

**To:** Pat Davis, President, City Council

**From:** Timothy M. Keller, Mayor

**Subject:** Fiscal Year 2021 Financial Overview and Proposed Budget

Today, we are presenting the Proposed Operating Budget for the fiscal year that began on July 1, 2020 (Fiscal Year 2021). This year will continue to be one of tremendous challenges, primarily because of the COVID-19 pandemic and its many ripple effects on our economy and way of life. The excellent progress we had made in creating jobs and the building the economy, reflected in 2020's strong first quarter, hit a wall that no one expected. Albuquerque residents are facing uncertainty in nearly every part of our lives: wondering if their jobs are stable, where their children will be in six months, and when we can return to the vibrant celebrations of our families and cultures that make Albuquerque an amazing place to live and visit. The dynamics of our long-standing crime challenges shifted, so that even as we continued to reduce property crimes like auto theft, violent crime across America increased. Through it all, our City employees have stepped up in an unparalleled way, coming together to protect our most vulnerable populations and provide City services with minimal interruption.

Our focus for the Fiscal Year 2021 budget is to balance economic uncertainty with the many needs of our community in this challenging time. We can achieve this balance through fiscal responsibility and smart investments to support and protect our residents. In addition, our decision to carry forward a large contingency of at the end of Fiscal Year 2020 has provided stability. The one-time direct grant of federal money from the Coronavirus Aid, Relief and Economic Security (CARES) Act has had a major positive impact in Fiscal Years 2020 and 2021. While other cities across the nation have been forced to institute furloughs, layoffs and drastic cuts in service, Albuquerque is demonstrating that even in a pandemic, we can belt tighten, but also continue to improve safety, help families and support businesses.

The overall proposed budget is \$1.15 billion, \$592.3 million of which is the General Fund. The budget additionally includes the allocation of the remaining \$103 million in general CARES Act funding. This budget is structurally balanced. We propose that in addition to our reserve of \$49.4 million, we again carry forward a critical General Fund balance of approximately \$40 million to protect against predicted drops in revenue that may stretch into Fiscal Year 2022. This buffer aligns with our estimated FY22 revenue estimates and will give our City the flexibility to handle more challenges in the future.

### **Cost Saving Measures**

In order to make the key investments that our residents need, the City is managing its finances carefully. While we were recently ranked in the [New York Times](#) as the city with the second most healthy fiscal scenario, we got here by making some difficult choices. In the proposed Fiscal Year 2021 budget:

- We are proposing no overall salary increases for City employees in any department. (The cost of a 1% across the board increase for all employees is \$4.3 million in recurring costs.) Instead, we propose a one-time payment that nets to \$250 per employee to offset the increased costs of medical insurance, which totals to a \$2.4 million in non-recurring costs. These items remain to be negotiated with the City's seven union bargaining units.

- We impose a range of hiring freezes and slowdowns during the fiscal year to capture for \$15 million in savings.
- We have budgeted for \$639,000 in savings from a travel freeze and decreased spending on training.
- We postponed a total of \$29 million pending initiatives via department requests for additional funding in the budget revision process.
- We have deferred a total of \$2.2 million in new operating costs related to capital projects coming online in the budget revision process.

With the implementation of these fiscally prudent measures, we expect saving nearly \$47 million. We are optimistic that the City will have the flexibility and resources to weather the economic uncertainties ahead without instituting layoffs or massive cuts in service.

### **Helping Business and Families with the Economic Impacts of COVID-19**

The Albuquerque economy was strong before the pandemic. In the first quarter of Fiscal Year 2020, employment in the Albuquerque MSA finally exceeded the pre-recession peak. The unemployment rate temporarily dropped to a low of 4.1% in December 2019. For the first seven months of Fiscal Year 2020, base gross receipts tax revenue growth exceeded the 3.5% projected for the year. Cumulative growth reached double digits early in the year due to a lump-sum hold harmless distribution in January 2020.

This strength made us more resilient when the pandemic hit. On March 11, 2020, recognizing the potentially devastating impact of COVID-19, the Governor declared a public health emergency. On March 12<sup>th</sup> the New Mexico Department of Health issued the first of a series of public health orders that closed and severely restricted restaurants, businesses and mass gatherings. The effects on the Albuquerque economy were immediate. During the most severe portion of economic shut-down in April 2020, the Albuquerque MSA unemployment rate spiked to the highest on record at 12.8%. Gross receipts tax revenue decreased by -3.8% in March and decreased by -13.6% in April. The total impact on City revenue for Fiscal Year 2020 was an estimated loss of \$27 million. We instituted cost savings measuring including hiring freezes, reductions in contract expenses, and a travel freeze. As a result, we were able to avoid furloughs and layoffs at a time when other cities in New Mexico and across the nation could not.

The economic impacts of COVID in Fiscal Year 2021 remain uncertain, because we do not know when closures and limitations on businesses and gatherings will change. In addition, we cannot be sure of how the changes in schools will impact Albuquerque workers. Total gross receipts tax is expected to decline by about -4.8% in Fiscal Year 2021, helped somewhat by the state increasing the City's internet sales tax revenue. For June 2020, the most recent detailed data available, total nonfarm employment was down -6.2% from the previous year.

The City has been working to support businesses and families through these economic challenges, and our proposed Fiscal Year 2021 budget invests **over \$20 million in business support and economic relief programs**. These programs are in addition to the \$1.8 million invested in Fiscal Year 2020 for COVID-related direct grants to restaurants, retail shops, microbusinesses, nonprofits and artists. These programs are also in addition to the \$120 million in capital projects currently under construction and an additional \$50 million in projects to be awarded before the end of the calendar year, keeping thousands of workers on the job and earning a paycheck.

Fiscal Year 2021 investments in the local economy include:

- \$1,000,000 to directly help businesses survive closures and limitations related to COVID.
- \$1,125,000 to supplying masks and other protective equipment for businesses, as set forth in Council resolutions.
- \$1,000,000 to fund outdoor business improvements, including support for traffic barricades, security, shade, porta-potties, tables and lighting so restaurants, breweries, wineries, retailers and outdoor recreation areas can more safely operate.
- \$250,000 to provide E-commerce grants to help retail and other businesses move online.
- \$2,500,000 to aid families excluded by federal stimulus and unemployment programs.
- \$1,025,000 to hire youths to complete projects in City parks and other public spaces through a Civilian Conservation Corps-type program.
- \$360,000 to promote Albuquerque as a place to live and work.
- \$250,000 to expand the financial navigator program, which connects residents to social services and resources for critical financial issues caused by COVID.
- Working with the State, the City has awarded \$225,000 in LEDA grants and \$344,000 in zero-interest loans to local companies, with over \$1 million in applications for additional loans and grants still in the pipeline.
- Full funding of the Economic Development Department's core programs (\$5 million), which include supporting local businesses, fostering entrepreneurship and recruiting new businesses.
- \$5.3 million in promotional funds for tourism and economic development made available through the Lodgers' Tax and Hospitality Fee Funds.
- \$198,000 for the international trade program.
- \$153,000 to fully fund the City's first dedicated Small Business Office, which has been a lifeline for small businesses navigating the pandemic and the maze of business assistance programs.
- Continued funding of the economic development programs connected to the Albuquerque Sunport to utilize the nearly complete business park and continue the work toward developing an intermodal transport hub.

### **Keeping our City Healthy and Safe During COVID-19**

The pandemic has exposed cracks in the social safety net and public health systems, and provided an opportunity to address these challenges with urgency. As part of COVID-19 relief, our City has been working with the State, county and community partners to provide safe spaces for people who are medically vulnerable, homeless, or otherwise need space to isolate. The Department of Senior Affairs has delivered over 300,000 meals to seniors. Through the Emergency Operations Center, the City has spent tremendous resources protecting and keeping our residents informed. Our proposed budget includes a \$54 million allocation of CARES funding to cover the costs of personnel and resources who provided emergency and public health response during the COVID pandemic.

Our proposed budget also aims to close some of those cracks in the system on a larger and more permanent scale. We recognize that prevention and harm reduction programs, like COVID screening and outreach, are always more cost-effective strategies than addressing public health issues downstream, like treating COVID-positive people with a variety of other health challenges. We propose setting aside \$5 million for facilities and operation of expanded social services in coordination with the County and State. In addition, Fiscal Year 2021 **investments in expanding**

**the social safety net and protecting vulnerable communities total over \$20 million, including:**

- \$2.8 million to provide community-wide COVID testing, case management and non-congregate shelter for vulnerable populations. Beginning in late March, the City has worked with many community partners, including the Medical Reserve Corps, New Mexico Department of Health, First Nations, Albuquerque Health Care for the Homeless, UNM-HSC and Heading Home to establish a community-wide system to screen, test and isolate vulnerable populations to manage COVID-19. Core components of this system include isolation facilities with the medical care, behavioral health care, case management and basic operation support needed for people to be able to safely self-isolate.
- \$2.3 million to address the digital divide that has widened the educational opportunity gaps for our families, through the Wi-Fi on Wheels program and a program to provide wi-fi in City housing, which includes partnerships with the County and the Albuquerque Housing Authority.
- \$2 million for supportive housing vouchers and rental assistance, which have addressed housing insecurity and prevented homelessness for hundreds of families.
- \$1.3 million for expanded services and COVID screening at the Westside Emergency Shelter.
- \$978,000 for the expansion of senior food, transportation and engagement programs. These programs have broken through the isolation that many of our seniors are facing due to closures and other health precautions.
- \$500,000 for eviction prevention, including funds already appropriated by Council.
- \$250,000 for addressing domestic violence issues related to COVID.

### **Public Safety**

The people of Albuquerque have told us unequivocally that public safety continues to be a top priority. The protests of police violence have turned the national public safety conversation to a place where Albuquerque has been since my administration began: fighting crime from all sides.

#### *Albuquerque Police Department*

Our high levels of crime mean we need to continue to invest in police, including bringing the number of officers back to their historical levels. The Department has deployed millions of capital dollars to improve our decades old technology and investigative tools. The APD operating budget includes:

- \$2.5 million to support the hiring of 100 new officers, which factors in existing vacancies and savings from retirements and other separations.
- \$5.2 million for continued work to comply with the Court Approved Settlement Agreement with the Department of Justice.
- \$627,000 to acquire electronic control weapons that have an audit trail to monitor usage and compliance with use of force policies.
- \$594,000 to purchase on-body cameras, as required by the CASA and state law.
- \$500,000 for the Violence Intervention Program, including restorative justice programs, which has a track record of dramatically reducing violence in cities across the nation.

### Albuquerque Community Safety Department

Policing alone will not make our community be safer or feel safer. Our Fiscal Year 2021 budget formally establishes the Albuquerque Community Safety Department (ACS), a third public safety department that will respond to the calls and needs of our City that are not best served by the police. We propose an initial investment of over \$7.5 million in personnel, equipment and contractual services. In addition, ACS will leverage existing contracts with behavioral health and substance abuse service providers. ACS will begin its work through thoughtful and strategic responses in the areas of homeless encampments, responses to non-violent and non-criminal calls like abandoned vehicles, and better utilization of the Crisis Outreach and Support Teams.

In addition, the Albuquerque Fire Rescue Department (AFR) has stepped up to provide administrative and back office services for the Albuquerque Community Safety Department. Through a budget-neutral reorganization and strengthening of administrative functions, AFR's support will enable ACS to focus its funding to have a direct impact on the community.

### Safe Neighborhoods

Strong neighborhoods are marked by clean and safe public spaces and a thriving built environment. Nuisance abatement continues to be another key tool for public safety, and both the Code Enforcement Division of Planning and the ADAPT program in the Fire Marshal's Office have continued to move forward on voluntary abatement, condemnations and clean-ups. The proposed Fiscal Year 2021 budget includes investments in:

- Full funding for ADAPT (\$485,510) and the Code Enforcement Division (\$3.2 million).
- \$300,000 in emergency board-up contracts for nuisance buildings.
- \$300,000 in park safety investments, including increased security presence.
- Full funding (\$12.5 million) for the Animal Welfare Department, including additional money for spay and neuter vouchers and enhanced veterinary operations.
- Full funding for the Clean Cities and Block-by-Block programs (\$11.3 million), which work to keep our streets clean and our neighborhoods free of graffiti.

### Safe Communities

Tackling issues like substance abuse, homelessness, domestic violence and youth opportunity makes our community safer and stronger. The Fiscal Year 2021 budget includes the following investments:

- \$10.7 million in funding for service contracts for mental health, substance abuse, early intervention and prevention programs, domestic violence shelters and services, sexual assault services, health and social service center providers, and services to abused, neglected and abandoned youth.
- \$2 million for youth programs in partnership with APS and nonprofits that keep our kids off the streets and out of harm's way.
- \$1.1 million for youth violence prevention initiatives that aim to break the intergenerational cycle of crime and incarceration.
- A 34% increase in funding for the Civilian Police Oversight Agency, which includes the CPOA taking over management of the Community Policing Councils and adding personnel to address complaints from the public about police conduct.

### Albuquerque Fire Department

Albuquerque Fire Rescue has led the nation and the state in its COVID response. By beginning screening procedures and infectious disease control processes in January, AFR kept firefighters and paramedics safe from the spread of COVID that decimated other departments from California to Florida. AFR continues to pioneer in areas like telemedicine that will have lasting positive impacts for our community long after the pandemic ends.

Within the AFR budget, the Office of Emergency Management stepped into manage the pandemic, activating volunteers and City workers on everything from hospital bed management to the distribution of protective equipment. The finance and administration team at OEM has also taken the lead in segregating COVID costs and ensuring that the City will be able to recover costs from the Federal Emergency Management Authority (FEMA).

The Fiscal Year 2021 budget includes a total of \$63.7 million in funding for AFR and OEM, including:

- \$639,033 for the Home Engagement and Alternative Response Team (HEART) program, which uses a community health worker approach to provide proactive help to frequent 911 callers.
- \$380,000 for a peer support coordinator and mental health specialist to assist firefighters and paramedics who are struggling with PTSD and other issues.
- \$176,000 for Office of Emergency Management technology and security upgrades.
- \$3.5 million for full staffing of the Fire Marshal's Office, whose Plans Checking Division of has cut in half the time it takes to process and approve construction and renovation projects.

### Workforce Support Through Youth Programs

Since our first day in office, my administration has been committed to tackling the generational cycles of crime and poverty by investing in programs that get our youth off the street, out of harm's way and into before- and after-school and summer programs. We created the City's first ever Kids Cabinet, bringing together City departments, community leaders and youth from across the City to tackle the challenges facing our young people.

COVID dramatically changed what our community needs from these programs. Our summer youth programs are extending throughout the calendar year, because Albuquerque schools do not appear to be returning to in-person classes before January 2021. Our youth and early childhood education programs have adapted to 5-to-1 student-to-adult ratios, and have adopted COVID-safe practices throughout all of their facilities.

These opportunities for children to connect with the world and each other, and for working parents to have a safe place for their kids to go, have never been more important. The Fiscal Year 2021 budget proposes to continue youth programming through investments including:

- Fully funding the general fund support to the Head Start program, including additional funding to maintain COVID-safe student-teacher ratios. On any given day, the City of Albuquerque provides care and education for about 800 children age five and under. The City is one of largest employers of early care and education professionals and employs about 150 Head Teachers, Teachers and Teaching Assistants.

- \$4 million for year-round continuation of youth programs operated or coordinated by the Family and Community Services, Parks and Recreation, and Cultural Services Departments.

**Cost Escalations**

Certain external costs have escalated, necessitating increases in those parts of the budget, including:

- Health insurance premium increases: \$3.4 million
- Lodgers' Tax debt service subsidy: \$3.5 million (increase due to COVID)
- Isotopes Stadium subsidy: \$1.3 million (increase due to COVID)
- Gas Tax Operating fund subsidy: \$625,000 (to support salaries paid from fund)

**CARES Budget Summary**

The application of CARES general funding in Fiscal Years 2020 and 2021 is proposed below.

<b>CARES Funding Category</b>	<b>FY 2020</b>	<b>FY 2021</b>	<b>Total</b>
Emergency & Public Health Response to COVID-19	\$38,635,876	\$ 54,796,162	\$93,432,038
Providing Essential City Services	\$5,213,132	\$ 8,019,565	\$13,232,697
Economic Recovery	\$2,650,143	\$ 10,933,238	\$13,583,381
Supporting Families and Vulnerable Populations	\$9,165,458	\$ 20,950,884	\$30,116,342
<b>Total</b>	<b>\$55,664,610</b>	<b>\$ 94,699,850</b>	<b>\$150,364,458</b>

These figures may shift based on actual expenditures between now and December 31, 2020. Our total budget includes amounts devoted to these areas from the General Fund and sources other than CARES; for example, our total budget for economic recovery includes General Fund expenditures.