MEMORANDUM # BFB-11-04

TO: Municipal and County Finance Officers
FROM: John A. Gallegos, Budget & Finance Bureau Chief
DFA, Local Government Division
DATE: May 31, 2011
SUBJECT: Fiscal Year 2011-12 Budget Preparation

I. Statutory Authorization:
Section 6-6-2 NMSA 1978 requires the submittal of an annual budget to the Department of Finance & Administration, Local Government Division (LGD). LGD is also authorized by statute to prescribe budget and other financial forms to be used by local public bodies.
State and local government budgets and finances have recently come under more Legislative and public scrutiny and thus are expected to be reported in as transparent a manner as possible. Your budget and financial reports to the LGD are required to be as complete and accurate as possible.

II. Budget Submittals:
- As you know, local public bodies must develop and submit a proposed (interim) budget to LGD for the next fiscal year no later than June 1st. Commission, council or board approval of the interim budget by formal resolution is optional. The interim budget is analyzed for any necessary corrections or additional information by LGD as an operating budget pending approval of a final budget. Since the interim budget is a legal binding document for operations during the first two months of the fiscal year, i.e. July and August, and also September as necessary, it is required that the financial data submitted in the interim budget be as current and accurate as possible.
- Counties and municipalities must develop and submit a final budget, including a formal resolution approved by the governing body to LGD no later than August 1st (since July 31st is on a Sunday this year) for analysis, any necessary corrections, and approval. The final budget submittal is comprised of, at a minimum, a revised Budget Request Recapitulation budget summary form (Recap) with updated (reconciled) Unaudited Beginning Cash Balances and any updated supporting documents of the interim budget that changed from the interim to the final budget submission.
- The fourth quarter financial report ending June 30th formally approved by your governing body must also be submitted with your final budget. The ending June 30th reconciled cash balances of the budgeted Funds from the June 30th fourth quarter financial report must match the beginning July 1st cash balances of the budgeted Funds on the Recap budget form.
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- Please note that all quarterly financial reports must contain revenues certified by the Treasurer and expenditures certified by the Fiscal Administrator.
- Each county and municipality must submit separate interim and final budgets by their respective deadlines. LGD will not grant deadline extensions for budget submittals.

III. Budget Forms:
- Budget forms can be viewed and downloaded from the LGD, Budget & Finance Bureau website www.fmb.nmdfa.state.nm.us. These forms are required for your budget submissions and their format may not be altered in any way. Use of any other budget format for the interim budget submittal is allowed, only with the concurrence of your assigned Budget & Finance Analyst. Use of any other budget format for the final budget submittal is not allowed; only the prescribed DFA budget forms must be used. The reason is that a database is being developed that will capture the data from the LGD budget and financial report forms, which cannot allow any tolerance for adjustments to these forms. This database will allow LGD manipulation of data to produce reports and allow greater efficiencies for LGD staff to respond in a timelier manner to requests from other state agencies, local public bodies and the general public.
- The budget forms have certain cells that are locked because they are automatically populated by information already entered in other sections of the budget. Also, some of them contain formula calculations for your convenience.
- The Operating Budget Supporting Schedules should be the first forms to be filled out followed by the expenditure and revenue forms for the different budgeted Fund types. The expenditure and revenue amounts will roll-up into the Recap page. The (reconciled) beginning cash balances must be manually entered on the Recap form. If you require guidance to fill out the budget forms, please contact your assigned Budget & Finance Analyst.
- As a reminder, negative amounts may only be entered into “Budgeted Transfers” to indicate transfer(s) out. Do not enter negative amounts for “Budgeted Revenues”, “Investments”, or “Budgeted Expenditures” (since expenditure cell formulas are set up to calculate reductions).
- As an “FYI”, new forms are also being developed for financial quarterly reports and budget adjustment requests (“resos”); subsequent memorandums will be forthcoming.

IV. Budget Request Recapitulation (Recap):
- The beginning cash balances must match the reconciled ending cash balances from the June 30th fourth quarter financial report for each budgeted Fund.
- **ALL** investments must be shown in their entirety in the Investments column. Do not comingle investments with beginning cash balances; report them separately.
- **Budgeted Reserves**: It is alright to use reserves during the course of the fiscal year as long as the reserves are replenished by fiscal year-end so that your municipality or county will not experience severe cash flow problems in the succeeding fiscal year:
  1. One twelfth of budgeted General Fund expenditures for municipalities;
  2. Three twelfths of budgeted General Fund expenditures for counties; and
  3. One twelfth of budgeted Road Fund expenditures for counties.
- Deficit spending is not allowed. Budgets submitted with projected ending cash balance deficits by Fund will not be approved. This only applies to those budgeted Funds listed on the **Budget**
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Request Recapitulation and does not apply to any other funds or sub-fund accounts designated in the county or municipality chart of accounts.

- Memorandum # BFB-10-04 dated April 16, 2010 recommended (not directed) the governing bodies of counties and municipalities to “Adopt and apply a formal policy that will strictly disallow recurring expenditures from cash balances and non-recurring revenues.” The primary intent of this recommendation is to help the governing body to avoid budget deficits. However, as necessary, it should be alright to use available cash balances to offset expenditures that may exceed revenues, whether they be recurring or non-recurring, in order to avoid budget deficits. Also, as necessary, transfers from budgeted non-restricted Funds to other budgeted Funds should also be allowed in order to avoid budget deficits.

- Special Revenue Funds are legally restricted to expenditures for specific purposes. Transfers from Special Revenue Fund restricted revenue sources to other funds are not allowed. Transfers from non-restricted Fund revenue sources, e.g. General Fund, to other Funds are typically allowed.

- Enterprise Funds should be self-sustaining and should have the accounts receivables as current as possible. Operating rates and revenue(s) should cover expenditures without having to rely on transfers from the General Fund to be kept solvent.

- Any revisions must be indicated by check mark, as well as Revision No. and Revision Date at the bottom of the Recap page. The Recap and supporting budget documents, as approved by your analyst, will be the official approved FY 2011-12 operating budget on file for your county or municipality.

V. Other Important Items:

- With your final budget submittal, please include a copy of your amortization schedule(s) for all long-term debt incurred after June 30, 2010. This includes revenue bonds, general obligation bonds, and loans (NMFA, NMED, RUS, etc.)

- In your cover letter, please include the 1) audit cost(s), 2) total number of full-time employees (FTE's), 3) grand total salaries, 4) grand total benefits, and 5) percent salary increase included in the budget.

Please share this memorandum with every member of your governing body, i.e. commissioners, mayors, councilors, trustees, board members.

Please contact your assigned Budget & Finance Analyst if you have any questions or require any further information. Thank you.

cc: Richard E. May, DFA Cabinet Secretary
    Sam Ojinaga, LGD Acting Director
    BFB Budget & Finance Analysts
    Carla Martinez, Deputy State Auditor
    Antonio Corrales, State Auditor’s Chief of Staff
    Bill Fulginiti, NMML Director
    Paul Gutierrez, NMAC Director