MEMORANDUM # BFB-10-04

TO: New Mexico Municipal and County Officials Elected
   To Serve As Members Of Local Governing Bodies:
   Mayors, Council Members, Trustees, Commissioners

FROM: John A. Gallegos, Budget & Finance Bureau Chief
      DFA, Local Government Division

DATE: April 16, 2010

SUBJECT: Short-Term and Long-Term Budget Shortfalls

It is apparent at the state and local government levels that tax revenues are not going to materialize as initially projected for current year budgets. This very serious concern requires you, as the governing body or ‘board of finance’ of your municipality or county, to take immediate action to find ways of cutting back on expenditures in order to operate within reduced tax revenues in the current and upcoming fiscal years.

This must be done in a manner that will still keep your budgeted reserves at June 30th at the same level(s) as they were initially approved on July 1st, the beginning of the fiscal year:

- One twelfth of budgeted general fund expenditures for municipalities;
- Three twelfths of budgeted general fund expenditures for counties; and
- One twelfth of budgeted road fund expenditures for counties.

It is alright to use reserves during the course of the fiscal year as long as the reserves are replenished by year-end so that your municipality or county will not experience severe cash flow problems in the succeeding fiscal year.

The following recommendations are presented for your consideration:

1. Adopt and apply a formal policy that will strictly disallow recurring expenditures from cash balances and non-recurring revenues.
2. Implement an immediate freeze on all current vacant employee positions. Positions needed for health and public safety services, i.e. law enforcement, road maintenance, solid waste, and emergency medical services should be given preference for being kept filled as much as reduced revenue resources will allow.
3. Implement an immediate freeze on all employee salaries, except for those governed by Union Contracts currently in place, but not including those currently under negotiations.
4. If actions taken in items #2 and #3 (above) are not sufficient to avoid budget overruns, you will need to seriously consider implementing furloughs, salary reductions, 32-hour workweeks, or layoffs. Of course, these measures need to be done with the guidance of your attorney(s) and in compliance with your personnel/salary ordinance and/or policy. As applicable, municipalities/counties and unions will need to negotiate (in good faith on both sides) to implement any of these measures.

5. Implement an immediate freeze on any new non-essential contracts that affect your general fund, which is the primary fund used for ongoing operations. Never pay the full amount of a contract in advance. First make sure the contractor has delivered 100% of the goods and/or services to your satisfaction.

6. Discontinue the practice of granting across-the-board employee salary bonuses.

7. Discontinue the practice of providing funds to any non-profit organizations. This does not apply to programs, such as MainStreet Programs, which have legislative authorization to provide specific services and value to assist municipalities and counties.

8. Have all department and program managers implement further reductions in their operating budget requests.

9. Make every effort to maximize revenues.

10. Implement any other effective cost-saving practices and reductions.

11. Make every effort to make sure your annual audits are caught up; that you submit balanced budgets with no projected fund deficits; and your periodic financial reports are current.

Many proactive governing bodies have implemented these and other measures. However, we all need to acknowledge that these recommendations are necessary to address short-term budget shortfalls but very likely will not be enough to sufficiently address continuing budget shortfalls in upcoming fiscal years. You as the governing body, or ‘board of finance’ of your municipality or county, are ultimately responsible and accountable for the budget and finances of your entity. “The buck stops with you.”

Please know that my staff and I are ready to assist you in any way we can.

cc: Rick Martinez, DFA Deputy Secretary
    Sam Ojinaga, LGD Deputy Director
    LGD Executive Budget Analysts
    Bill Fulginiti, NMML Director
    Paul Gutierrez, NMAC Director
    Municipal and County Finance Officers