

CITY OF SANTA FE

**QUARTERLY FINANCIAL PERFORMANCE REPORT**

As of March 31, 2019



**CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT**  
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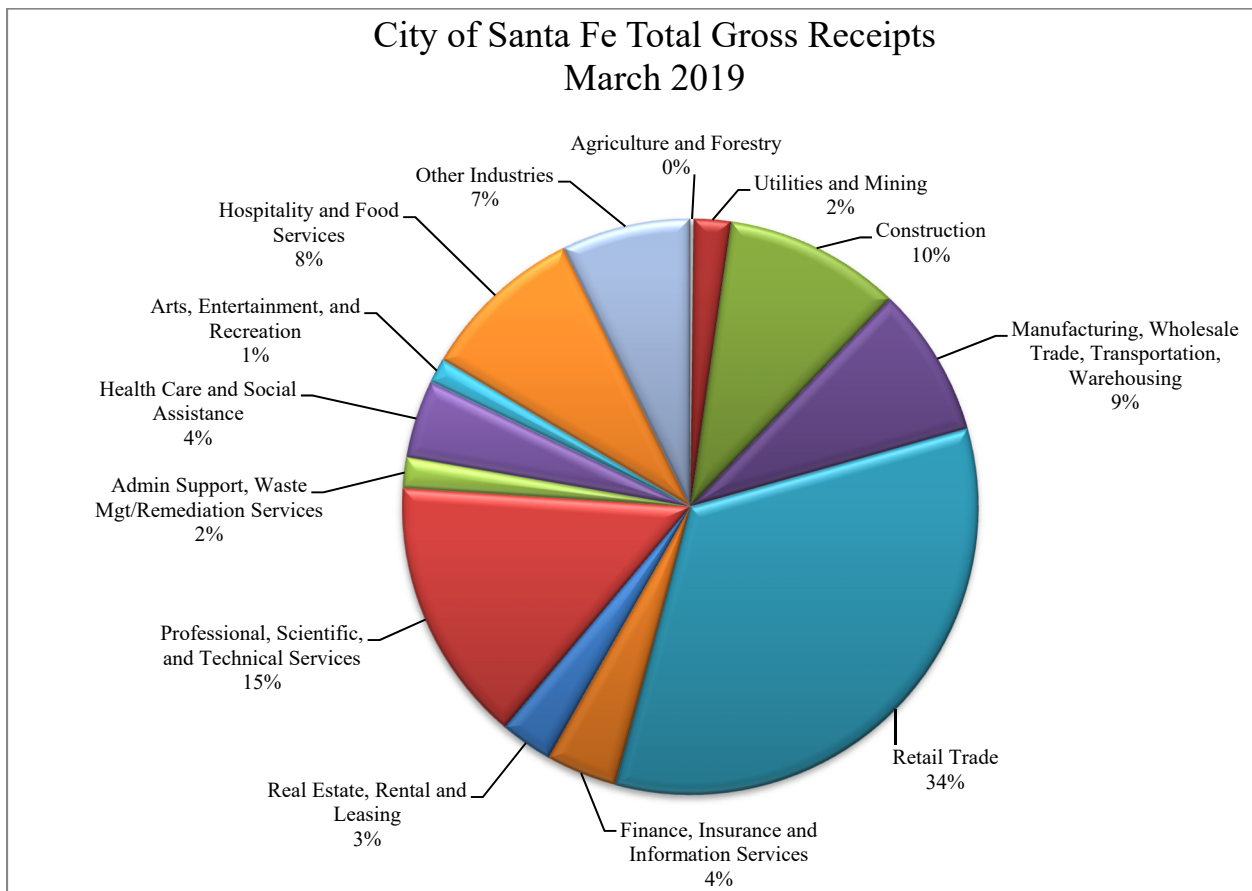
## I. CITY OF SANTA FE – QUARTERLY REVENUE UPDATE

### Gross Receipts & Lodgers’ Tax Update March 2019 GRT Review (May 2019 Distribution)

The following provides a brief summary of the Gross Receipts Tax (GRT) for the City of Santa Fe. The New Mexico Taxation and Revenue Department (TRD) reports the monthly tax receipts collection activity data. The following overview covers the GRT activity for the month of March 2019, reported in May 2019.

The gross receipts activity reported in the month of March, typically presents the slowest month and quarter of the fiscal year in consumer activities and hospitality and tourism. Total gross receipts for March were \$498 million, up approximately 7 percent from \$464 million reported for March 2018. Receipts received were particularly strong in retail and professional, scientific and technical services sectors. An increase was observed for the May 2019 GRT distribution to the city of approximately \$9.3 million, up 16.3 percent over May 2018 at \$8 million. Areas of increased tax payments include the retail, healthcare and social assistance, and food and hospitality sectors, while weakness was observed in construction, finance and insurance and educational services sectors. Fiscal year to date distributions have risen, reporting an increase of 6.4 percent for the three quarters of fiscal year 2019.

Chart 1



Source: NM Taxation & Revenue Dept.



# FINANCIAL PERFORMANCE REPORT: THIRD QUARTER FY 2018-2019

Table 1

City of Santa Fe				
Total Gross Receipts				
(Month to Month Comparison)				
	Mar-19	Mar-18	YOY \$ Change	YOY % Change
Agriculture and Forestry	\$905,735	\$2,801,743	(\$1,896,008)	-67.67%
Utilities and Mining	\$10,381,846	\$10,035,649	\$346,197	3.45%
Construction	\$49,325,297	\$49,205,696	\$119,600	0.24%
Manufacturing, Wholesale Trade, Transportation, Warehousing	\$41,949,497	\$40,609,456	\$1,340,042	3.30%
Retail Trade	\$167,061,913	\$140,673,277	\$26,388,636	18.76%
Finance, Insurance and Information Services	\$19,878,710	\$25,844,143	(\$5,965,433)	-23.08%
Real Estate, Rental and Leasing	\$14,745,203	\$14,165,468	\$579,735	4.09%
Professional, Scientific, and Technical Services	\$73,934,418	\$55,625,760	\$18,308,658	32.91%
Admin Support, Waste Mgt/Remediation Services	\$8,658,368	\$9,984,306	(\$1,325,938)	-13.28%
Health Care and Social Assistance	\$21,753,615	\$21,460,024	\$293,591	1.37%
Arts, Entertainment, and Recreation	\$6,975,437	\$7,049,994	(\$74,557)	-1.06%
Hospitality and Food Services	\$45,753,898	\$45,362,722	\$391,175	0.86%
Other Industries	\$36,108,410	\$41,656,803	(\$5,548,394)	-13.32%
All Industries	\$497,432,345	\$464,475,042	\$32,957,304	7.10%

Data Source: NM Taxation & Revenue Dept. Please note a two month lag in data provided per reporting from TRD.

Table 2

City of Santa Fe				
GRT Distribution Variance by Industry Sector				
FY 2019 vs. FY 2018				
Cumulative FYTD				
Category	May FY19	May FY18	\$ Variance	% Variance
Agriculture, Forestry, Hunting, Fishing	123,968	159,160	(35,192)	-22.11%
Mining	1,605	3,383	(1,778)	-52.56%
Utilities	2,089,871	1,973,907	115,964	5.87%
Construction	10,388,039	10,101,092	286,947	2.84%
Manufacturing	1,439,880	1,325,729	114,151	8.61%
Wholesale	1,739,971	1,631,833	108,138	6.63%
Retail	21,461,787	22,152,883	(691,096)	-3.12%
Transportation & Warehousing	254,030	293,415	(39,385)	-13.42%
Information and Cultural Industries	3,318,335	3,269,945	48,390	1.48%
Finance & Insurance	1,223,669	1,448,259	(224,590)	-15.51%
Real Estate, Rental & Leasing	2,407,363	2,257,503	149,860	6.64%
Professional, Scientific, Technical	6,732,584	6,640,732	91,852	1.38%
Management of Companies	67,609	65,847	1,762	2.68%
Admin & Support, Waste Mgt.	1,204,493	1,113,941	90,552	8.13%
Educational Services	261,460	370,882	(109,422)	-29.50%
Health Care and Social Assistance	4,115,881	3,347,275	768,606	22.96%
Arts, Entertainment & Recreation	987,728	869,872	117,856	13.55%
Accommodation & Food	12,237,917	10,968,448	1,269,469	11.57%
Other Services	7,035,967	6,962,671	73,296	1.05%
Public Administration	8,802	16,134	(7,332)	-45.44%
Unclassified	572,192	444,682	127,510	28.67%
State Reimb-Food/Med Tax	9,172,363	6,169,555	3,002,808	48.67%
Muni. Equivalent Distribution	235,619	251,331	(15,712)	-6.25%
<b>Total Distribution</b>	<b>87,081,133</b>	<b>81,838,479</b>	<b>5,242,654</b>	<b>6.41%</b>

Data Source: NM Taxation & Revenue Dept. Please note a two month lag in data provided per reporting from TRD.



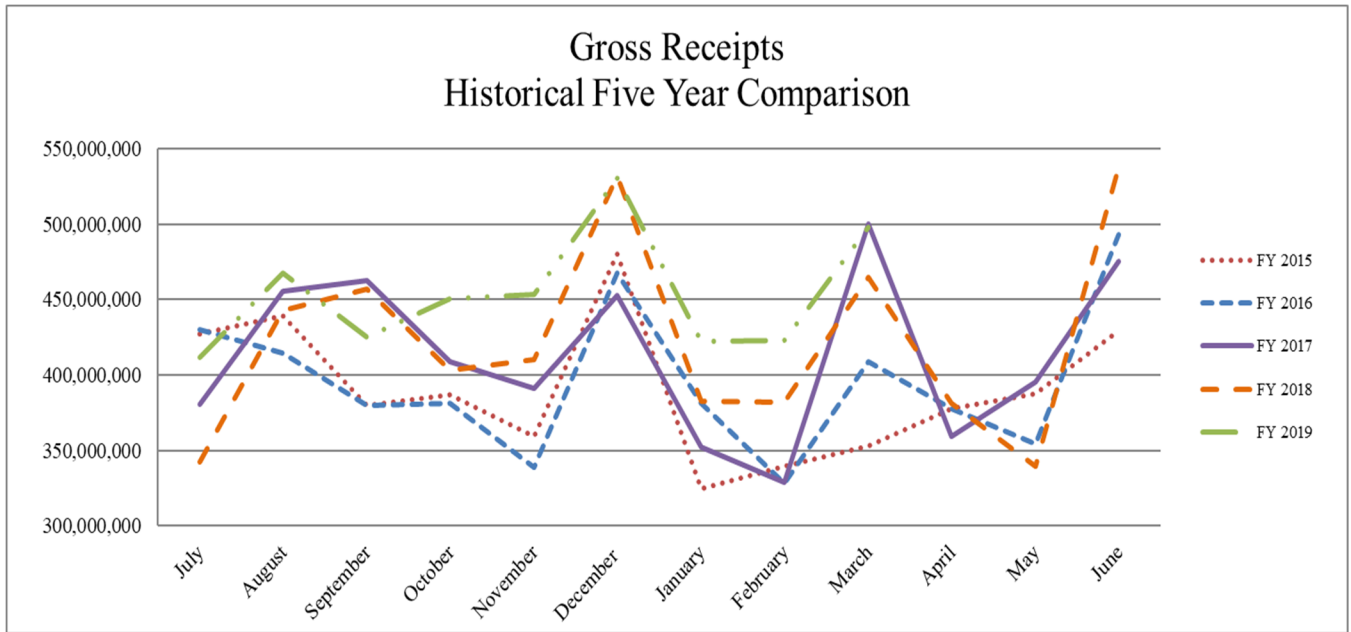
Table 3

<p align="center">City of Santa Fe GRT Distribution Variance by Industry Sector FY 2019 vs. FY 2018 Month over Month Comparison</p>				
Category	May FY19	May FY18	\$ Variance	% Variance
Agriculture, Forestry, Hunting, Fishing	\$ 18,432	\$ 3,863	\$ 14,569	377.14%
Mining	\$ -	\$ -	\$ -	0.00%
Utilities	\$ 262,987	\$ 283,582	\$ (20,595)	-7.26%
Construction	\$ 1,082,589	\$ 1,254,266	\$ (171,677)	-13.69%
Manufacturing	\$ 139,311	\$ 102,435	\$ 36,876	36.00%
Wholesale	\$ 217,726	\$ 137,713	\$ 80,013	58.10%
Retail	\$ 2,301,426	\$ 1,934,198	\$ 367,228	18.99%
Transportation & Warehousing	\$ 38,272	\$ 17,306	\$ 20,966	121.15%
Information and Cultural Industries	\$ 396,627	\$ 357,669	\$ 38,958	10.89%
Finance & Insurance	\$ 117,672	\$ 232,721	\$ (115,049)	-49.44%
Real Estate, Rental & Leasing	\$ 248,762	\$ 203,134	\$ 45,628	22.46%
Professional, Scientific, Technical	\$ 898,593	\$ 682,857	\$ 215,736	31.59%
Management of Companies	\$ 9,509	\$ 7,508	\$ 2,001	26.65%
Admin & Support, Waste Mgt.	\$ 176,747	\$ 86,740	\$ 90,007	103.77%
Educational Services	\$ 26,463	\$ 33,551	\$ (7,088)	-21.13%
Health Care and Social Assistance	\$ 396,371	\$ 252,638	\$ 143,733	56.89%
Arts, Entertainment & Recreation	\$ 162,318	\$ 105,800	\$ 56,518	53.42%
Accommodation & Food	\$ 1,344,449	\$ 903,878	\$ 440,571	48.74%
Other Services	\$ 754,253	\$ 729,312	\$ 24,941	3.42%
Public Administration	\$ 1,032	\$ 2,187	\$ (1,155)	-52.81%
Unclassified	\$ 28,907	\$ 25,210	\$ 3,697	14.66%
State Reimb-Food/Med Tax	\$ 675,679	\$ 635,333	\$ 40,346	6.35%
Muni. Equivalent Distribution	\$ 30,559	\$ 27,646	\$ 2,913	10.54%
<b>Total Distribution</b>	<b>\$ 9,328,684</b>	<b>\$ 8,019,547</b>	<b>\$ 1,309,137</b>	<b>16.32%</b>

Data Source: NM Taxation & Revenue Dept. Please note a two month lag in data provided per reporting from TRD.

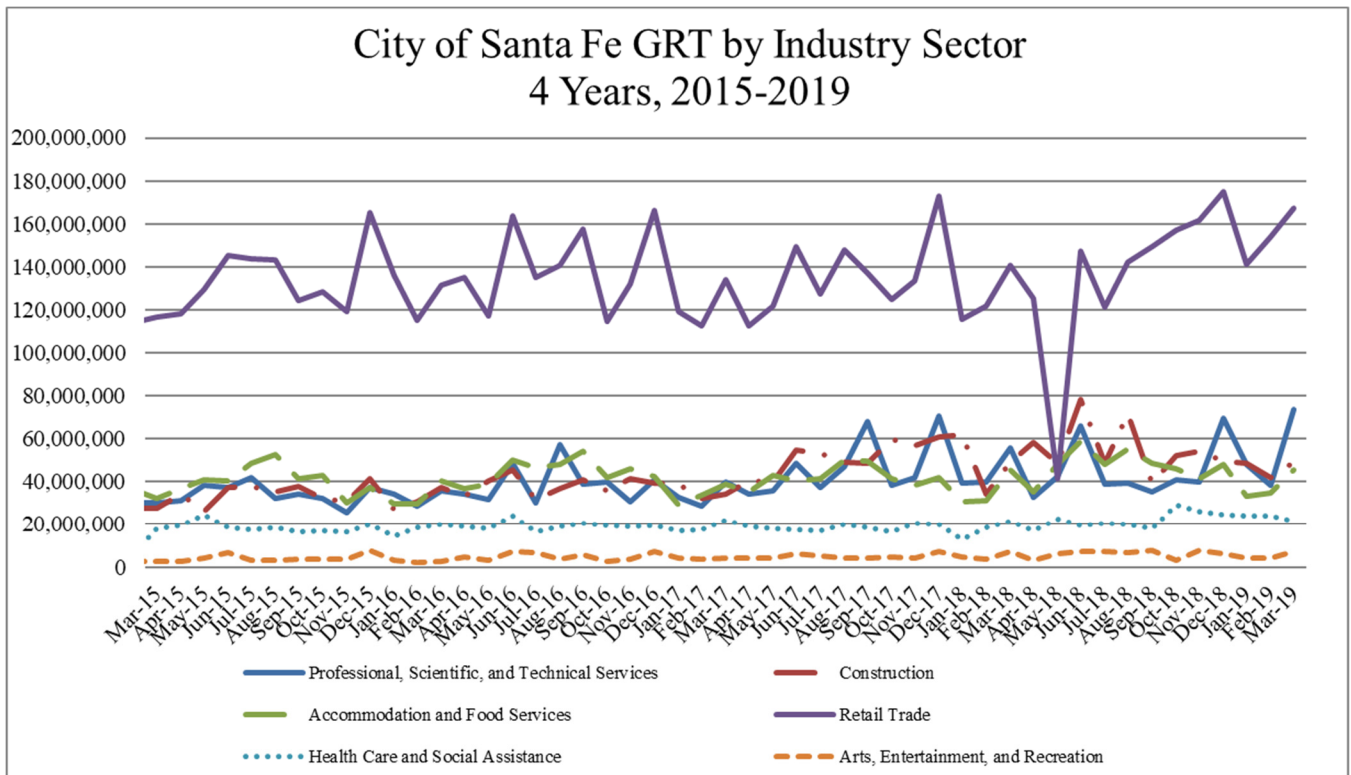


Chart 2



Data Source: NM Taxation & Revenue Dept.

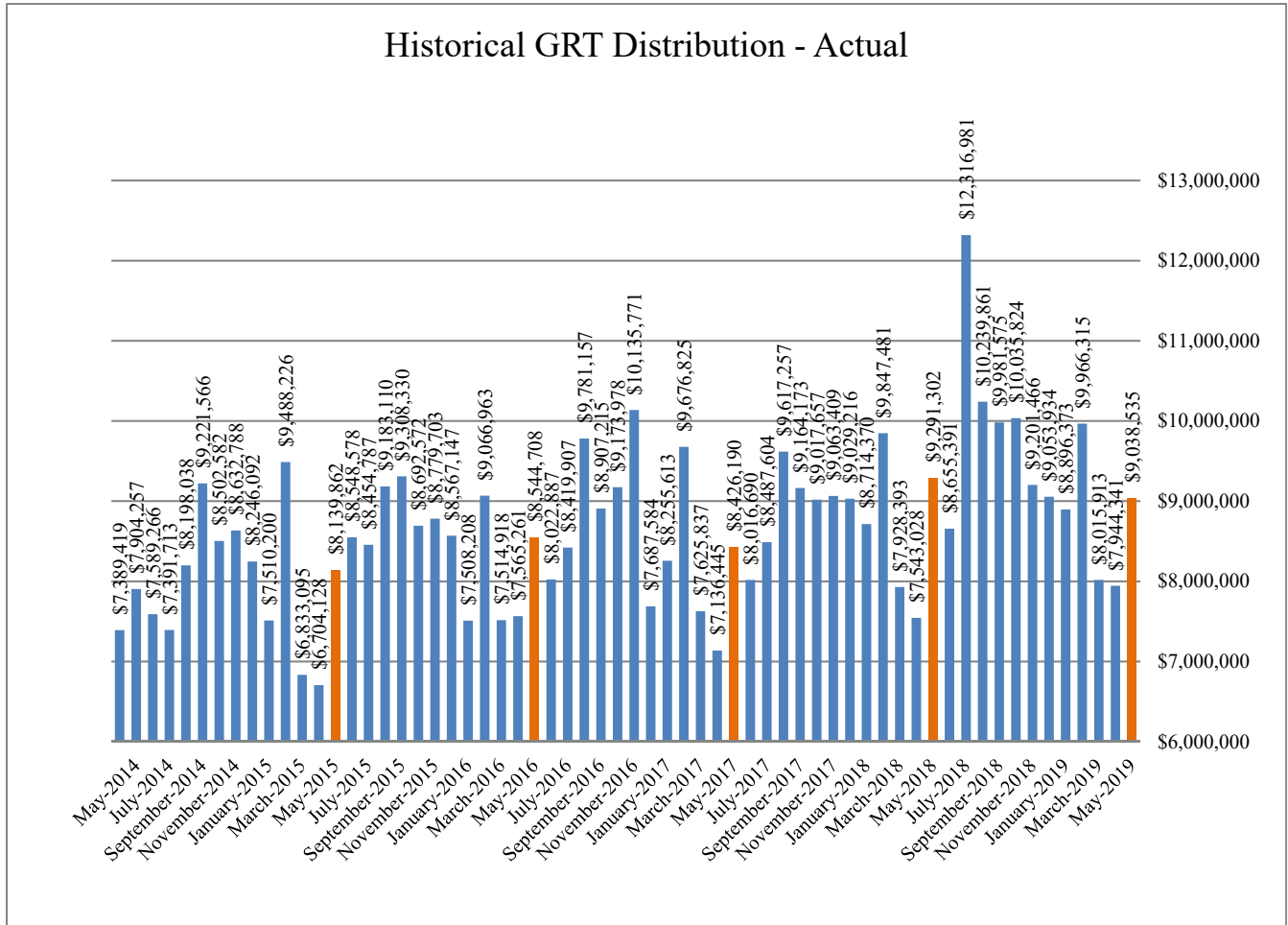
Chart 3



Data Source: NM Taxation & Revenue Dept. (May 2018 drop in Retail due to GenTax reporting errors at TRD.)

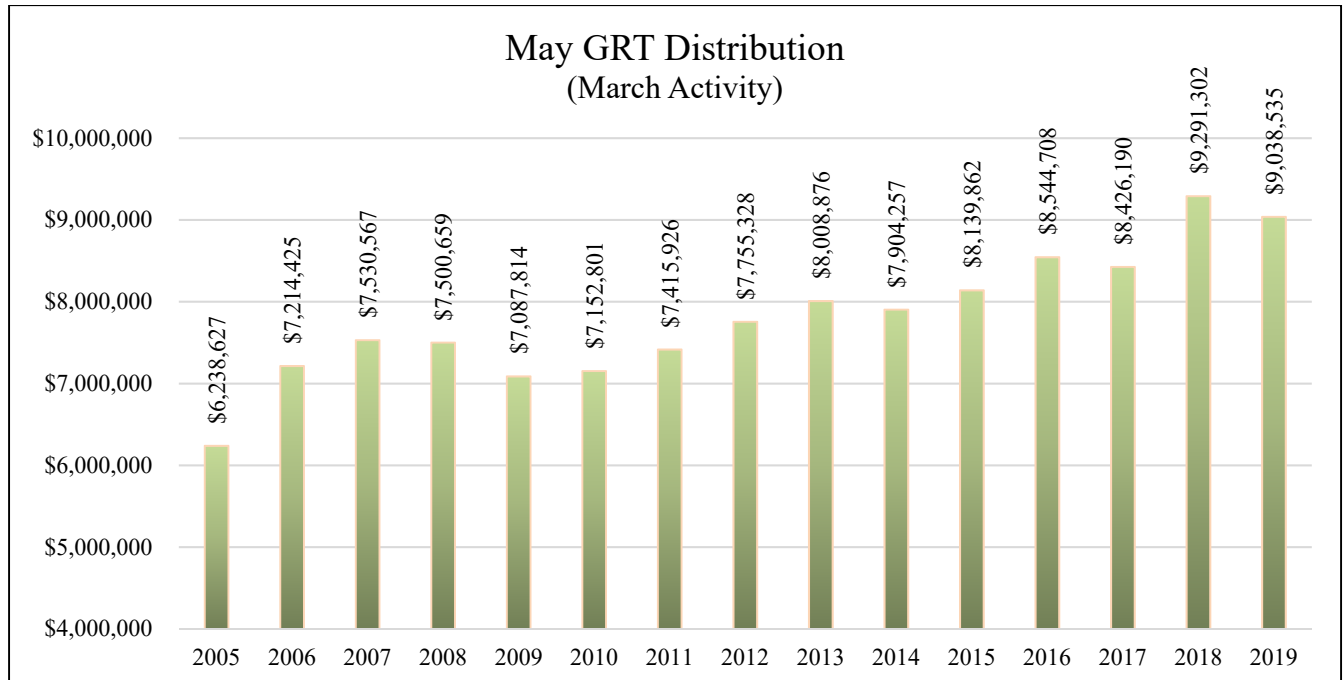


Chart 4



Data Source: NM Taxation & Revenue Dept.

Chart 5



Data Source: NM Taxation & Revenue Dept.

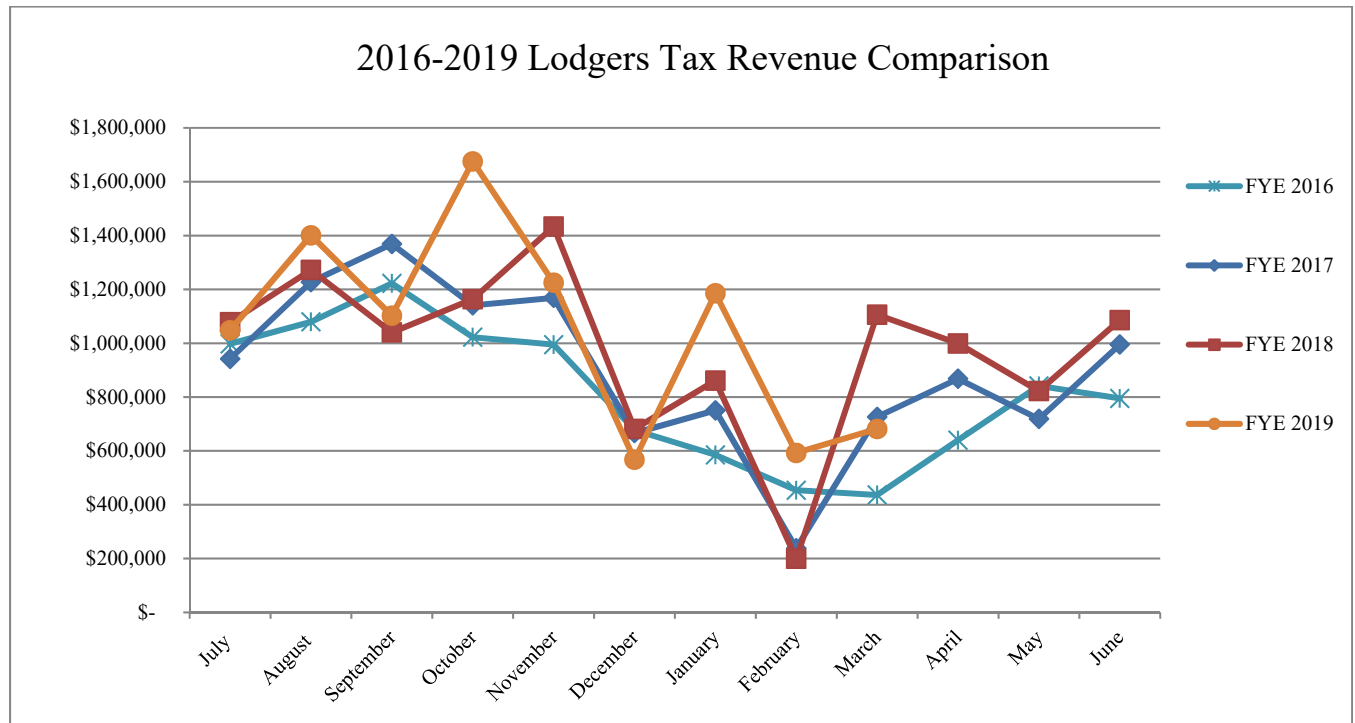




## FINANCIAL PERFORMANCE REPORT: THIRD QUARTER FY 2018-2019

Lodgers Tax payments received for the month of March 2019 were \$682 thousand, a severe decline from the same month last year. This is attributed to a spike in payments received by the City last year as well as March presenting a month for historically lower payments during this time of the year. The payments reported are average when compared with historical collections activity since the inception of the program. Lodgers Tax collections are generated from hotels, motels and short term rentals within the City of Santa Fe.

Chart 6



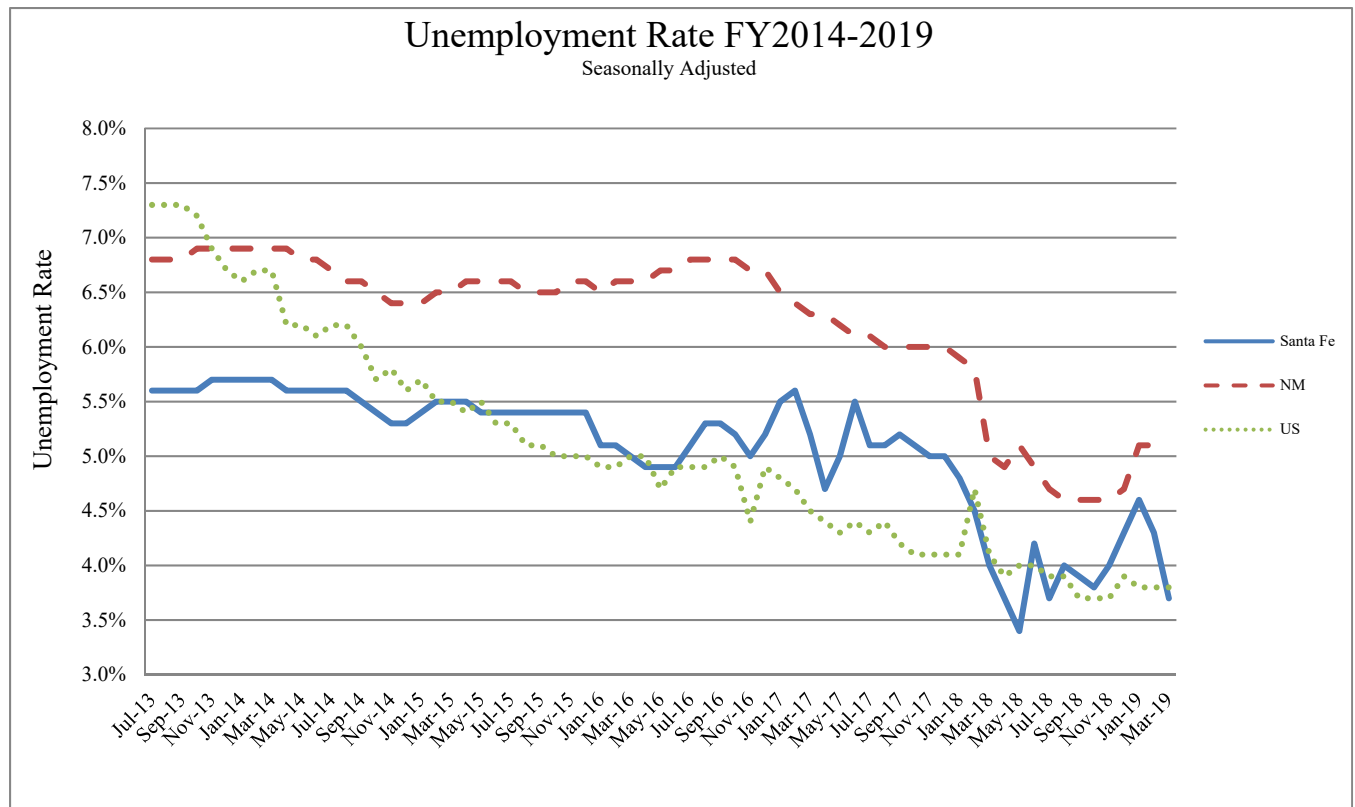
Data Source: City of Santa Fe – Finance Dept.





Employment is a strong economic indicator of the health of an economy. The Santa Fe MSA (metropolitan statistical area) which includes the city and part of the county, has reported some growth in certain sectors, yet remains behind historical levels achieved during 2006-2007. In March, the New Mexico Department of Workforce Solutions (DWS) reported total non-seasonally adjusted, total nonfarm employment in Santa Fe grew by 700 jobs, or 1.1 percent. Private sector was up 300 jobs while the public sector was up 400 jobs. By sector, leisure and hospitality reported the strongest gains of 400 jobs, while education and health services were up 200 jobs and financial activities by 100 jobs, respectively. Mining and construction declined 200 jobs. Public sector employment levels grew by 400 jobs. Losses were reported were in the professional and business services sectors. The seasonally adjusted unemployment rate for Santa Fe was 3.7 percent in March 2019, down from 4.0 percent in March 2018.

**Chart 7**



Data Source: City of Santa Fe – Finance Dept. and NM Dept. Workforce Solutions



## **II. CITY OF SANTA FE – REVENUE/EXPENDITURE PROJECTIONS**

This report is a summary of financial results for the City through the third quarter of the fiscal year. It provides summarized information on how the City's financial sources and uses have performed to date by department and major categories. Significant financial developments and budget variances are highlighted and explained. The report also includes a projection of revenues and expenditures to the end of the fiscal year based on year-to-date activity and historical trends.

### **HIGHLIGHTS**

Overall, in FY19 the City's revenue performance is on track to exceed budgeted levels. The City's largest revenue source is Gross Receipts Tax (GRT), comprising over 27 percent of the total operating revenue budget. Thus, GRT is the primary driver for the City's overall operating revenue performance. Due to a one-time surge in State distributions earlier in the fiscal year, year-to-date GRT revenue is higher than expected, and is projected to come in at 8 percent over budget. Water fees represent the second-largest revenue source, comprising just over 9 percent of the total revenue budget. Due to a wetter-than-normal winter and spring, water fees are projected to end the year at 11 percent below budget. Insurance premiums/deductibles are the third-largest revenue source, comprising over 7 percent of the total operating revenue budget; due in large part to lower-than expected revenue for employee health premiums, this category is projected to come in under budget (4 percent). Overall, strong GRT revenue performance is driving a positive revenue forecast, with total revenues projected at slightly (2 percent) above budgeted levels.

On the expenditures side, salaries and benefits represent the two largest categories of expenditures (excluding transfers) in the operating budget (19 percent and 11 percent, respectively); while salaries are expected to finish the year relatively close to the budget target (3 percent below budget), benefits are projected to come in a bit lower (11 percent below budget). This is due largely to overtime usage, which tends to mostly impact salaries and not benefits, because the majority of benefits expenses is comprised of employee health, life and dental coverages that do not increase with overtime usage but are rather part of the regular budget for non-overtime salaries and benefits, and expensed at the same level regardless of how much overtime is incurred. The next-largest share (almost 9 percent) of the operating expenditure budget is taken by other operating costs, which is largely composed of internal service charges that are anticipated to come in right in line with budgeted levels; however, some items in this category such as GRT payables, postage and printing costs are trending significantly below budgeted expectations, resulting in a projected final expense level of 12 percent below budget in this category. Contractual services also represent one of the largest slices of the expenditure pie, comprising 8 percent of the total budget. Based on historical and current trends, and the fact that this category often has been under-spent in the past, contractals are expected to come in at 33 percent below budget. Likewise, repairs and maintenance and travel/training costs have historically come in well below their budget targets; based on this fact and current trends for this fiscal year, these categories are expected to end the fiscal year at 26 percent and 39 percent below budget, respectively. Overall operating expenditures are projected at 8 percent below budget.



GENERAL FUND

As is the case in the City's total operating budget, the largest share of revenue to the General Fund is GRT; in this case however, GRT is an even larger share of the total, representing well over half (69 percent) of the total General Fund revenue budget. General Fund GRT is anticipated to come in slightly (1 percent) over budget, due to the positive GRT revenue performance trend so far this fiscal year, as noted above. The next-largest share of General Fund revenue is property tax (8 percent of the total revenue budget), which is projected to come in a bit above budget (2 percent). Another major General Fund revenue source is ambulance fees, which are trending below expectations for the fiscal year and are projected to come in at 25 percent below budget. Other categories of General Fund revenue showing significant variances are miscellaneous revenues (projected at 201 percent above budget) and licenses & permits (projected at 11 percent below budget); the upward trend in miscellaneous revenues is largely driven by reimbursements for Fire wildland hazard reduction activities, whereas licenses & permits have been trending well below budget so far this fiscal year, largely due to a slowdown in construction which results in lower-than-expected receipts in building and zoning permits revenue. Taken as a whole, General Fund revenues are expected to end the fiscal year at 1 percent below budget.

In the General Fund, as in the overall operating budget, salaries and benefits comprise the majority of the expenditures budget (43 percent and 25 percent, respectively). While public safety overtime costs are expected to drive General Fund salaries slightly (1 percent) over budget, savings in benefits are projected to offset this overage (projected at 12 percent below budget for the fiscal year). As outlined above, the budget-to-actual variance is larger for benefits due to the disparate impact that overtime costs have on salaries relative to benefits. Excluding transfers, the next-largest share (9 percent) of the General Fund expenditures budget is taken by other operating costs, which as noted above are largely comprised of internal service charges expected to come in at budget levels, but which also includes postage, printing and other costs that are projected well below budget levels, leading to an overall projection for this category of 3 percent below budget. The third-largest share (5 percent) of the General Fund expenditures budget is claimed by the contractual services category which, based on historical and current trends mentioned above, is expected to end the fiscal year well under budget (24 percent). The repairs & maintenance and travel/training categories are also projected to end the fiscal year with significant budget-to-actual variances (31 percent and 61 percent below budget, respectively); these projections are driven by historical and current trends for this category, as noted above. Overall, total General Fund expenditures are projected at 5 percent below budgeted levels.

The Finance Department will continue to closely monitor the City's revenue and expenditure profile, and recommend adjustments where necessary, to ensure that the City's financial goals are met in the most efficient and effective manner possible.



# FINANCIAL PERFORMANCE REPORT: THIRD QUARTER FY 2018-2019

## ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

Table 4

DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2018/2019				
	2017/2018 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
<b>BEGINNING BALANCE</b>	<b>136,387,313</b>	<b>148,800,264</b>	<b>148,800,264</b>	<b>148,800,264</b>	<b>148,800,264</b>	
<i>Revenues:</i>						
Gross Receipts Tax	110,811,262	105,633,024	105,633,024	65,151,402	114,160,411	8%
Property Tax	11,392,416	10,128,419	10,128,419	6,956,732	10,555,975	4%
Franchise Fees	4,397,467	4,625,575	4,625,575	2,328,609	4,217,975	-9%
Lodgers' Tax	11,530,595	11,300,000	11,300,000	9,590,356	12,679,981	12%
Gasoline Tax	1,445,498	1,445,000	1,445,000	913,850	1,474,795	2%
Other Taxes	562,889	550,605	550,605	252,740	571,764	4%
Licenses & Permits	4,225,644	4,333,389	4,333,389	2,837,648	3,896,238	-10%
Ambulance Fees	2,544,706	4,000,000	4,000,000	1,826,161	2,994,153	-25%
Insurance Premiums/Deductibles	28,182,348	29,450,216	29,450,216	21,600,388	28,272,987	-4%
Parking Fees	4,833,610	4,689,416	4,689,416	3,486,857	4,724,877	1%
Recreation Fees	3,328,686	3,270,324	3,270,324	2,254,128	3,140,677	-4%
Solid Waste Fees	20,040,359	19,742,282	19,742,282	14,133,207	18,702,306	-5%
Wastewater Fees	13,197,506	11,654,000	11,654,000	8,769,067	12,248,885	5%
Water Fees	38,154,026	35,424,057	35,002,724	21,180,565	31,055,327	-11%
Other Fees/Services**	30,006,780	24,690,971	25,205,028	8,809,420	28,846,994	14%
Fines & Forfeitures	1,268,140	1,412,334	1,412,334	844,079	1,131,522	-20%
Miscellaneous Revenues***	18,580,943	3,305,889	26,421,434	25,660,548	29,204,979	11%
Interest on Investments	2,395,355	4,594,530	4,545,663	76,023	4,545,663	0%
State Grants	4,110,059	4,934,275	6,188,190	2,438,425	6,188,190	0%
Federal Grants	3,136,174	2,684,693	4,901,175	516,569	4,901,175	0%
SF County/Other Grants	71,749	45,900	8,974,330	92,782	8,974,330	0%
Transfers In	64,239,933	60,157,316	63,980,640	46,635,185	63,980,640	0%
<b>Subtotal - Revenues</b>	<b>378,456,148</b>	<b>348,072,215</b>	<b>387,453,768</b>	<b>246,354,738</b>	<b>396,469,843</b>	<b>2%</b>
<b>TOTAL RESOURCES</b>	<b>514,843,460</b>	<b>496,872,479</b>	<b>536,254,031</b>	<b>395,155,002</b>	<b>545,270,106</b>	
<i>Expenditures:</i>						
Salaries	77,579,341	74,286,261	78,201,030	55,351,709	75,650,090	-3%
Benefits	32,573,189	41,823,081	43,187,493	28,151,997	38,394,238	-11%
Contractual Services	19,219,255	27,008,272	32,087,210	21,615,369	21,616,416	-33%
Utilities	13,088,635	12,758,848	14,104,989	11,473,713	12,768,372	-9%
Repairs & Maintenance	5,875,539	6,652,225	9,309,814	6,080,473	6,874,626	-26%
Supplies	10,939,388	13,605,285	13,957,742	9,583,356	10,758,512	-23%
Insurance	30,721,981	32,402,470	32,618,166	25,278,616	32,858,970	1%
Travel & Training	1,009,738	1,603,001	1,823,785	912,130	1,115,442	-39%
Other Operating	30,949,827	34,474,300	35,500,375	11,074,979	31,340,457	-12%
Capital Purchases	7,358,727	9,831,716	14,498,066	10,205,829	12,139,543	-16%
Land & Building	4,048,005	472,910	1,199,462	696,580	990,788	-17%
Debt Service-Principal	19,376,742	20,097,066	20,097,066	1,385,311	20,097,066	0%
Debt Service-Interest	10,421,421	10,193,085	10,193,085	5,420,645	10,193,085	0%
Transfers Out	87,065,734	60,093,566	96,664,829	66,564,321	96,664,829	0%
<b>TOTAL EXPENDITURES</b>	<b>350,227,521</b>	<b>345,302,086</b>	<b>403,443,112</b>	<b>253,795,026</b>	<b>371,462,434</b>	<b>-8%</b>
<b>ENDING BALANCE</b>	<b>148,800,264</b>	<b>151,570,393</b>	<b>132,810,919</b>	<b>141,359,976</b>	<b>173,807,672</b>	

\*Includes year-to-date actuals plus encumbrances as of March 31, 2019; excludes CIP funds

\*\*Other Fees/Services include: Internal Service Charges; Airport Fees; Police/Court Fees; Transit Fees; Land Use Fees; and various other fees/services

\*\*\*Miscellaneous Revenues are primarily comprised of Bond Proceeds. This category also includes: Bond Premiums; Sales Revenue; Reimbursements; Refunds; Advertising Income; Insurance Recoveries; Rental Income; and other miscellaneous revenues



## PROJECTIONS ANALYSIS

Chart 8

FY 2018-19 All Funds Projections

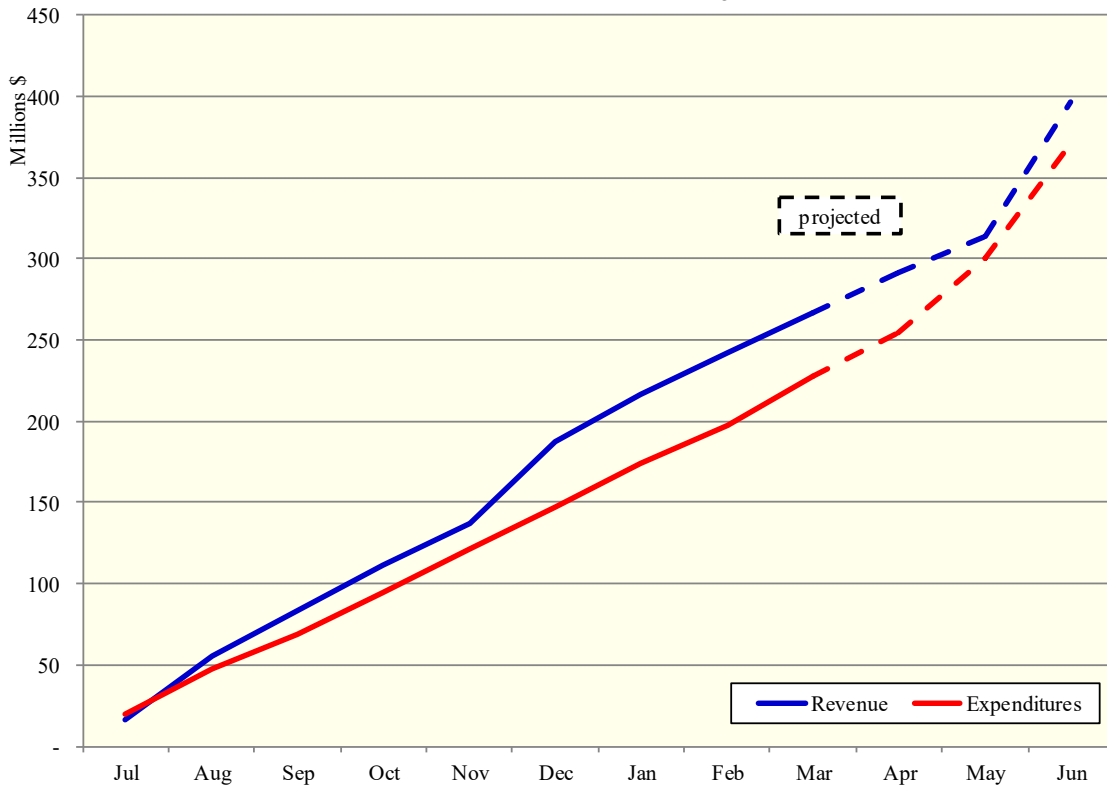
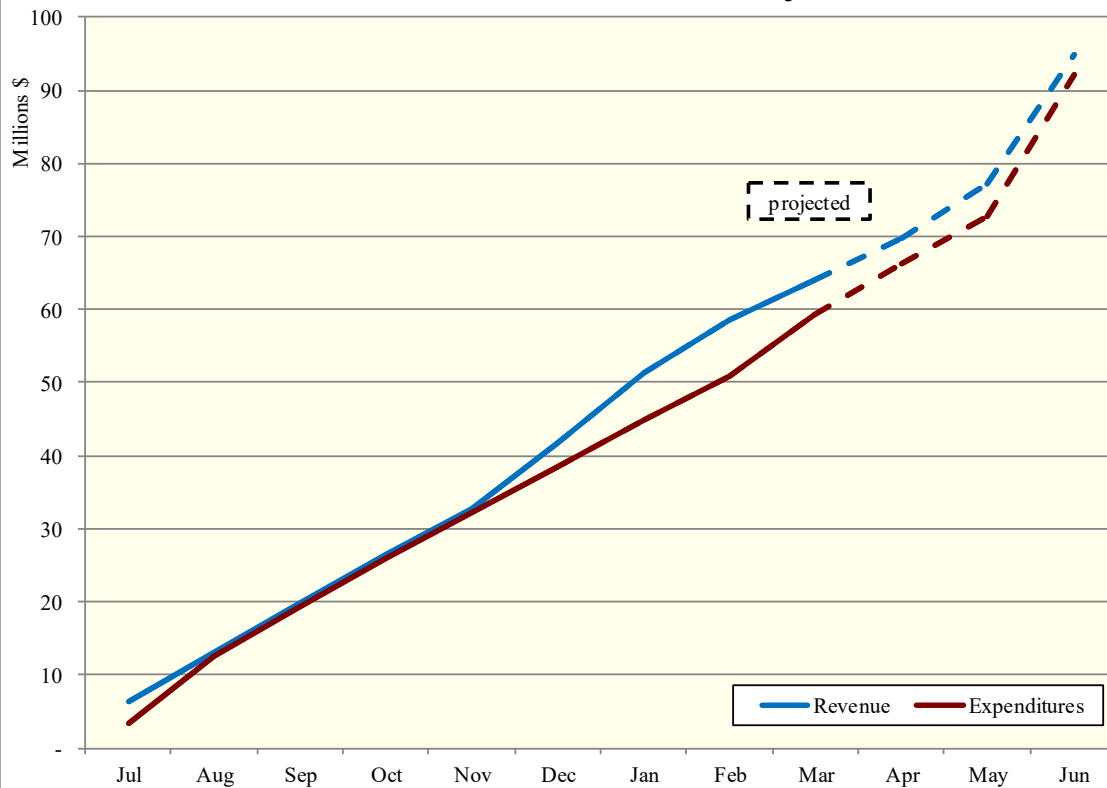


Chart 9

FY 2018-19 General Fund Projections



# FINANCIAL PERFORMANCE REPORT: THIRD QUARTER FY 2018-2019

## GENERAL FUND SUMMARY & PROJECTIONS

Table 5

DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2018/2019				
	2017/2018 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
<b>BEGINNING BALANCE</b>	<b>7,844,318</b>	<b>7,684,220</b>	<b>7,684,220</b>	<b>7,684,220</b>	<b>7,684,220</b>	
<i>Revenues:</i>						
Gross Receipts Tax	64,915,409	65,988,414	65,988,414	37,772,108	66,334,120	1%
Property Tax	8,965,751	8,119,189	8,119,189	5,387,851	8,243,395	2%
Franchise Fees	4,378,595	4,605,575	4,605,575	2,318,774	4,207,047	-9%
Other Taxes	495,819	489,000	489,000	252,740	449,603	-8%
Licenses & Permits	4,180,409	4,312,589	4,312,589	2,808,958	3,858,399	-11%
Ambulance Fees	2,544,706	4,000,000	4,000,000	1,826,161	2,994,153	-25%
Planning/Land Use Fees	399,614	284,550	284,550	211,318	249,912	-12%
Recreation Fees	445,143	456,720	456,720	282,552	378,129	-17%
Reimbursed Expenditures**	5,032,074	4,861,572	4,861,572	109,262	4,861,572	0%
Other Fees/Services	272,994	259,276	259,276	202,653	265,885	3%
Fines & Forfeitures	241,812	508,956	508,956	164,554	232,283	-54%
Miscellaneous Revenues	220,764	99,000	184,547	231,017	555,784	201%
Interest on Investments	33,994	394,659	394,659	-	394,659	0%
State/Other Grants	830,182	75,000	622,419	517,458	622,419	0%
Transfers In	1,658,068	719,508	1,083,009	658,349	1,083,009	0%
<b>Subtotal - Revenues</b>	<b>94,615,334</b>	<b>95,174,008</b>	<b>96,170,475</b>	<b>52,743,755</b>	<b>94,730,370</b>	<b>-1%</b>
<b>TOTAL RESOURCES</b>	<b>102,459,652</b>	<b>102,858,228</b>	<b>103,854,695</b>	<b>60,427,975</b>	<b>102,414,590</b>	
<i>Expenditures:</i>						
Salaries	42,131,835	40,785,563	41,725,960	30,702,072	42,011,780	1%
Benefits	21,499,229	24,058,302	24,295,304	15,706,220	21,409,913	-12%
Contractual Services	4,164,142	4,797,365	4,622,225	3,209,634	3,511,059	-24%
Utilities	4,382,223	3,840,806	3,832,806	3,248,751	3,829,196	0%
Repairs & Maintenance	626,912	885,351	853,407	453,654	592,978	-31%
Supplies	2,481,636	2,605,455	2,590,836	2,073,330	2,547,318	-2%
Insurance	3,097,678	3,295,397	3,295,397	2,471,548	3,295,397	0%
Travel & Training	308,480	504,106	508,603	158,347	198,850	-61%
Other Operating	6,538,751	8,919,115	9,014,434	1,076,977	8,758,951	-3%
Capital Purchases	941,990	1,273,000	1,334,714	1,116,249	1,247,880	-7%
Land & Building	97,989	129,910	108,910	64,695	99,975	-8%
Transfers Out	6,739,886	4,479,732	4,499,939	3,408,770	4,499,939	0%
<b>TOTAL EXPENDITURES</b>	<b>93,010,751</b>	<b>95,574,102</b>	<b>96,682,535</b>	<b>63,690,247</b>	<b>92,003,237</b>	<b>-5%</b>
<b>ENDING BALANCE</b>	<b>7,684,220</b>	<b>7,284,126</b>	<b>7,172,160</b>	<b>(3,262,272)</b>	<b>10,411,353</b>	
<i>City Council-Mandated Minimum General Fund Balance***</i>	<i>8,834,715</i>	<i>9,109,437</i>	<i>9,218,260</i>		<i>9,218,260</i>	
<i>Equivalent # Days of Operation</i>	<i>32</i>	<i>29</i>	<i>28</i>		<i>43</i>	

\*Includes year-to-date actuals plus encumbrances as of March 31, 2019

\*\*Reimbursed Expenditures are mostly comprised of internal charges to various City Divisions for services provided by GF Departments such as Finance, ITT, & HR

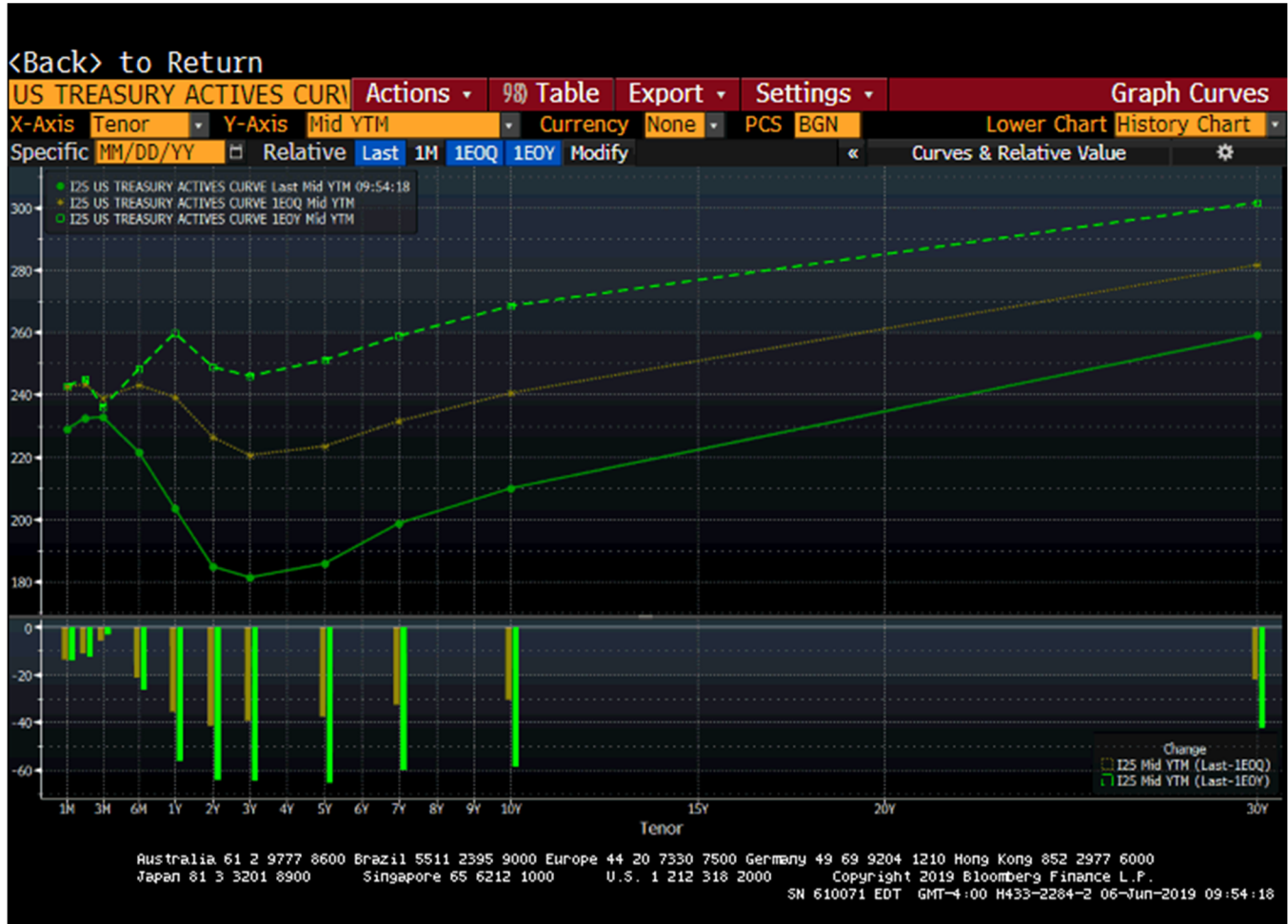
\*\*\*Minimum balance defined as 1/10 (10%) budgeted annual General Fund expenditures excluding transfers



## II. CITY OF SANTA FE – INVESTMENT PORTFOLIO

Santa Fe’s investment results for the third quarter were very strong, as US interest rates declined. The Two Year US Treasury began 2019 at 2.49 percent and ended the quarter at 2.26 percent, a decline of 23 basis points. The Ten Year US Treasury began 2019 at 2.685 percent and ended the quarter at 2.40, a decline of 28.5 basis points.

Chart 10



The above Bloomberg Chart depicts the US Treasury Yield Curve at three different times. The top line is where interest rates ended 2018, the middle line is where interest rates ended the third quarter and the bottom line is where interest rates are currently. This dramatic decline in interest rates is the result of the Federal Reserve’s flip flop from raising interest rates to potentially cutting them. This flip flop is attributed to the perception that the trade negotiations between the United States and its primary trading partners, Canada, Mexico and China will move the economy into a recession.

It is quite unusual for interest rates to decline as dramatically as they did when GDP is over three percent, job creation averaged 189,000 new jobs and the unemployment rate is well below 4 percent. However, Consumer Confidence declined from a the past decades high of 137.9 in October 2018, to 121.0 in January but has since recovered to a reading of 134.7.





Regardless of the economic strength exhibited in the numbers, the Federal Reserve reversed its position where it was considering several interest rate hikes in 2019 to potentially cutting interest rates as early its July 2019.

Notably, Analysts and Economists are reporting an inverted yield curve where short-term interest rates are higher than longer-term rates. The yield curve is a widely followed indicator of future economic activity. Every US recession was preceded by an inverted yield curve, however, not every inverted yield curve was followed by a recession, but it has the Federal Reserve’s and investors attention around the world.

As for the City’s investment portfolio:

Chart 11

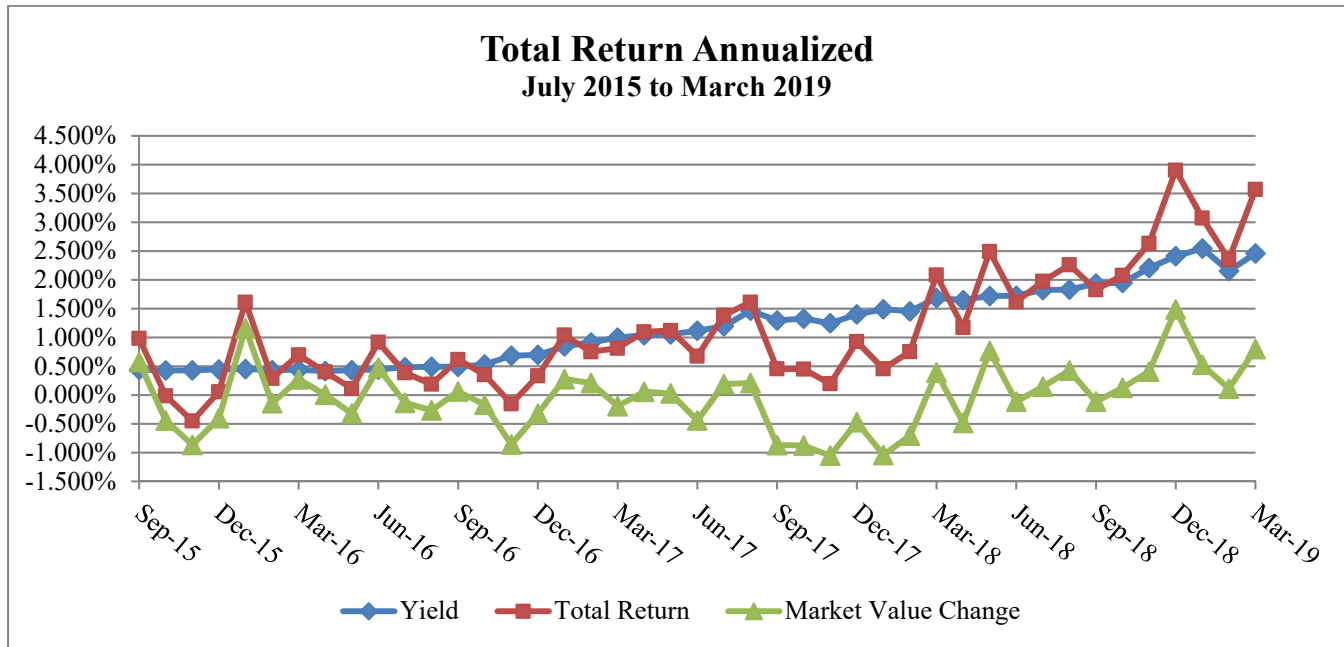


Chart 11 depicts the investment portfolio’s monthly total return, annualized and the two components that make up total return, yield and change in market value.

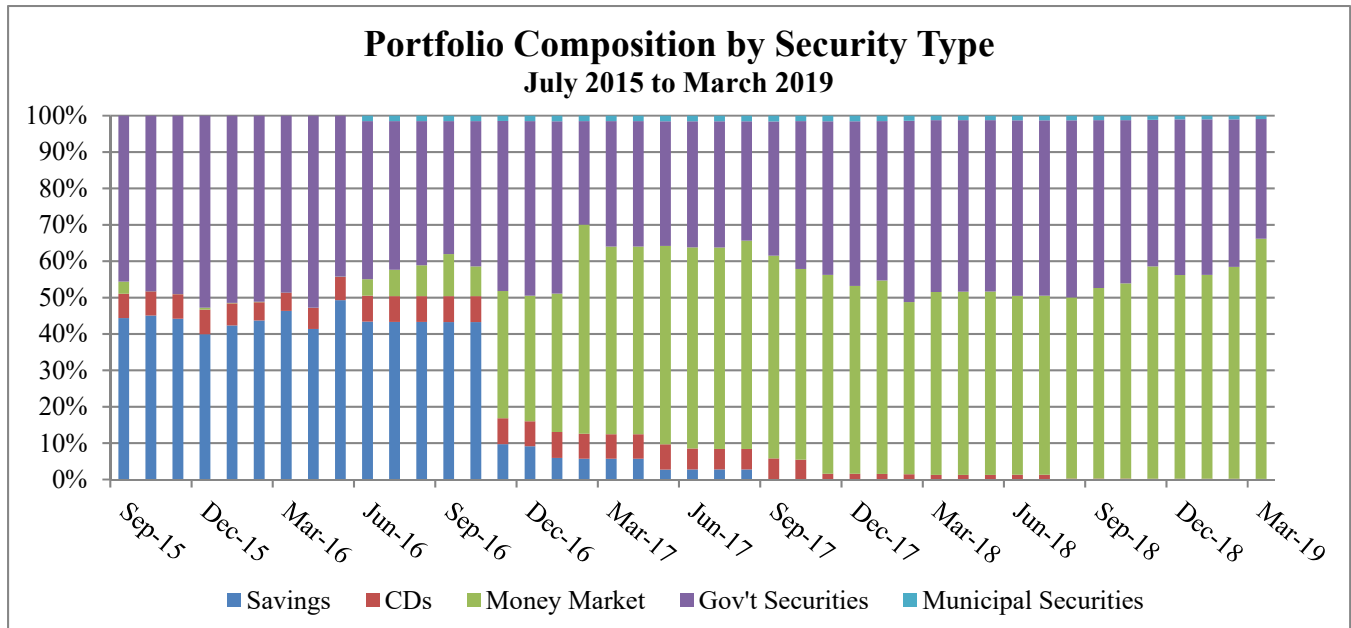
Table 6 summarizes what changed in the portfolio by quarter. Interest income is a function of higher yields and more funds invested. Transfers include bond proceeds (\$22 million GRT, \$15 million Green Bond) and strong GRT receipts throughout FY2019.

Table 6

	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>YTD</u>
Interest Income	909,547	1,150,947	1,451,379		3,511,873
Realized Gain/Loss	-	2,400	81,300		83,700
Change in MV	74,076	362,748	290,413		727,237
Fees	(1,675)	(1,675)	(1,675)		(5,025)
Transfers (Net)	10,000,000	37,500,000	25,000,000		72,500,000
Ending Balance (Market)	198,848,001	237,546,121	264,164,338		



Chart 12



In Chart 12, the allocation to Money Market Funds grew during the quarter as bond proceeds from the Green bond were deposited. The high balance in Money Market Funds currently serves the City well with the inverted yield curve, however, if the Federal Reserve starts to cut interest rates, the yield on those investments will decline in step with the rate cuts. Staff is evaluating its options to maintain the portfolio’s yield if the Federal Reserve does start cutting short-term interest rates.

Chart 13

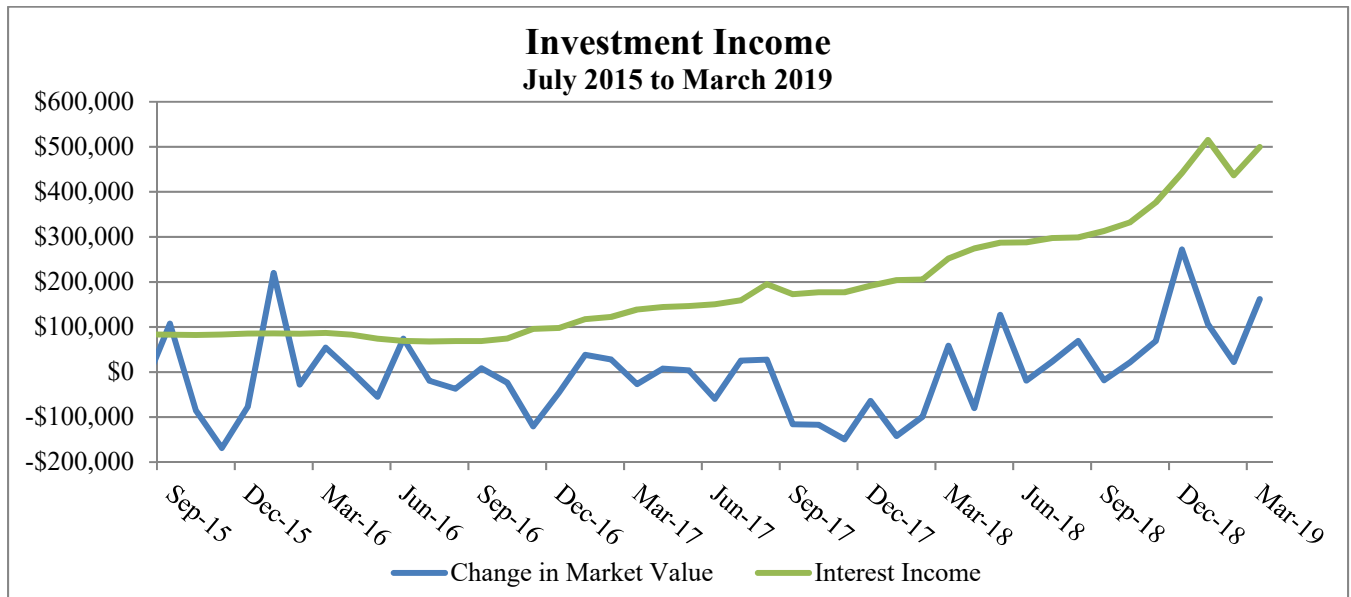


Chart 13 depicts the two major components of investment income, interest and change in market value. As interest rates were rising, interest income grew commensurately and change in market value was usually a small negative. As interest rates declined, interest income continued its upward trend due to the positioning of the portfolio by staff and the change in market value became a positive contributor to income as the duration of the portfolio decline.



# FINANCIAL PERFORMANCE REPORT: THIRD QUARTER FY 2018-2019

The City's interest income reached over \$500,000 in the month of January. High short-term interests and the large cash inflows from bond proceeds (\$22 million 2018 Senior Lien GRT bond and \$15 million 2019 Wastewater Green Bond), GRT and municipal revenues are contributing to the growth in interest income. Staff is planning to transfer out approximately \$20 million in May for the June 1, 2019 debt service.

Chart 14

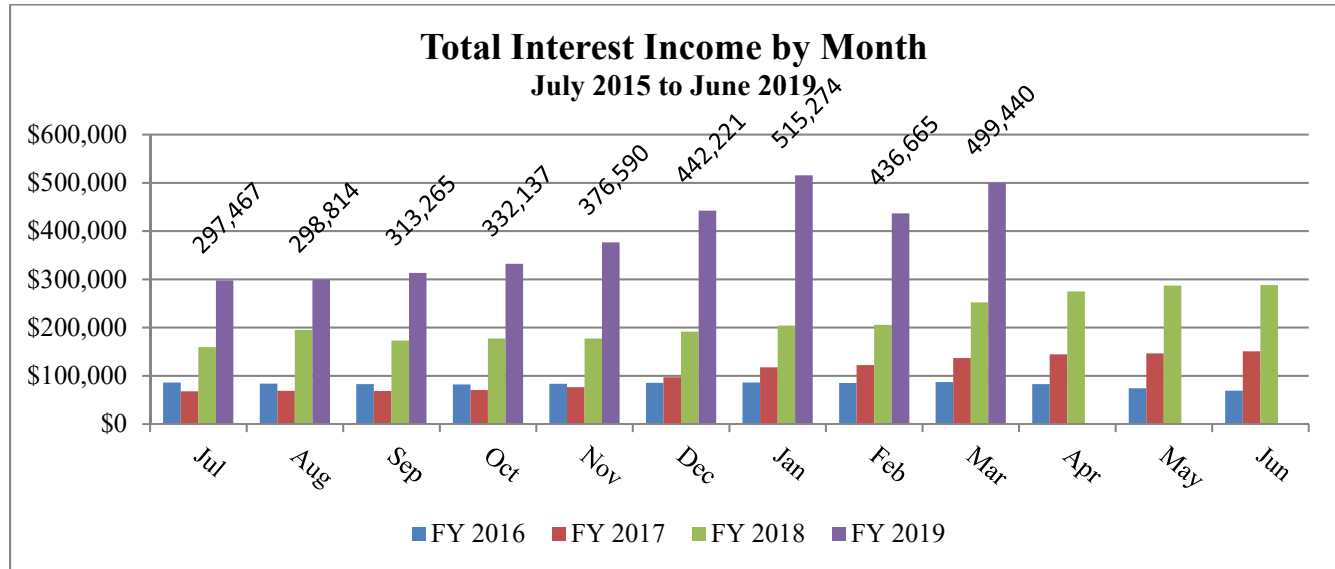


Chart 15

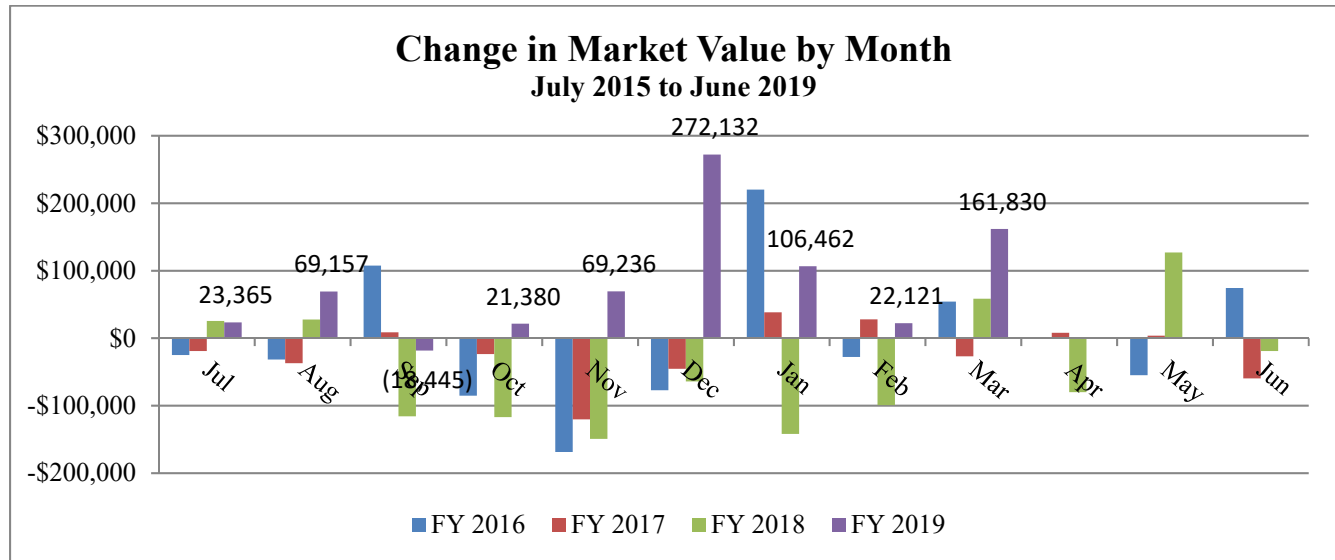
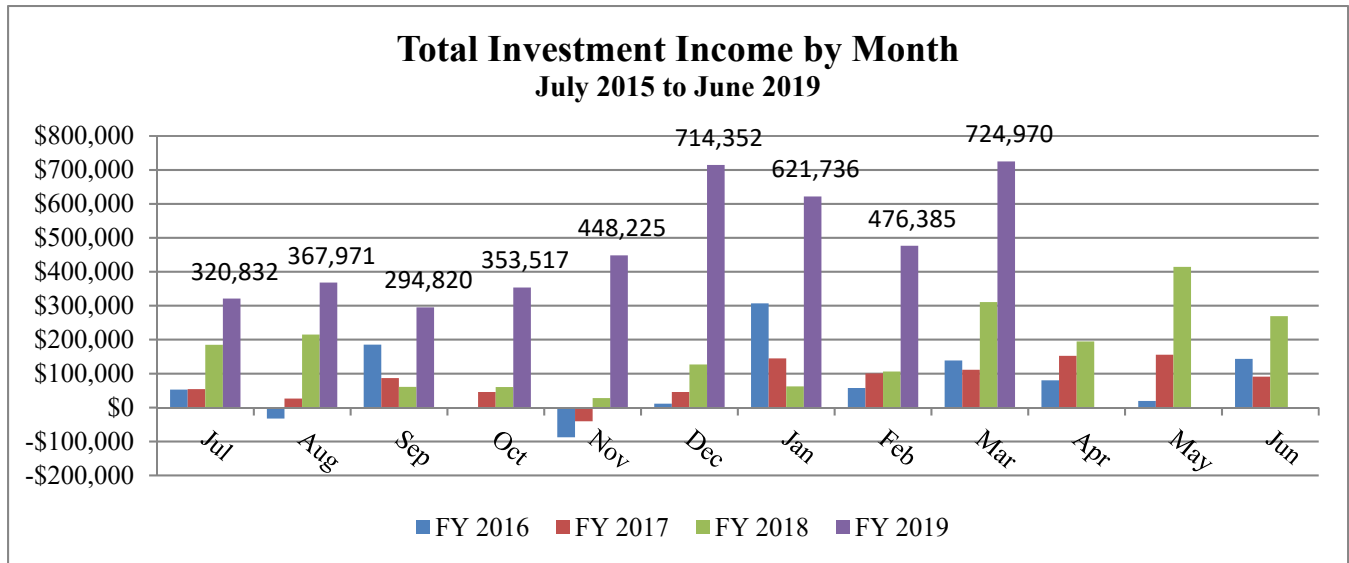


Chart 16



Total Investment Income, Chart 16, is the combination of Charts 14 and 15, interest income and changes in market value (both realized and unrealized). March was the second month this fiscal year to earn over \$700,000 in total investment income, \$500,000 coming from interest income.

Chart 17

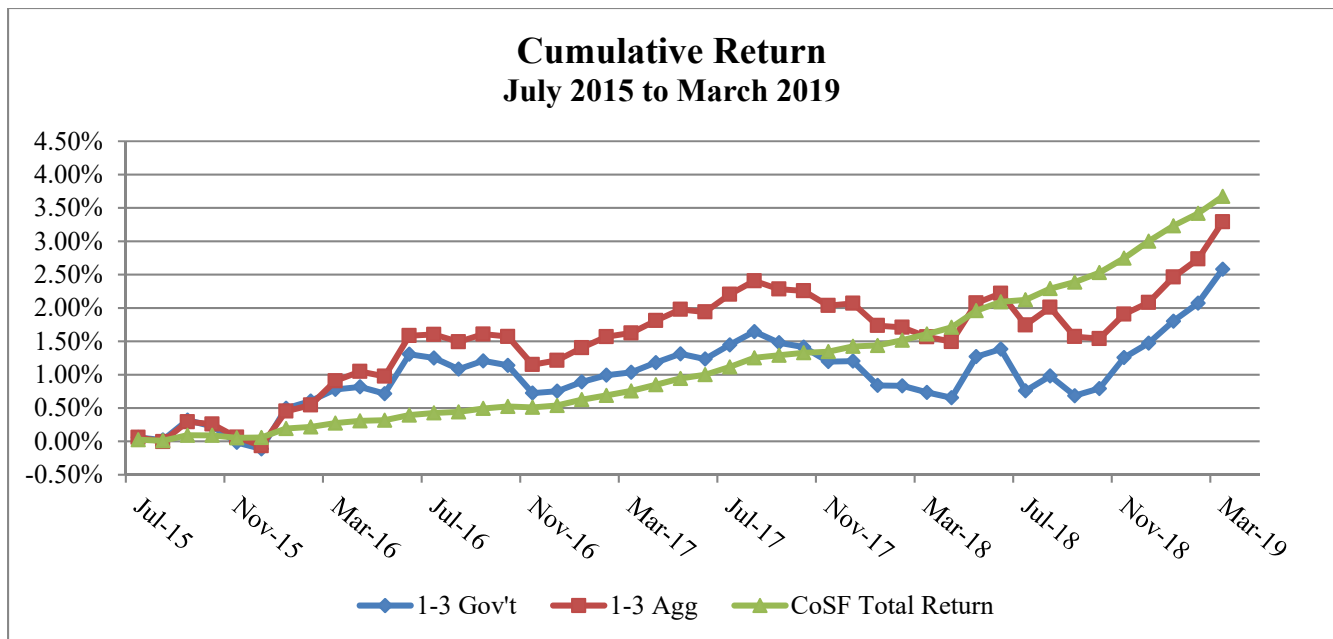
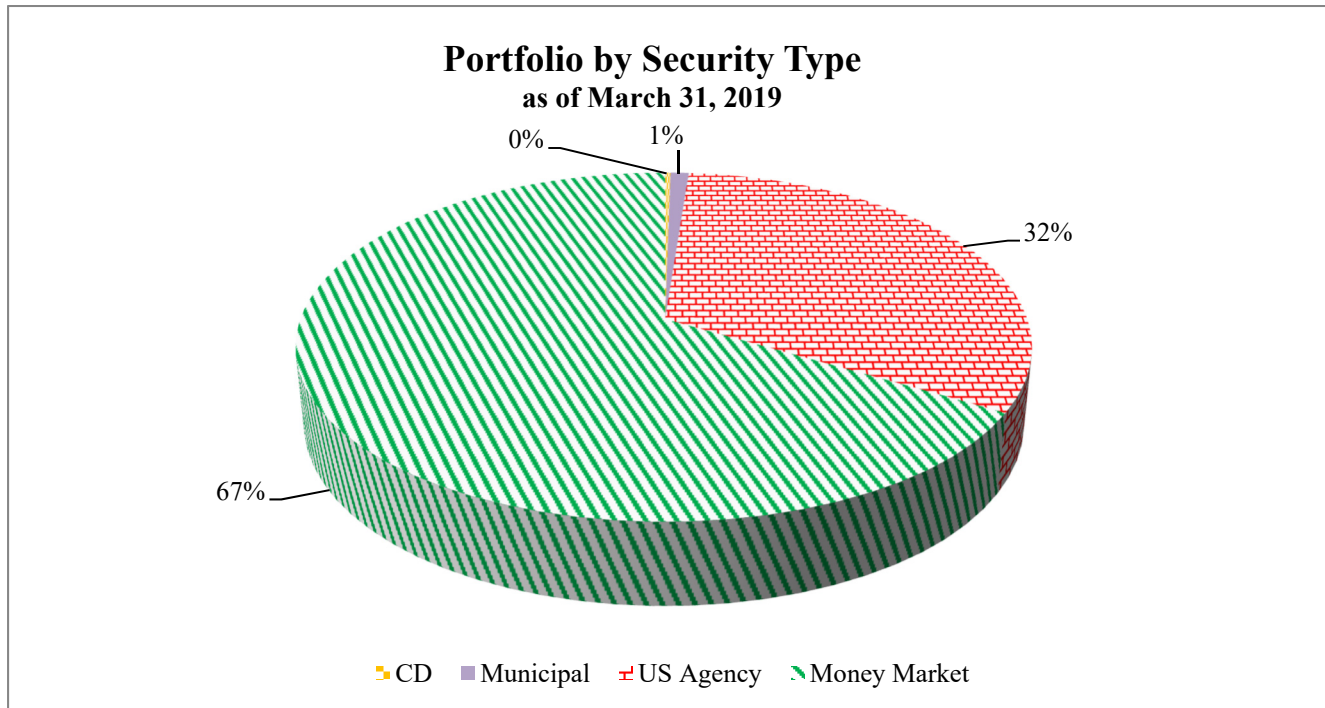


Chart 17 compares the City’s investment returns to standard industry benchmarks for short-term investment portfolios: The Bloomberg 1-3 year Government and the Bloomberg 1-3 year Aggregate that includes investment grade securities including Corporate, Mortgage and other Asset Backed Securities. Both benchmarks out-performed the City’s portfolio in the third quarter because their durations are substantially longer than the City’s portfolio. The City’s portfolio is positioned to capture yield and minimize the capital risk.



Chart 18



Currently, Money Market Funds offer the highest return of all investments authorized in the City’s investment policy. The inverted yield curve makes investing the City’s portfolio more challenging, balancing interest rate risk and interest income. While the portfolio is generating a high level of interest income currently, staff’s concern is future interest income. If the economy slows, and the Federal Reserve cuts short-term interest rates, the City’s investment income will decline. However, locking in interest rates for the next two years would immediately reduce income and increase the portfolio’s interest rate risk. Staff will continue to monitor interest rates and the economy.

Chart 19

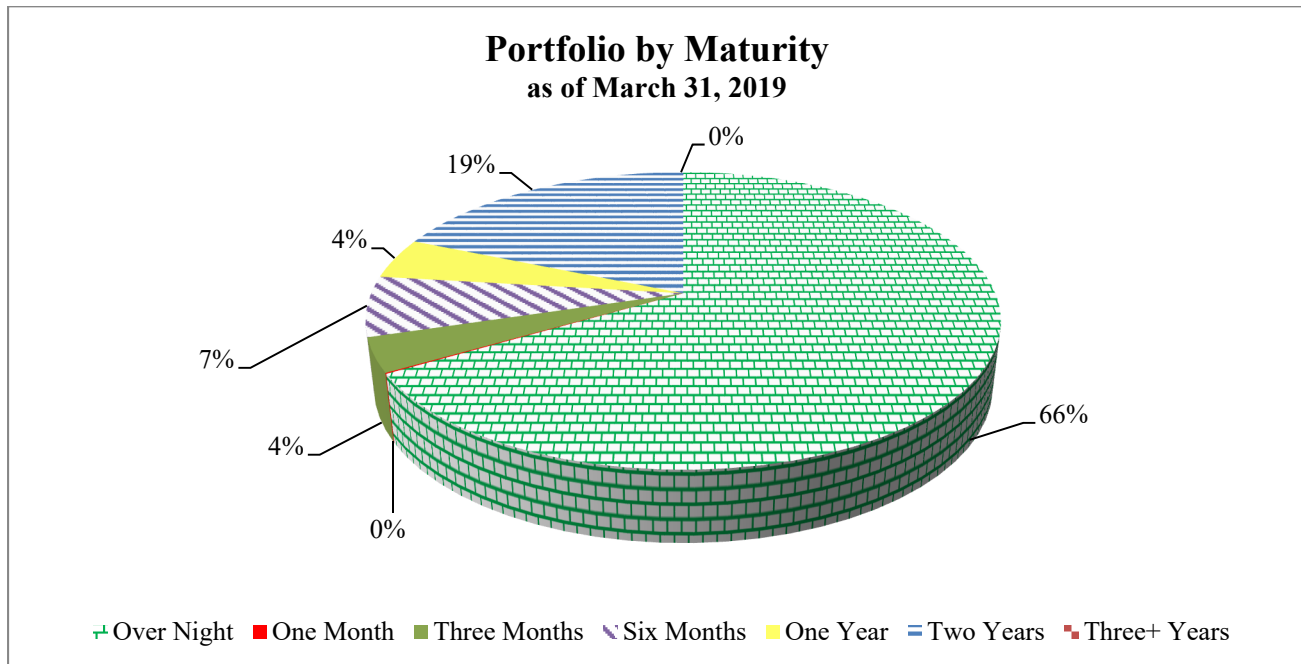
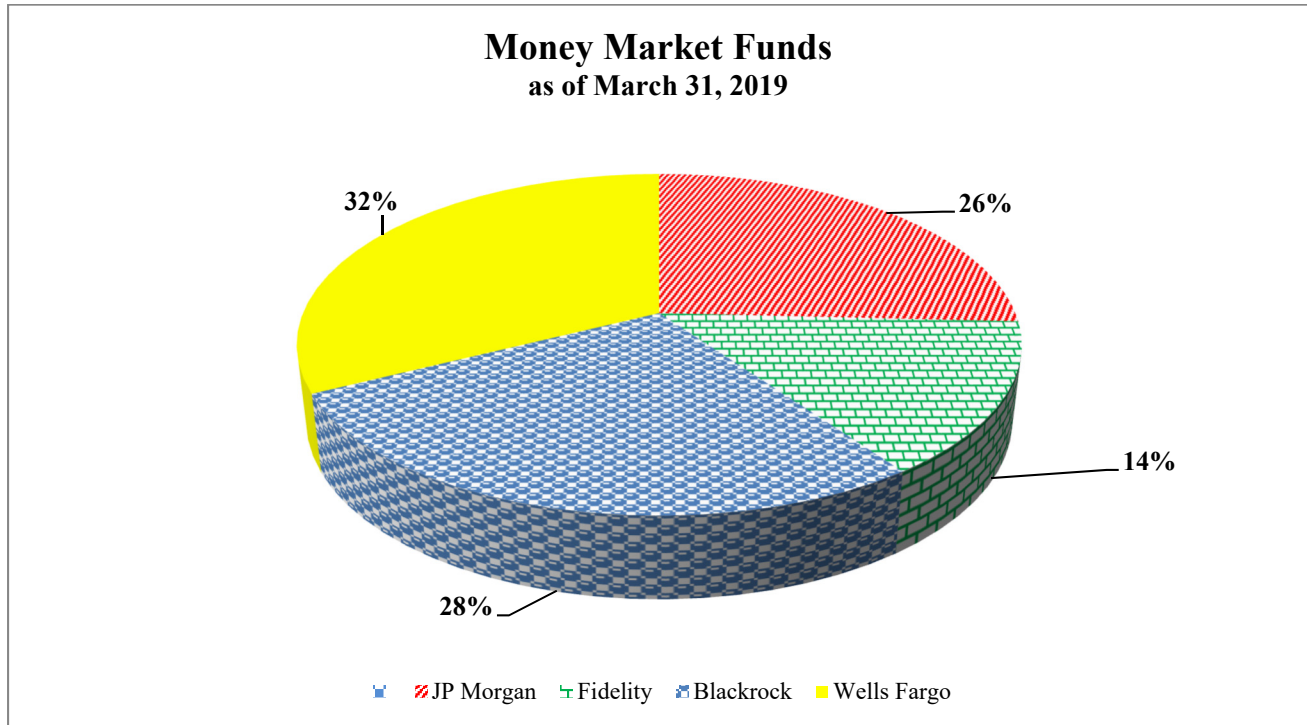


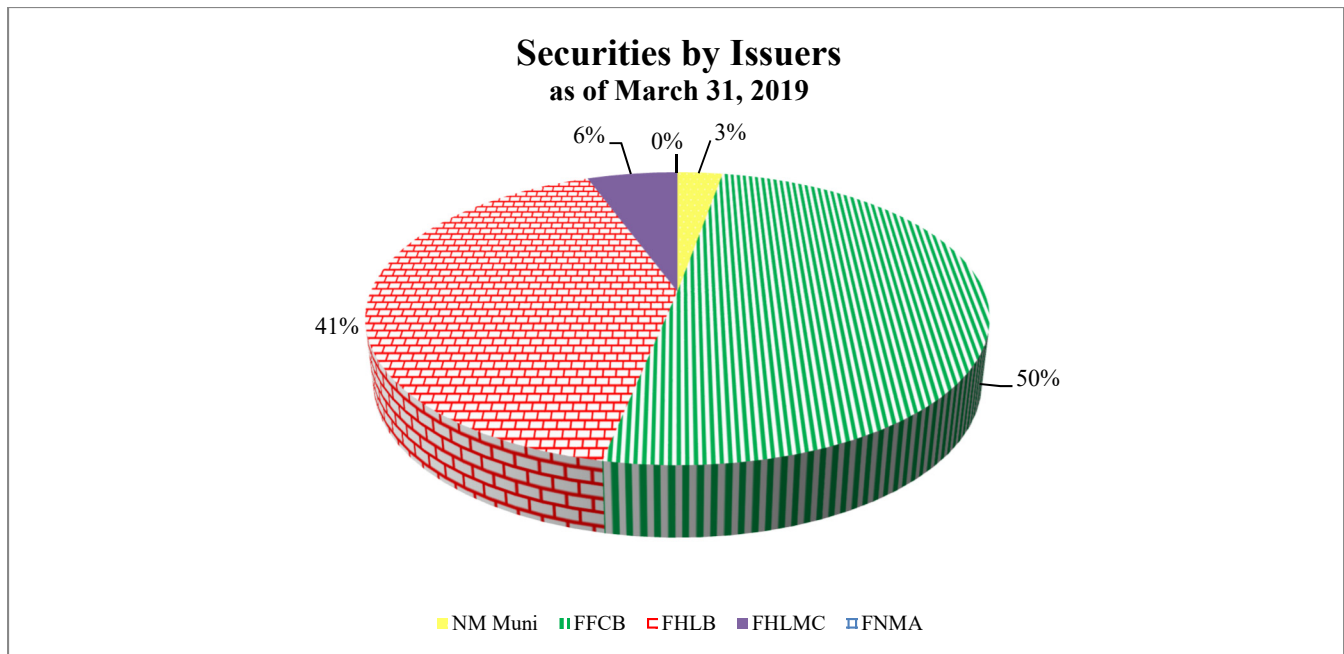
Chart 9 really demonstrates how much the City has invested in very short-term securities. The overnight slice of the pie is all Money Market Funds.

Chart 20



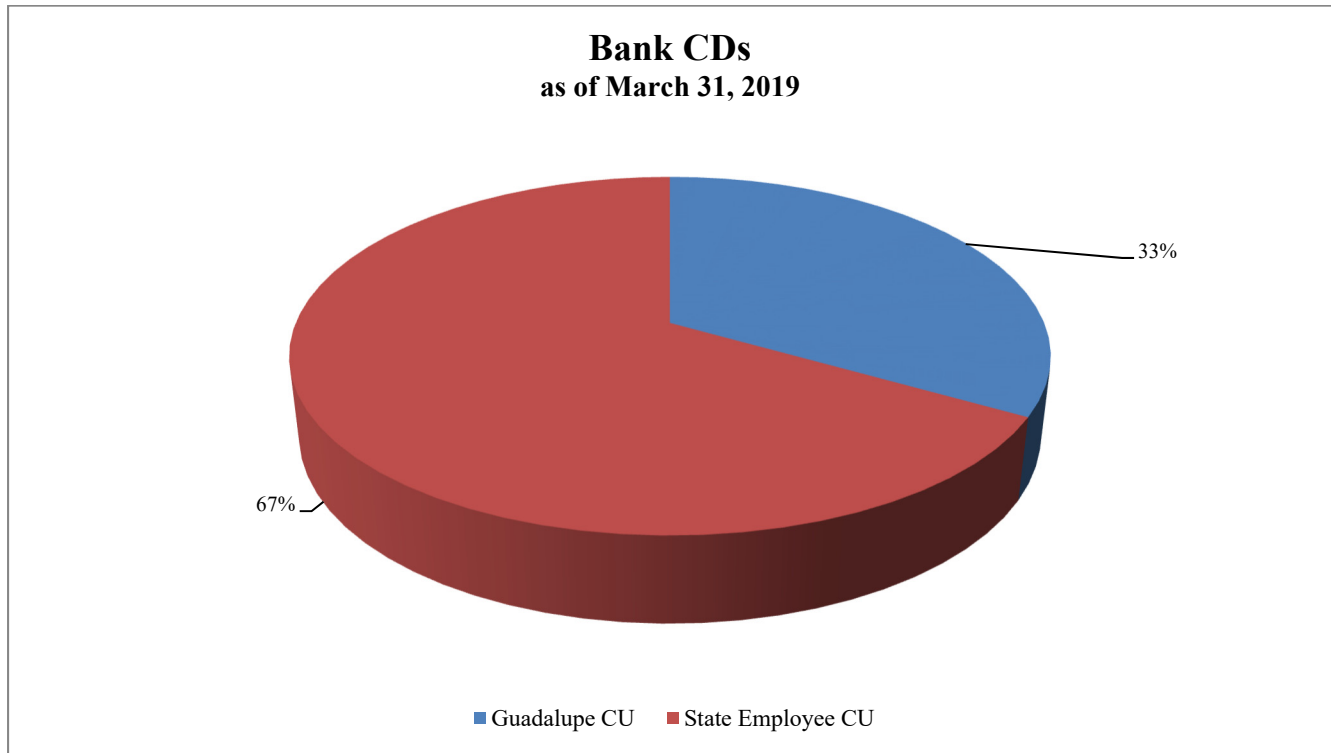
The JP Morgan, Fidelity and Blackrock money market funds are Prime Funds, which invest in Commercial Paper, Yankee CDs, Corporate Notes, and Mortgage products as well as US Treasury and Agency securities. Wells Fargo Government Money Market fund invest only in US Government and US Government Agency securities.

Chart 21



Staff has not purchased a new security in several months as interest rates plummeted in the third quarter. As securities mature, proceeds are deposited into Money Market funds.

Chart 22



The City continues to offer Certificates of Deposits to Banks and Credit Unions within the city limits.

The portfolio's duration and weighted average maturity reflects the Treasury Department's investment strategy to avoid taking interest rate risk, because extending maturities it not an attractive alternative from a yield perspective.

Chart 23

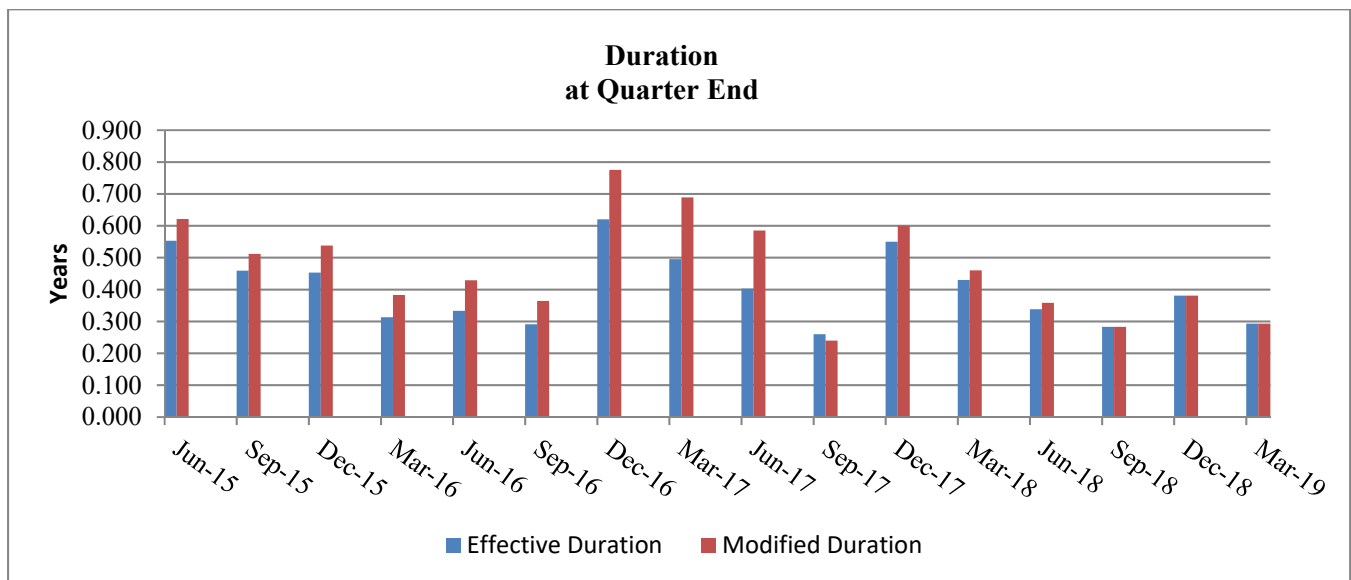
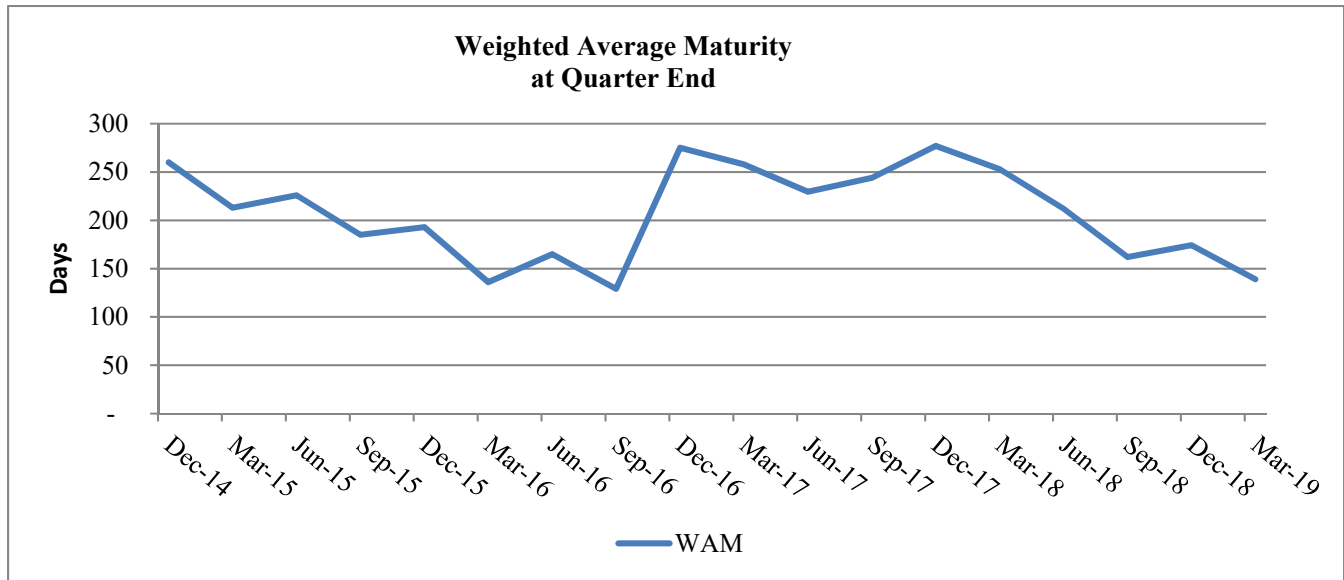




Chart 24



**Investment Strategy**

After the equity market tanked in the second quarter, the Federal Reserve did a complete 180 degree turn in its policy direction. The Federal Reserve changed its outlook from three rate hikes in 2019 to two potential rate cuts in 2019, without any significant changes in the US Economy.

While this has been the longest expansionary economic period in the United States without a recession, strong economies do not die of old age, they are disrupted by excesses, shortages or policy mistakes by the Federal Reserve or Federal Government.

Staff will continue to monitor interest rates and the economy and keep the portfolio balanced between current and future income, while minimizing interest rate risk.



## FINANCIAL PERFORMANCE REPORT: THIRD QUARTER FY 2018-2019

Table 7

City of Santa Fe Portfolio Holdings Report As of March 31, 2019								
<u>Issuer</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Book Value</u>	<u>Coupon</u>	<u>YTM</u>	<u>Maturity Date</u>	<u>Modified Duration</u>	<u>Effective Duration</u>
State Employee CU (Library)	257,734	257,734	257,734	0.55%	0.55%	04/18/2019	0.100	0.100
Guadalupe CU	247,797	247,797	247,797	2.62%	2.62%	08/01/2020	0.548	0.548
State Employee CU	240,000	240,000	240,000	1.56%	1.56%	07/21/2019	1.546	1.546
<b>Total CDs</b>	<b>745,531</b>	<b>745,531</b>	<b>745,531</b>		<b>1.56%</b>		<b>0.714</b>	<b>0.714</b>
Blackrock Prime Inst #24	49,228,115	49,231,069	49,228,115		2.52%		-	-
JP Morgan Prime MM Fund #3605	46,254,839	46,256,227	46,254,839		2.54%		-	-
Fidelity Prime MM Port #2014	25,765,284	25,766,315	25,765,284		2.50%		-	-
Wells Fargo Bank MM	58,117,361	58,117,361	58,117,361		2.38%		-	-
<b>Total Money Market</b>	<b>179,365,599</b>	<b>179,370,971</b>	<b>179,365,599</b>		<b>2.48%</b>		<b>-</b>	<b>-</b>
New Mexico Severance Tax	2,500,000	2,496,050	2,555,425	2.00%	1.25%	07/01/2019	0.495	0.495
<b>Total Municipal</b>	<b>2,500,000</b>	<b>2,496,050</b>	<b>2,555,425</b>	<b>2.00%</b>	<b>1.25%</b>		<b>0.495</b>	<b>0.495</b>
Federal Home Loan Bank	5,000,000	4,947,350	5,003,550	1.63%	1.60%	09/11/2020	1.415	1.415
Federal Home Loan Bank	5,000,000	4,958,600	4,953,800	1.13%	1.44%	11/29/2019	0.650	0.650
Federal Home Loan Bank	2,000,000	1,987,500	1,995,780	1.38%	1.45%	11/15/2019	0.611	0.611
Farmer Mac	5,000,000	5,010,100	5,017,750	2.61%	2.21%	02/03/2021	0.250	0.250
Farmer Mac	5,000,000	4,981,950	5,000,000	1.44%	1.44%	08/20/2019	0.386	0.386
Federal Home Loan Bank	5,000,000	5,033,100	4,989,550	2.88%	2.99%	09/11/2020	1.406	1.406
Federal Home Loan Bank	5,000,000	4,992,100	5,034,800	1.63%	1.34%	06/14/2019	0.202	0.202
Federal Home Loan Bank	5,000,000	4,992,100	5,032,550	1.63%	1.36%	06/14/2019	0.202	0.202
Federal Home Loan Bank	5,000,000	4,975,600	4,985,300	1.38%	1.53%	09/13/2019	0.452	0.452
Federal Home Loan Bank	5,000,000	4,989,250	5,046,450	2.00%	1.52%	09/13/2019	0.452	0.452
Federal Farm Credit Bank	10,000,000	9,992,900	10,000,000	2.49%	2.24%	10/20/2020	0.250	0.250
Federal Farm Credit Bank	10,000,000	10,068,200	9,990,365	2.75%	2.80%	12/14/2020	1.643	1.643
Federal Farm Credit Bank	5,000,000	5,003,800	5,000,000	2.60%	2.41%	03/26/2020	0.970	0.970
Federal Farm Credit Bank	10,000,000	10,074,800	9,986,200	2.80%	2.87%	11/27/2020	1.595	1.595
Federal Home Loan Mtg Corp	5,000,000	5,004,850	4,980,550	2.38%	2.57%	02/16/2021	1.819	1.819
<b>Total Federal Government</b>	<b>87,000,000</b>	<b>87,012,200</b>	<b>87,016,645</b>	<b>31%</b>	<b>2.12%</b>	<b>659005.00</b>	<b>0.888</b>	<b>0.888</b>
<b>Total Portfolio</b>	<b>269,611,131</b>	<b>269,624,753</b>	<b>269,683,201</b>		<b>2.35%</b>	<b>659,005.00</b>	<b>0.293</b>	<b>0.293</b>

Table 8

City of Santa Fe Collateral for Demand Deposits 31-Mar-19				
<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
FNMA FNMS 3.0%	3138MFS40	11/01/2042	38,202,697	20,465,707
FNMA FNMS 2.5%	3138WG5A8	05/01/2031	1,531,772	1,057,024
<b>Total Wells Fargo Bank, NA</b>			<b>39,734,469</b>	<b>21,522,732</b>
<b>Total Collateral</b>			<b>39,734,469</b>	<b>21,522,732</b>

