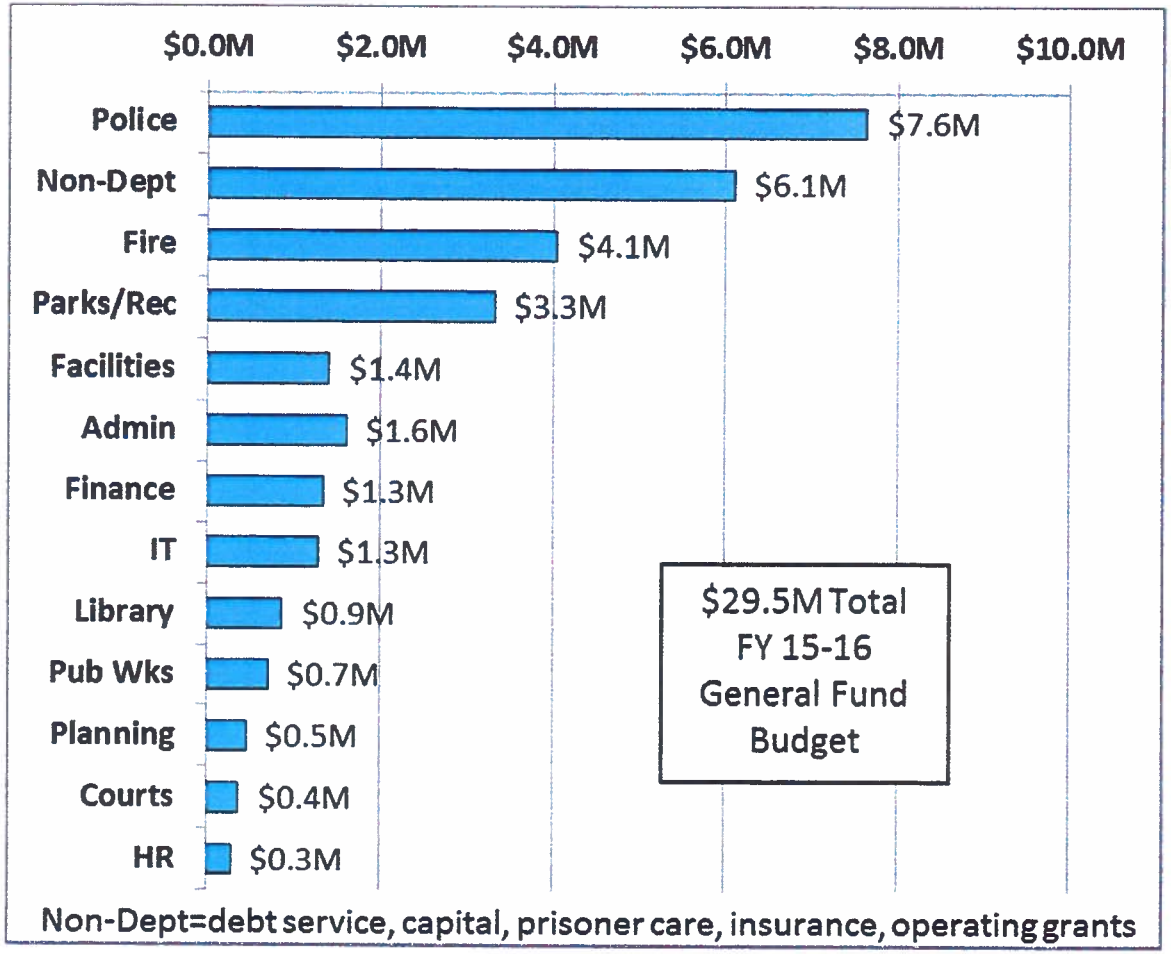
- Comprises fees, interest, GRT infrastructure, shared services reimbursement, capital transfers
- Volatile, generally downward trend historically
  - $5M capital transfer in FY 2014-15
  - Capital excluded from GF going forward
- Assumes 2.5% future growth rate

General Fund Expenditures



- Personnel costs:
  - FTE unchanged
  - Costs and allocation by fund per staff
  - 3% growth FY 2016-17, 2% future growth
  - PERA rates constant
  - 5% vacancy rate
- Other O&M
  - 2% growth (CPI)
- Debt Service
  - Current obligations
- Capital
  - $500K annual
  - Excludes 0.25% GRT (non-GF)
  - Is this high enough?

Budget Priorities Are City Decision



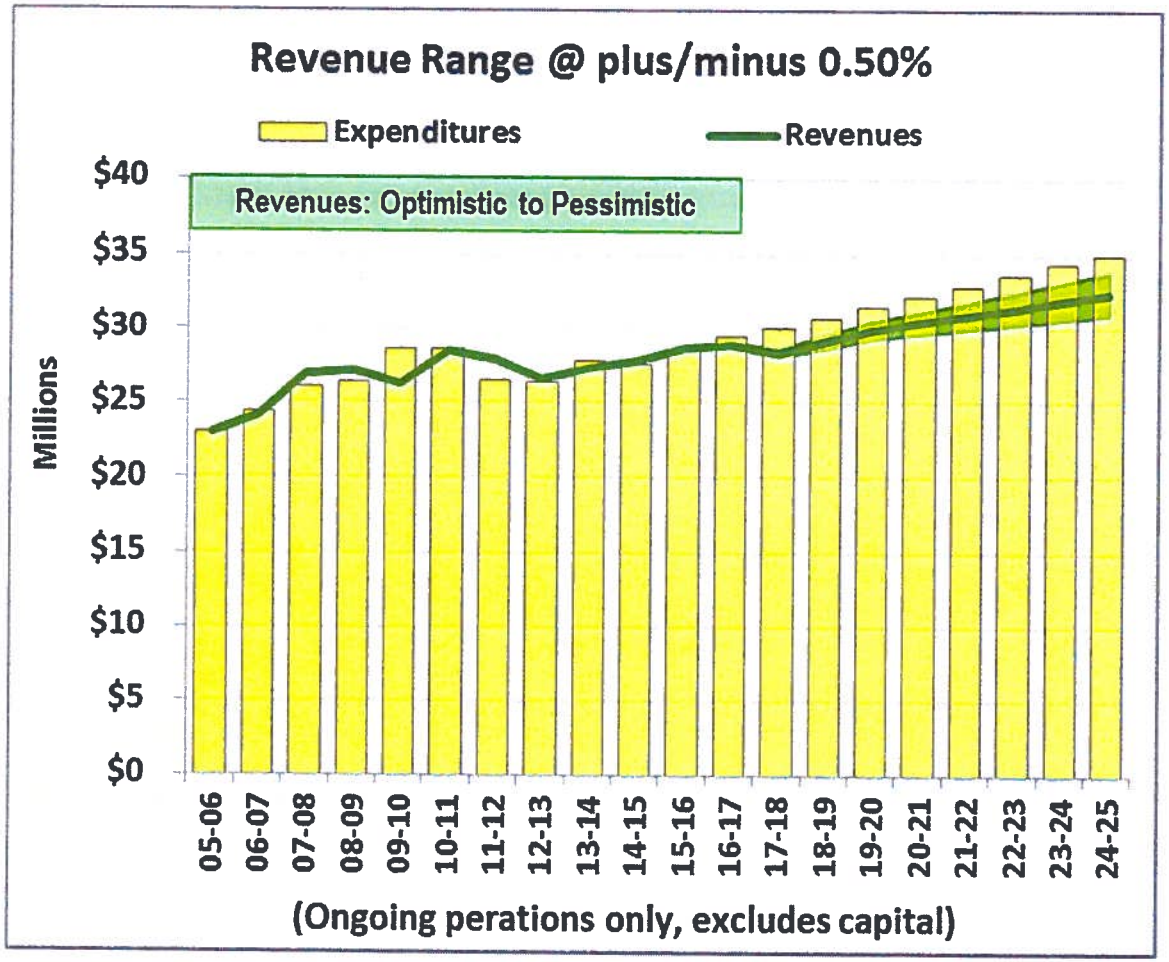
- FY 2015-16 GF budget by program
- Budget model does not set budget priorities, only identifies aggregate resources and baseline expenditures

Pension Cost Concerns

- PERA rates are fixed unless changed by law
  - Last change in 2014; rates had not changed for several years
  - New Mexico ranks 48 of 50 states in percent of Annual Required Contribution paid, has 67% funded ratio (80% average among states in 2013)
- PERA assumes 7.75% rate of return, which is high
  - California now at 7.5% with plans to lower to 6.5% over time
  - When discount rate is lowered (only a matter of time), employer costs will jump
- PERA's 2014 actuarial report shows that Municipal Fire is particularly underfunded, which could result in future employer cost increases:

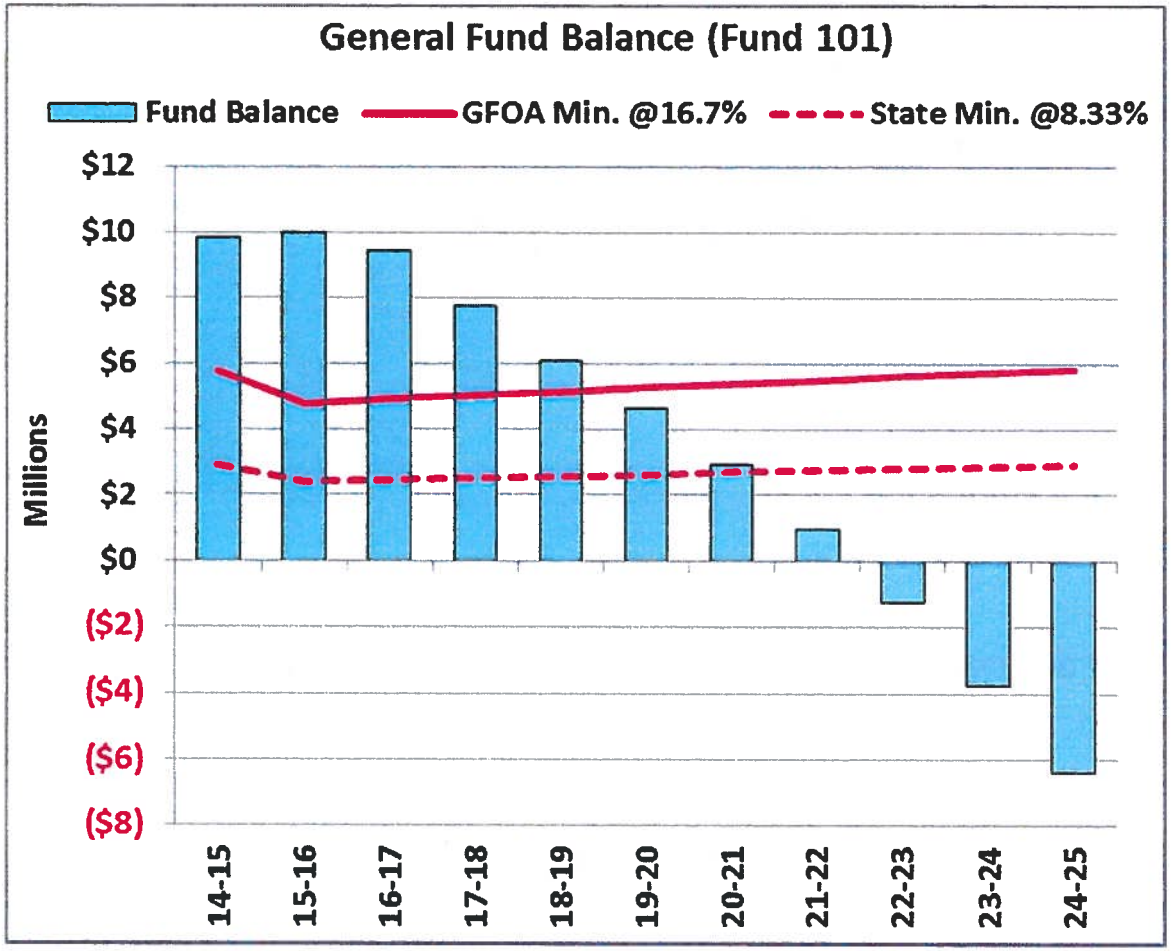
Plan	Employer Rate (Plan 3)	Employee Rate (Plan 3)	Funded Ratio	Current Amortization Period	Increase in Statutory Rate Required to Amortize Over 30 Years
Fire	21.65%	8.00%	62.7%	Infinite	10.55%
Police	18.90%	7.00%	78.3%	32 years	0.77%
Other	9.55%	13.15%	81.5%	20 years	none

Range of Likely Revenues



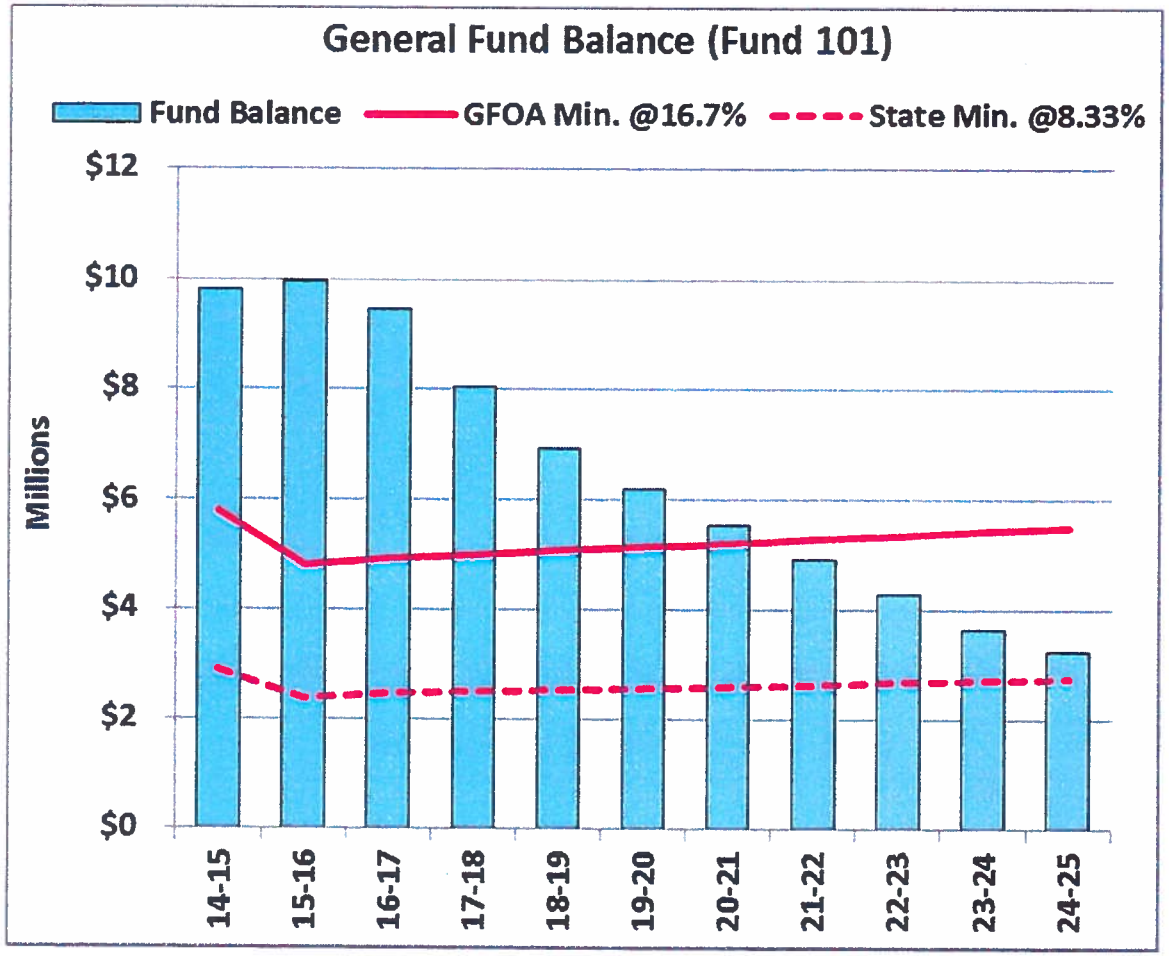
- Range of plus or minus 0.5% in average annual growth rate reflects optimistic and pessimistic revenue range
- Even optimistic level of revenues inadequate to fully fund ongoing operations given projected costs

Scenario 1: Baseline Forecast



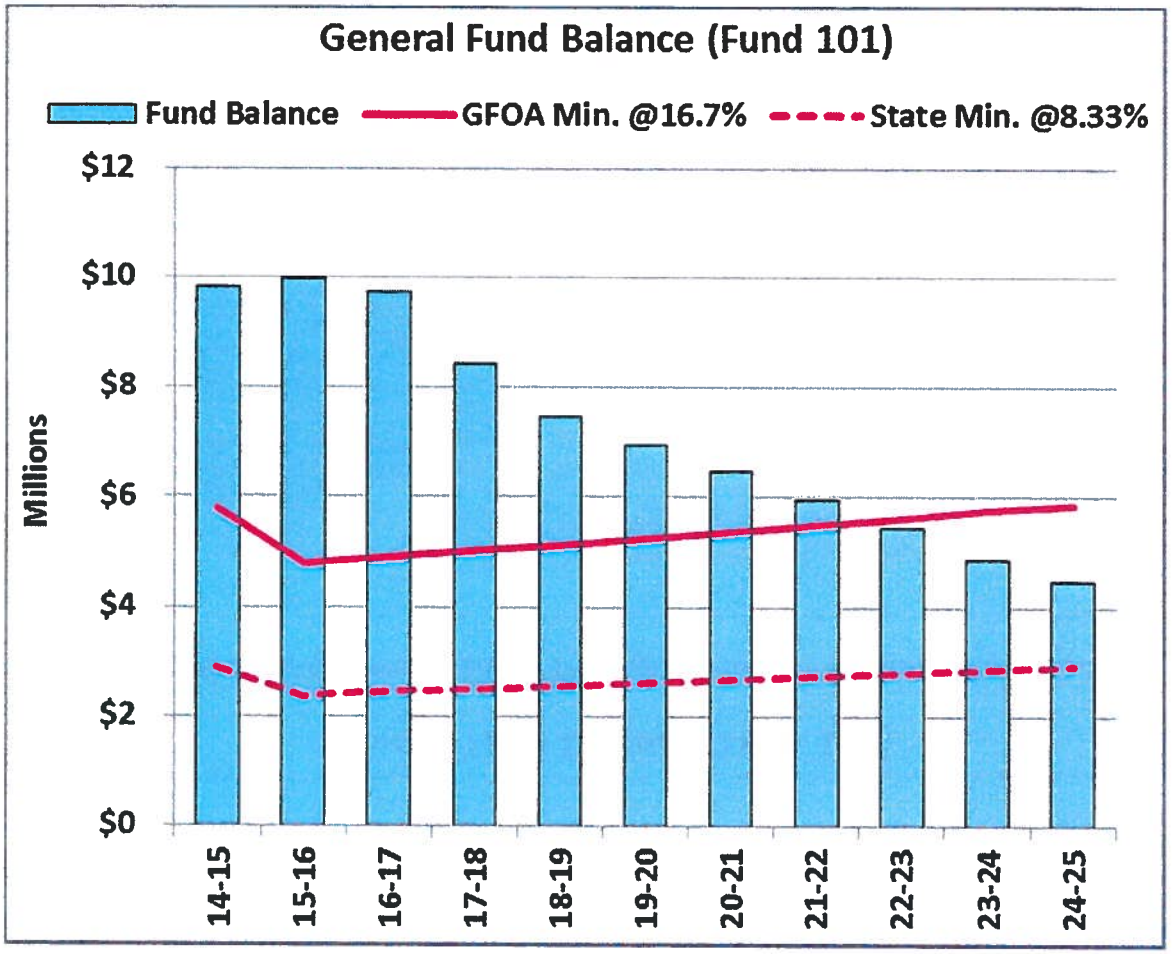
- Steady decline in balance, without corrective actions
  - Under State's minimum reserve level of one month's operating expenditures (8.33%) in FY 2021-22
  - Deficit by FY 2022-23
- Major issue is loss of GRT on food and medicine

Scenario 2:
Limit Future Labor Cost Growth



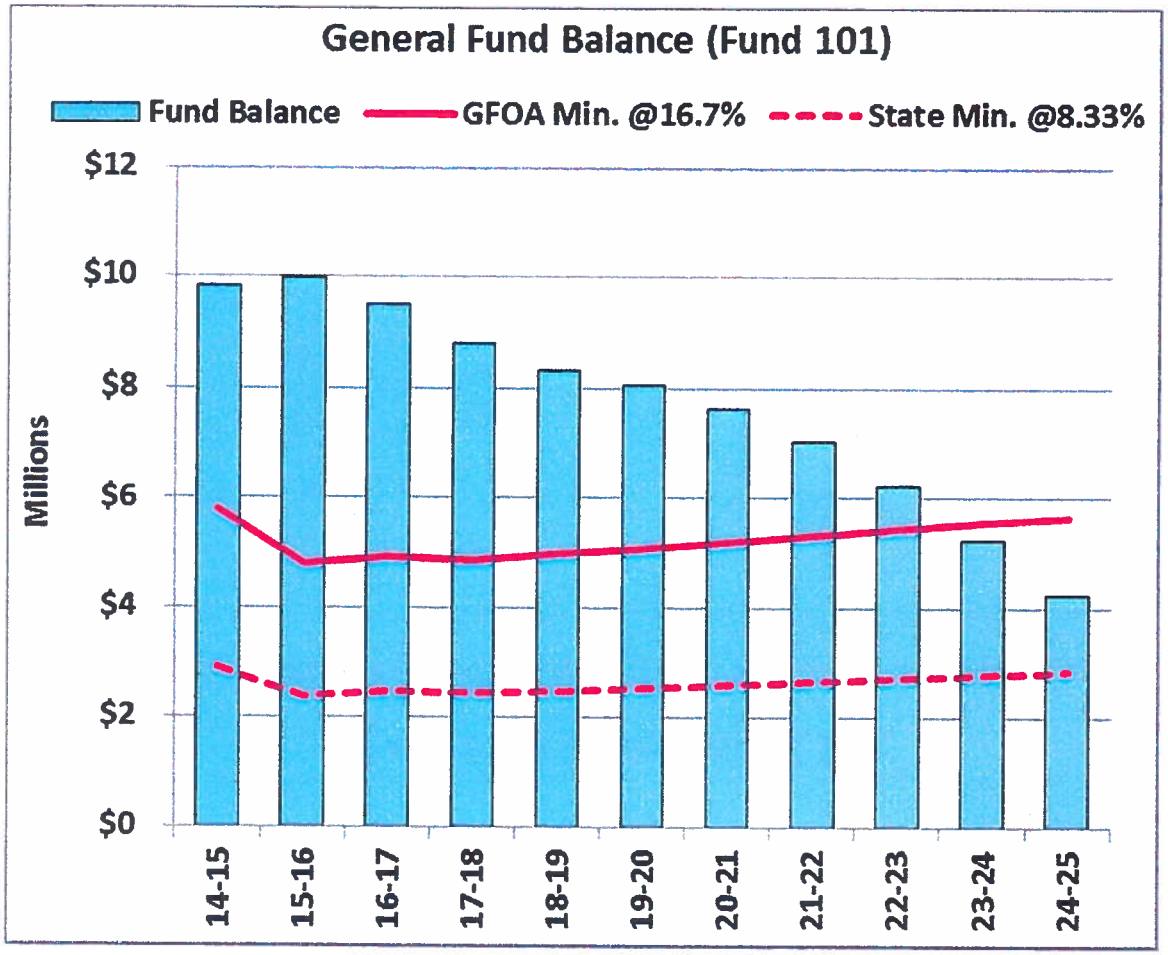
- Lower labor cost growth from 2% to 0.5%
- Slows decline in balance, above State minimum reserve level in FY 2024-25
- Labor competiveness over time an issue

Scenario 3: Enact Hold-Harmless Tax



- Impose three-eighths of 1% GRT hold-harmless tax for food/meds
- Other baseline forecast assumptions apply
- Slows decline in balance, above State minimum reserve level in FY 2024-25
- Increases GRT rate from 8.3125% to 8.6875%
  - Could exceed 9% if County also enacts such a tax

Scenario 4: Enact Budget Cuts



- Reduce spending by $1.25M annually (4% cut) starting in FY 2017-18
- Other baseline forecast assumptions apply
- Slows decline in balance, above State minimum reserve level in FY 2024-25

Conclusion

- Budget model can be used to test General Fund sensitivity to various economic and policy assumptions
  - Set parameters for budget and strategic planning
  - Can be updated by staff in future years
- Similar modeling for utilities is a work in progress
  - City needs to formally reallocate net assets of joint utilities; will be foundation of individual utility forecasts
- Risk Factors
  - Revenue loss from phase-out of food/med portion of GRT
  - Higher pension costs