

CITY OF SANTA FE

QUARTERLY FINANCIAL PERFORMANCE REPORT

As of September 30, 2020



CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT
TABLE OF CONTENTS

| | <u>Page #</u> |
|---|---------------|
| I. EXECUTIVE SUMMARY | |
| A. Executive Summary | 3 |
| B. <u>Table 1</u> : All Funds –Operating Budget Summary and Projections | 4 |
| C. <u>Chart 1</u> : FY 2020-21 All Funds Projections..... | 5 |
| D. <u>Chart 2</u> : FY 2020-21 General Fund Projections..... | 5 |
| E. <u>Table 2</u> : General Fund Summary and Projections..... | 6 |
| II. REVENUE UPDATE | |
| A. Gross Receipts Tax Update | 7 |
| B. <u>Chart 3</u> : Taxable Gross Receipts, All Industries | 7 |
| C. <u>Chart 4</u> : Gross Receipts Tax Distributions, FY20 vs. FY21 | 8 |
| D. Property Tax Update | 10 |
| E. <u>Table 3</u> : Property Tax Distribution - Monthly Comparison | 10 |
| F. <u>Chart 5</u> : Property Tax Receipts by Month..... | 10 |
| G. Lodgers’ Tax Update..... | 11 |
| H. <u>Table 4</u> : Lodgers’ Tax Distribution - Monthly Comparison | 11 |
| I. <u>Chart 6</u> : Lodgers’ Tax Receipts by Month..... | 11 |
| III. INVESTMENT PORTFOLIO UPDATE | |
| A. Investment Portfolio Update | 12 |
| B. <u>Chart 7</u> : Annualized Return, July 2016 to September 2020 | 12 |
| C. <u>Chart 8</u> : Two-Year United States Treasury Note Yield | 12 |
| D. <u>Chart 9</u> : Total Investment Income by Month | 13 |
| E. <u>Chart 10</u> : United States Treasury Yield Curve Comparison | 13 |
| F. <u>Chart 11</u> : Portfolio Composition by Security Type, July 2015 to September 2020..... | 14 |
| G. <u>Chart 12</u> : Investment Income, July 2015 to September 2020..... | 14 |
| H. Investment Strategy | 15 |
| I. <u>Table 5</u> : Portfolio Holdings Report as of September 30, 2020 | 15 |

I. EXECUTIVE SUMMARY

This report is a summary of financial results for the City through the first quarter of the fiscal year. It provides summarized information on how the City's financial sources (revenues) and uses (expenditures) 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.

The City continues to face an unprecedented financial situation with the ongoing Coronavirus pandemic. As the national, regional and local economy continues to weather this crisis, Finance staff will continue to work with other City Departments to ensure that City resources will be used in the most efficient and cost-effective manner in order to meet the challenges posed by this unprecedented pandemic and the resulting financial impacts facing the City.

HIGHLIGHTS

The City's FY21 revenue estimates assumed a significant decrease in revenue over the previous fiscal years due to the ongoing pandemic. The pandemic caused wide-ranging impacts on the local and regional economy which has led to a significant reduction in revenue performance for FY21 as compared to previous fiscal years. This situation has particularly affected the City's Gross Receipts Tax (GRT) revenue. Because the GRT represents the largest single source of the City's revenues, this downturn has significantly affected the City's overall revenue picture. As of the first quarter, revenues appear to be trending within reduced expectations. After only 3 months of data, revenues are currently estimated to come in at budgeted levels.

On the expenditures side, significant reductions and other adjustments were made to the FY21 budget from FY20 levels to meet the challenges posed by the pandemic's economic impacts and resulting downward trends in revenue performance. City Departments have made significant changes to their expenditure budgets to meet the challenges posed by this revenue downturn, and the FY21 expenditure budget reflects these changes. Currently, expenditures are trending within budgeted levels.

GENERAL FUND

As is the case with the City's overall budget, the revenue outlook for the General Fund has been significantly impacted by the economic downturn resulting from the Coronavirus pandemic. The FY21 General Fund budget reflects these changes. Major revenue categories in the General Fund such as GRT receipts, Property Tax, Ambulance Fees, Planning & Land Use Fees and Miscellaneous Revenues are projected in line with budgeted levels, and no significant deviation from budgeted revenue estimates is currently anticipated. Overall, General Fund expenditures are expected to end the fiscal year with no significant deviation from budgeted levels. However, it is still quite early in the fiscal year and more definitive positive or negative trends may emerge later in the year. 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.

CITY OF SANTA FE - FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY21

ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

Table 1

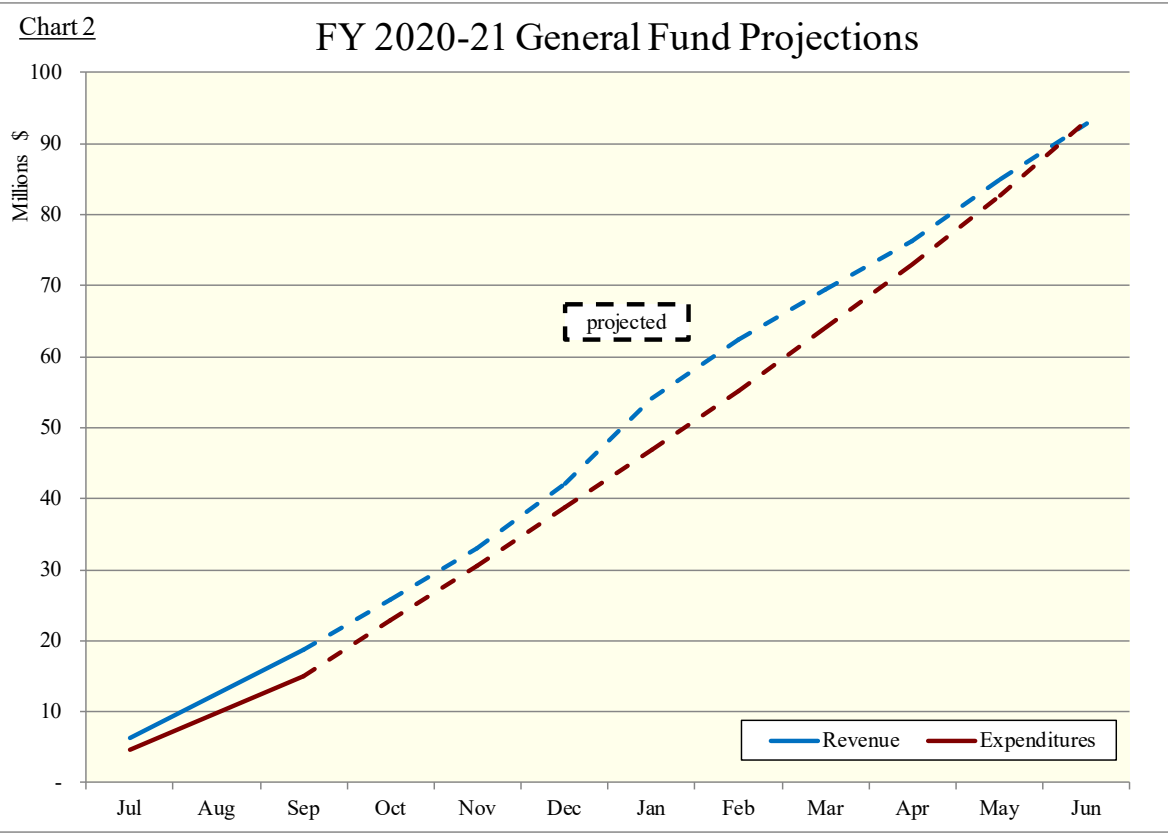
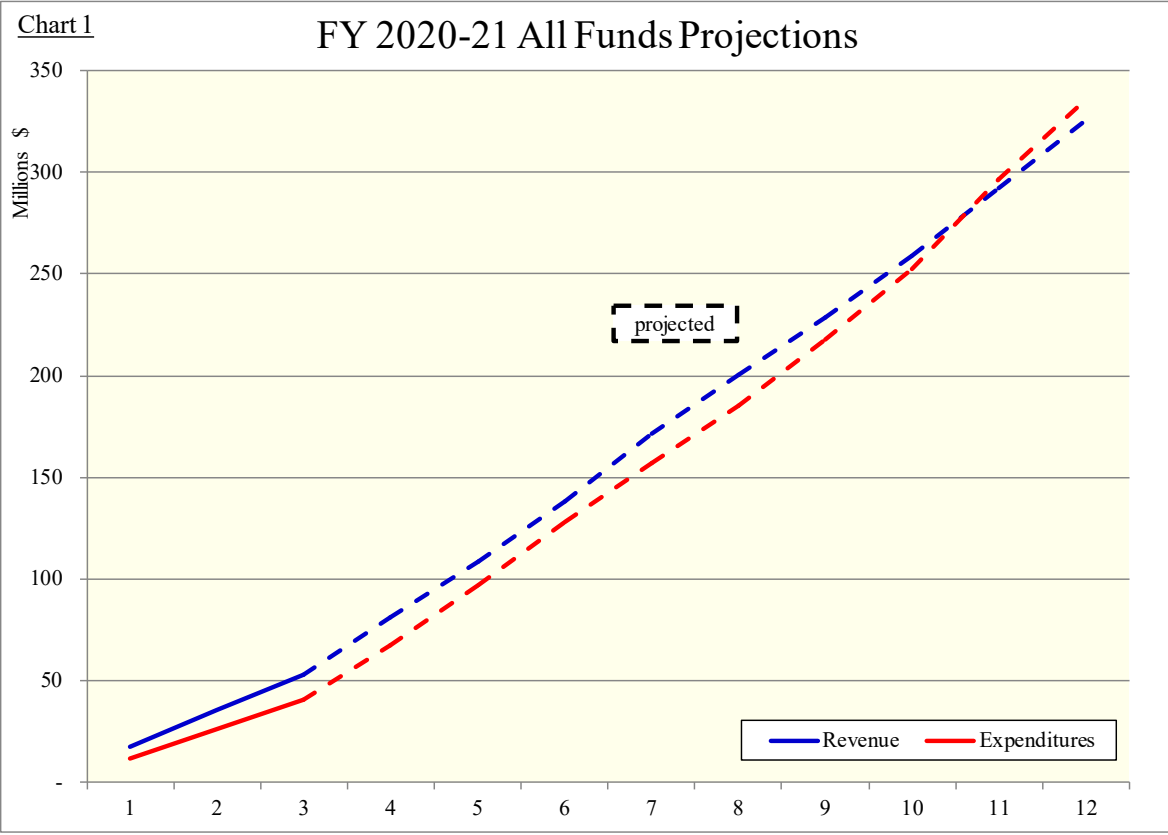
| DESCRIPTION | FISCAL YEAR | FISCAL YEAR 2020/2021 | | | | |
|-------------------------------|---------------------|-----------------------|--------------------|--------------------|-----------------------|-----------------------|
| | 2019/2020 ACTUAL | APPROVED BUDGET | AMENDED BUDGET | YEAR TO DATE* | PROJECTED YEAR-END | PROJECTED VARIANCE |
| BEGINNING BALANCE | 172,290,121 | 193,476,257 | 193,476,257 | 193,476,257 | 193,476,257 | |
| <i>Revenues :</i> | | | | | | |
| Gross Receipts Tax | 115,129,601 | 90,858,566 | 90,858,566 | 26,969,041 | 90,858,566 | 0% |
| Property Tax | 10,850,664 | 11,989,105 | 11,989,105 | 117,391 | 11,989,105 | 0% |
| Franchise Fees | 3,328,579 | 4,566,228 | 4,566,228 | 481,383 | 4,566,228 | 0% |
| Lodgers' Tax | 9,697,649 | 6,400,212 | 6,400,212 | 1,131,344 | 6,400,212 | 0% |
| Gasoline Tax | 1,333,045 | 1,064,848 | 1,064,848 | 275,739 | 1,064,848 | 0% |
| Other Taxes | 477,671 | 429,895 | 429,895 | 46,939 | 429,895 | 0% |
| Licenses & Permits | 4,495,593 | 3,327,604 | 3,327,604 | 625,503 | 3,327,604 | 0% |
| Ambulance Fees | 4,372,508 | 2,520,000 | 2,520,000 | 557,083 | 2,520,000 | 0% |
| Insurance Premiums/Deductible | 22,759,044 | 30,330,607 | 30,330,607 | 4,927,460 | 30,330,607 | 0% |
| Parking Fees | 3,772,397 | 3,732,204 | 3,732,204 | 109,080 | 3,732,204 | 0% |
| Recreation Fees | 1,967,351 | 2,184,240 | 2,184,240 | (6,365) | 2,184,240 | 0% |
| Solid Waste Fees | 20,200,221 | 19,563,859 | 19,563,859 | 3,673,588 | 19,563,859 | 0% |
| Wastewater Fees | 13,692,358 | 11,742,094 | 11,742,094 | 2,374,597 | 11,742,094 | 0% |
| Water Fees | 36,694,362 | 34,443,433 | 34,443,433 | 8,208,258 | 34,443,433 | 0% |
| Other Fees/Services** | 14,566,143 | 20,754,177 | 20,754,177 | 1,584,798 | 20,754,177 | 0% |
| Fines & Forfeitures | 691,974 | 795,260 | 795,260 | 5,013 | 795,260 | 0% |
| Miscellaneous Revenues*** | 1,945,837 | 2,999,296 | 3,009,296 | 750,251 | 3,009,296 | 0% |
| Interest on Investments | 99,533 | 202,249 | 202,249 | 15 | 202,249 | 0% |
| State Grants | 3,492,049 | 4,653,120 | 17,030,418 | 724,525 | 17,030,418 | 0% |
| Federal Grants | 1,222,115 | 6,000,809 | 8,114,890 | - | 8,114,890 | 0% |
| SF County/Other Grants | 704,123 | 8,709,051 | 8,709,051 | - | 8,709,051 | 0% |
| Transfers In | 10,036,997 | 42,782,848 | 43,617,690 | 328,338 | 43,617,690 | 0% |
| Subtotal - Revenues | 281,529,814 | 310,049,705 | 325,385,926 | 52,883,980 | 325,385,926 | 0% |
| TOTAL RESOURCES | 453,819,935 | 503,525,962 | 518,862,183 | 246,360,237 | 518,862,183 | |
| <i>Expenditures :</i> | | | | | | |
| Salaries | 78,343,031 | 76,059,763 | 76,167,925 | 15,925,682 | 76,167,925 | 0% |
| Benefits | 37,876,213 | 40,963,629 | 40,972,017 | 8,415,414 | 40,972,017 | 0% |
| Contractual Services | 22,398,837 | 24,762,923 | 36,020,192 | 14,315,341 | 36,020,192 | 0% |
| Utilities | 12,013,178 | 12,789,155 | 12,789,155 | 4,426,362 | 12,789,155 | 0% |
| Repairs & Maintenance | 6,636,245 | 6,513,767 | 7,287,685 | 3,414,024 | 7,287,685 | 0% |
| Supplies | 11,273,183 | 11,128,459 | 12,381,910 | 4,983,081 | 12,381,910 | 0% |
| Insurance | 29,731,921 | 34,383,869 | 34,398,357 | 9,723,131 | 34,398,357 | 0% |
| Travel & Training | 580,118 | 565,722 | 636,484 | 91,351 | 636,484 | 0% |
| Other Operating | 12,391,288 | 30,106,341 | 30,864,118 | 3,208,007 | 30,864,118 | 0% |
| Capital Purchases | 11,080,771 | 3,600,918 | 5,080,335 | 819,806 | 5,080,335 | 0% |
| Land & Building | 5,818,660 | 508,383 | 2,719,980 | 939,519 | 2,719,980 | 0% |
| Debt Service-Principal | 11,169,299 | 21,261,908 | 21,261,908 | 46,307 | 21,261,908 | 0% |
| Debt Service-Interest | 10,991,337 | 10,223,908 | 10,223,908 | 3,514 | 10,223,908 | 0% |
| Transfers Out | 10,039,597 | 44,030,119 | 45,000,558 | 409,935 | 45,000,558 | 0% |
| TOTAL EXPENDITURES | 260,343,678 | 316,898,864 | 335,804,532 | 66,721,474 | 335,804,532 | 0% |
| ENDING BALANCE | 193,476,257 | 186,627,098 | 183,057,651 | 179,638,763 | 183,057,651 | |

*Includes year-to-date actuals plus encumbrances as of September 30, 2020; 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



CITY OF SANTA FE - FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY21

GENERAL FUND SUMMARY & PROJECTIONS

Table 2

| DESCRIPTION | FISCAL YEAR | FISCAL YEAR 2020/2021 | | | | |
|--|---------------------|-----------------------|--------------------|-------------------|-----------------------|-----------------------|
| | 2019/2020 ACTUAL | APPROVED BUDGET | AMENDED BUDGET | YEAR TO DATE* | PROJECTED YEAR-END | PROJECTED VARIANCE |
| BEGINNING BALANCE | 14,183,954 | 29,336,461 | 29,336,461 | 29,336,461 | 29,336,461 | |
| <i>Revenues :</i> | | | | | | |
| Gross Receipts Tax | 72,551,744 | 57,480,900 | 57,480,900 | 16,850,220 | 57,480,900 | 0% |
| Property Tax | 8,732,173 | 10,041,506 | 10,041,506 | 94,418 | 10,041,506 | 0% |
| Franchise Fees | 3,296,652 | 4,498,228 | 4,498,228 | 481,383 | 4,498,228 | 0% |
| Other Taxes | 477,671 | 376,012 | 376,012 | 46,939 | 376,012 | 0% |
| Licenses & Permits | 4,450,643 | 3,264,161 | 3,264,161 | 625,403 | 3,264,161 | 0% |
| Ambulance Fees | 4,372,508 | 2,520,000 | 2,520,000 | 557,083 | 2,520,000 | 0% |
| Planning/Land Use Fees | 235,688 | 684,469 | 684,469 | 41,130 | 684,469 | 0% |
| Recreation Fees | 180,209 | 166,383 | 166,383 | (900) | 166,383 | 0% |
| Reimbursed Expenditures** | 52,445 | 4,952,007 | 4,952,007 | 2,314 | 4,952,007 | 0% |
| Other Fees/Services | 61,437 | 373,281 | 373,281 | 9,512 | 373,281 | 0% |
| Fines & Forfeitures | 6,479 | 191,320 | 191,320 | 181 | 191,320 | 0% |
| Miscellaneous Revenues | (1,569,103) | 49,802 | 49,802 | 9,855 | 49,802 | 0% |
| Interest on Investments | - | 8,096 | 8,096 | - | 8,096 | 0% |
| State/Other Grants | 201,423 | 611,555 | 611,555 | 7,398 | 611,555 | 0% |
| Transfers In | 112,500 | 7,543,688 | 7,543,688 | - | 7,543,688 | 0% |
| Subtotal - Revenues | 93,162,469 | 92,761,408 | 92,761,408 | 18,724,936 | 92,761,408 | 0% |
| TOTAL RESOURCES | 107,346,423 | 122,097,869 | 122,097,869 | 48,061,397 | 122,097,869 | |
| <i>Expenditures :</i> | | | | | | |
| Salaries | 42,911,386 | 42,416,186 | 42,300,386 | 8,708,949 | 42,300,386 | 0% |
| Benefits | 20,369,003 | 22,360,177 | 22,360,177 | 4,561,753 | 22,360,177 | 0% |
| Contractual Services | 4,881,359 | 5,486,893 | 5,586,278 | 1,528,275 | 5,586,278 | 0% |
| Utilities | 3,679,268 | 3,771,462 | 3,771,462 | 297,884 | 3,771,462 | 0% |
| Repairs & Maintenance | 762,853 | 732,962 | 732,962 | 518,496 | 732,962 | 0% |
| Supplies | 2,684,988 | 2,047,723 | 2,047,723 | 717,541 | 2,047,723 | 0% |
| Insurance | - | 3,362,537 | 3,362,537 | - | 3,362,537 | 0% |
| Travel & Training | 129,549 | 69,170 | 71,732 | 3,501 | 71,732 | 0% |
| Other Operating | 689,248 | 6,818,860 | 7,174,140 | 255,060 | 7,174,140 | 0% |
| Capital Purchases | 1,699,245 | 101,500 | 351,519 | 336,844 | 351,519 | 0% |
| Land & Building | 203,063 | 7,718 | 7,718 | 5,500 | 7,718 | 0% |
| Transfers Out | - | 5,438,296 | 5,452,149 | - | 5,452,149 | 0% |
| TOTAL EXPENDITURES | 78,009,962 | 92,613,484 | 93,218,783 | 16,933,802 | 93,218,783 | 0% |
| ENDING BALANCE | 29,336,461 | 29,484,385 | 28,879,086 | 31,127,595 | 28,879,086 | |
| <i>City Council-Mandated Minimum General Fund Balance***</i> | <i>7,800,996</i> | <i>8,717,519</i> | <i>8,776,663</i> | | <i>8,776,663</i> | |
| <i>Equivalent # Days of Operation</i> | <i>137</i> | <i>123</i> | <i>120</i> | | <i>120</i> | |

*Includes year-to-date actuals plus encumbrances as of September 30, 2020

**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. REVENUE UPDATE

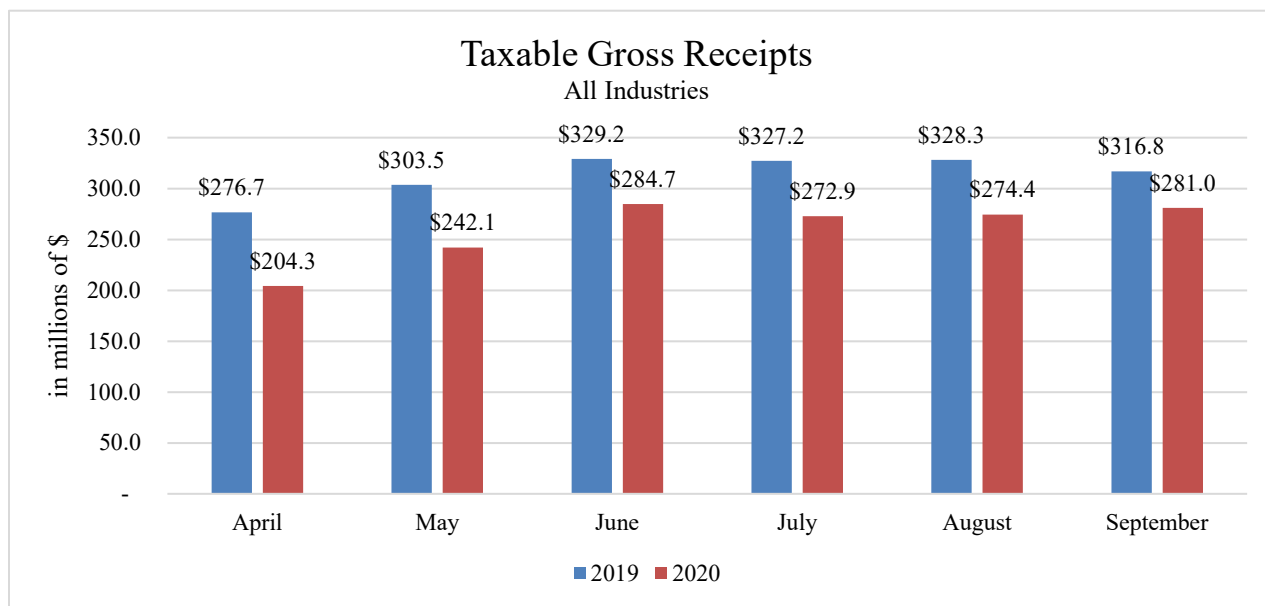
Gross Receipts Tax

To address uncertainty of the duration and depth of the crisis, City staff continues to monitor GRT receipts as it is the single largest revenue source for the City of Santa Fe. The following provides a summary of the Gross Receipts Tax (GRT) for the City of Santa Fe for the first quarter.

The New Mexico Taxation and Revenue Department (TRD) reports the monthly tax receipts collection activity data, but due to the two month delay, the Gross Receipts Tax generated in September 2020 were not distributed by the Taxation and Revenue Department to the City until November 2020.

As you are aware, the decrease in taxable gross receipts equates to lost revenue to Santa Fe businesses as well as lost GRT revenue to the City. The majority of sectors in the tax report from TRD showed a decline in taxable gross receipts from the first quarter of 2019 to the first quarter of 2020. Since April 2020, Santa Fe Businesses lost \$287 million in sales compared to the same period in 2019, or 18.3 percent.

Chart 3

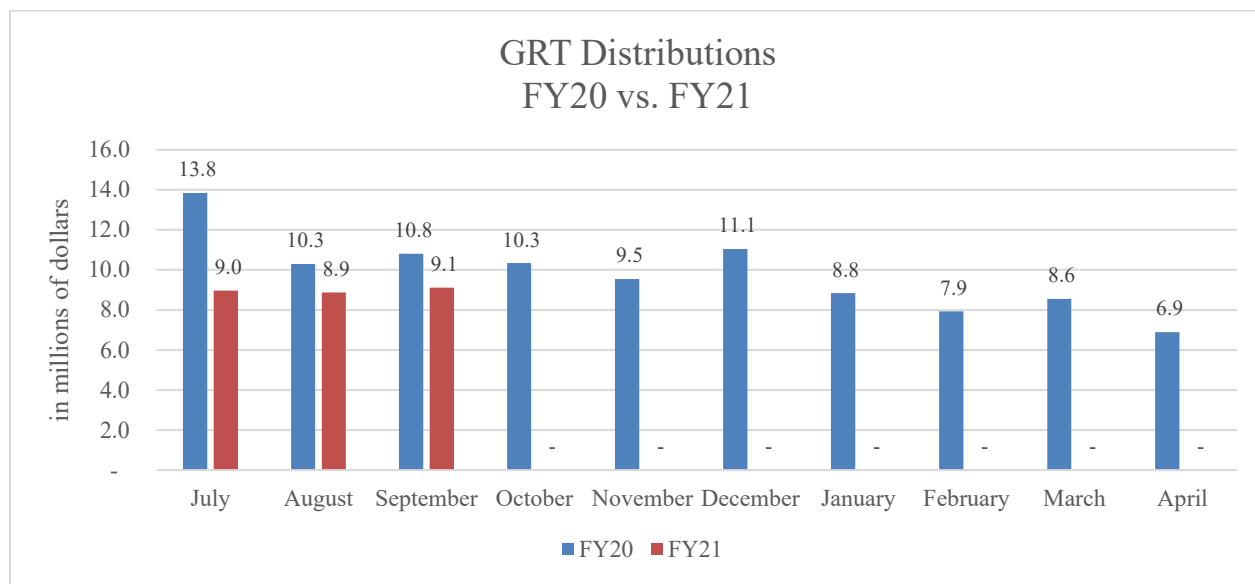


(Source: NM Taxation & Revenue Dept.)

Distributions are made two months after the economic activity. The chart above shows the distribution in the month it was earned, not the month it was paid.

The first quarter 2020 GRT revenue distribution to the City was a 23 percent, or \$7,971,958 million, decrease from July 2019 levels. The City received \$34,940,999 for the Gross Receipts Tax revenue generated in the first quarter of FY20, compared to \$26,969,041 in the first quarter of FY21.

Chart 4



(Source: NM Taxation & Revenue Dept.)

July 2020 GRT

The taxable gross receipts in Santa Fe decreased \$54.8 million, or 16.6 percent, when comparing July 2019 data to July 2020 data. The majority of sectors in the tax report from TRD showed a decline in taxable gross receipts from July 2019 to July of 2020, in fact all but five industries saw declines.

The July 2020 GRT revenue distribution to the City was a 35.2 percent, or \$4.9 million, decrease from July 2019 levels. The City received \$8,973,661 for the Gross Receipts Tax revenue generated in July 2020, compared to \$13,839,549 in July 2019. The July 2019 distribution included \$3.7 million in a TRD adjustment where several large retail taxpayers had errors in their tax returns, some dating back several years. Adjusting for the \$3.7 million one-time settlement received in July 2019, the decline in GRT revenue from July 2019 to July 2020 is \$1.2 million, or 11.4 percent.

High points in July gross receipts are Wholesale Trade, Utilities, Professional, Scientific and Technical Services, Healthcare and Agriculture, all showing growth over 2019. Retail Trade was strong again, only down 7.6 percent. Construction declined 9 percent from 2019. Accommodation was down 50.8 percent, Arts, Entertainment and Recreation was down 82.3 percent from 2019.

August 2020 GRT

The taxable gross receipts in Santa Fe decreased \$53.9 million, or 16.4 percent, when comparing August 2019 data to August 2020 data. The majority of sectors in the tax report from TRD showed a decline in taxable gross receipts from August 2019 to August 2020, in fact all but seven industries saw declines.

The August 2020 GRT revenue distribution was a 13.7 percent, or \$1.4 million, decrease from August 2019. The City received \$8,878,755 for the Gross Receipts Tax revenue generated in August 2020, compared to \$10,288,820 in August 2019.

High points in August gross receipts are Construction, up 6.5 percent YOY and growing from 13 percent of total Taxable Gross Receipts to 17 percent. Real Estate and Utilities came in with solid YOY growth of eight

and six percent respectively. Retail Trade was strong again, only down 8.0 percent. Accommodation was down 54.3 percent, Arts, Entertainment and Recreation was down 49.7 percent from 2019 but a significant improvement over July 2020.

September 2020 GRT

The taxable gross receipts in Santa Fe decreased \$35.7, or 11.3 percent, when comparing September 2019 data to September 2020 data. The majority of sectors in the tax report from TRD showed a decline in taxable gross receipts from September 2019 to September 2020, in fact all but six industries saw declines.

The September 2020 GRT revenue distribution was 15.7 percent, or a \$1.7 million decrease from September 2019. The City received \$9,116,625 for the Gross Receipts Tax revenue generated in September 2020, compared to \$10,812,630 in September 2019.

High points in September gross receipts are Professional, Scientific and Technical Services, up 31 percent YOY and growing from 7 percent of total Taxable Gross Receipts to 11 percent. Utilities continue its consistent growth, coming in at 7.4 percent YOY. Retail Trade was positive YOY for the first time since the pandemic began, coming in at 0.1 percent 31 percent of all Gross Receipts. Arts, Entertainment and Recreation was down 67 percent.

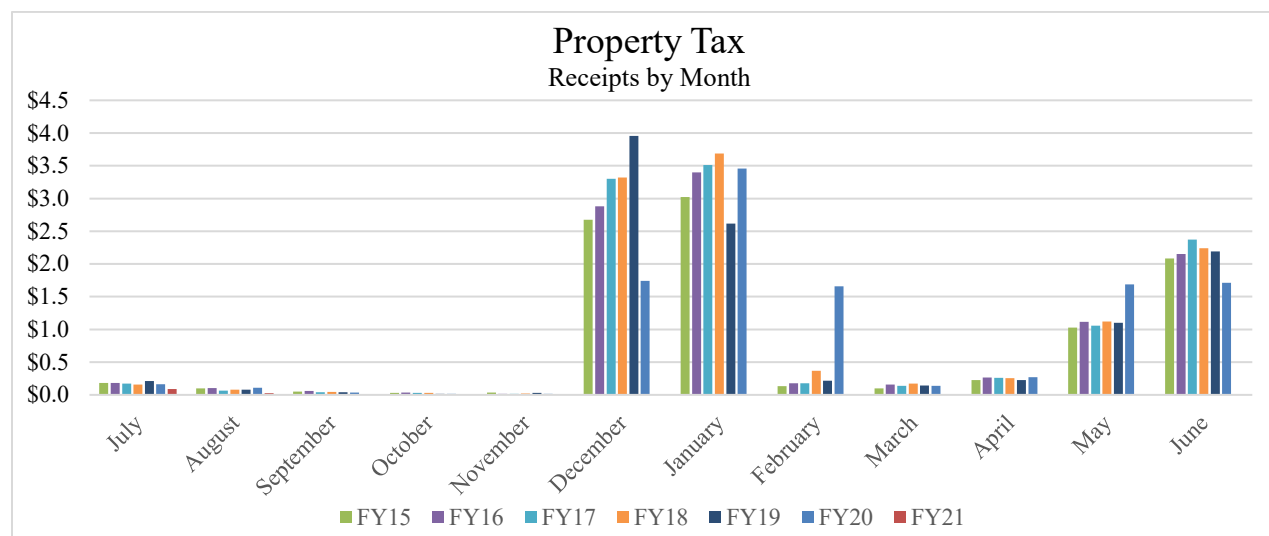
Property Tax

Property Tax is assessed on real property, tangible movable business property, mobile homes and agricultural properties located in the City of Santa Fe. Changes in property valuation may occur when ownership transitions to a new owner, improvements to the property occur, damage due to disaster or calamity, or the reassessment of the property to market value. As the table below illustrates, historically the principal disbursements of Property Tax receipts from the County to the City occur in December and January and the secondary disbursements occur in May and June. In FY20, the County extended the due date for Property Tax payments until January 10th per a change dictated in HB407. Given the payment extension, the December 2019 transfer from the County was lower than expected. It is realistic to expect that homeowners who have unexpectedly lost income during the pandemic may not be able to pay property taxes, which would impact the FY21 distributions of property taxes to the City.

Table 3

| City of Santa Fe Property Tax Distribution - Monthly Comparison | | | | | | | |
|--|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
| July | 181,173 | 181,173 | 172,569 | 158,252 | 212,697 | 161,529 | 89,305 |
| August | 98,098 | 102,726 | 63,996 | 79,868 | 81,281 | 110,346 | 28,083 |
| September | 48,697 | 57,993 | 42,455 | 44,247 | 42,774 | 34,766 | |
| October | 32,961 | 36,102 | 30,150 | 28,885 | 17,268 | 17,654 | |
| November | 35,446 | 17,579 | 15,353 | 19,190 | 29,698 | 17,828 | |
| December | 2,677,926 | 2,878,551 | 3,302,302 | 3,320,524 | 3,954,097 | 1,740,341 | |
| January | 3,023,204 | 3,398,503 | 3,510,709 | 3,686,706 | 2,614,809 | 3,459,982 | |
| February | 131,817 | 178,764 | 175,880 | 367,028 | 216,805 | 1,661,070 | |
| March | 99,796 | 155,937 | 140,224 | 170,670 | 143,742 | 137,126 | |
| April | 226,883 | 266,164 | 260,779 | 257,874 | 227,314 | 272,546 | |
| May | 1,027,692 | 1,115,152 | 1,058,610 | 1,122,336 | 1,101,607 | 1,686,092 | |
| June | 2,083,801 | 2,151,654 | 2,370,471 | 2,240,642 | 2,193,829 | 1,712,912 | |
| Total | 9,667,494 | 10,540,296 | 11,143,498 | 11,496,223 | 10,835,922 | 11,012,193 | 117,388 |

Chart 5



(Source: City of Santa Fe)

Lodgers' Tax

Lodgers' Tax collections are generated from hotels, motels and short-term rentals within the City of Santa Fe. Lodgers' tax is remitted for revenue generated from lodging at a taxable premise within the City limits. Five percent of the lodgers' tax is an imposed occupancy tax and two percent is a convention center fee, for a total of seven percent of gross taxable rent paid to vendors. The lodgers' tax, guided by State Statute and City ordinance, provides funding "...for the purpose of advertising, publicizing and promoting facilities, tourist attractions and acquisition, construction and maintenance of tourist attractions and recreational facilities, and for all other legally permissible purposes."

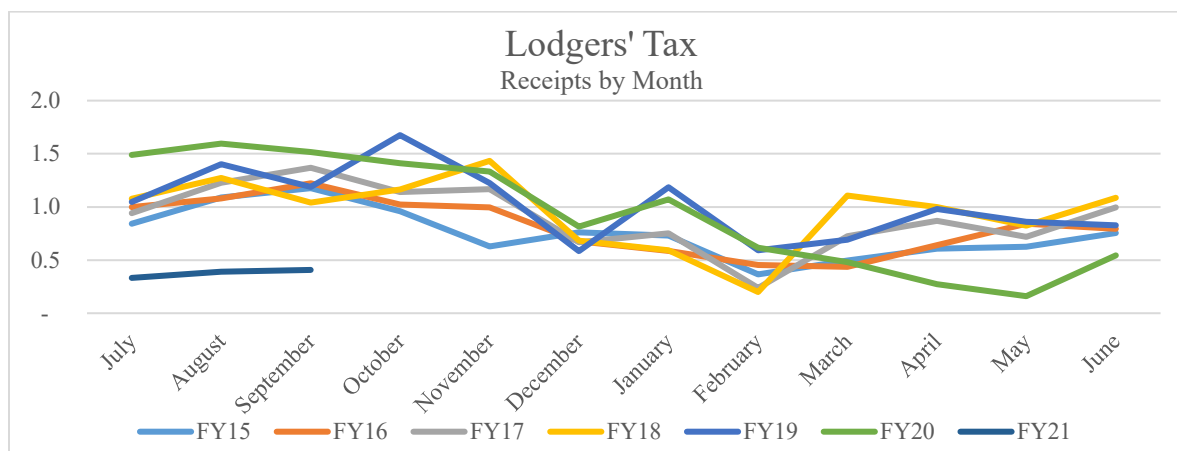
Lodgers' tax has seen a steady climb, averaging eight percent growth over the last five years; however, FY20 saw a decline of eight percent and the first few months of FY21 is coming in at 25 percent of FY20 levels. In the past couple of years the New Mexico Legislature has amended the State Lodgers Tax code and the City is in the process of amending its code accordingly. Primary changes to State Statutes addresses two exemptions: the three-room rule, which the Legislature eliminated; and the non-permanent residence rental greater than 30 days. Changes to the City Code are under review and will be coming before the Governing Body in the near future.

Table 4

**City of Santa Fe
Lodgers' Tax Distribution - Monthly Comparison**

| Distribution Month | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|---------------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|------------------|
| July | 842,892 | 997,792 | 941,920 | 1,078,010 | 1,048,015 | 1,490,164 | 332,428 |
| August | 1,087,565 | 1,079,598 | 1,227,105 | 1,272,253 | 1,400,668 | 1,595,720 | 391,580 |
| September | 1,176,557 | 1,222,267 | 1,368,372 | 1,040,098 | 1,189,742 | 1,516,372 | 407,336 |
| October | 960,500 | 1,022,427 | 1,140,638 | 1,163,774 | 1,675,466 | 1,410,896 | |
| November | 628,152 | 994,714 | 1,168,681 | 1,433,342 | 1,224,889 | 1,331,471 | |
| December | 759,912 | 677,650 | 666,376 | 681,448 | 584,388 | 814,187 | |
| January | 729,748 | 585,150 | 750,601 | 592,630 | 1,185,232 | 1,071,043 | |
| February | 365,403 | 453,824 | 237,906 | 199,416 | 592,367 | 616,344 | |
| March | 496,764 | 436,270 | 726,119 | 1,105,901 | 692,646 | 481,169 | |
| April | 606,864 | 640,044 | 867,925 | 998,849 | 980,496 | 273,786 | |
| May | 624,590 | 841,343 | 718,793 | 822,564 | 858,851 | 160,471 | |
| June | 754,933 | 795,041 | 995,027 | 1,085,668 | 827,742 | 544,273 | |
| Total | 9,033,880 | 9,746,118 | 10,809,464 | 11,473,953 | 12,260,501 | 11,305,897 | 1,131,344 |

Chart 6



(Source: City of Santa Fe)

III. INVESTMENT PORTFOLIO UPDATE

Chart 7 below depicts the trailing twelve month return for the City of Santa Fe, the Local Government Investment Pool managed by the New Mexico Treasurer, and the 90 day United States Treasury Bill. City of Santa Fe returns have outpaced both the the Local Government Investment Pool managed by the New Mexico Treasurer, and the 90 day United States Treasury Bill. After hitting peaks in the fall of 2019, all returns have fallen dramatically.

Chart 7

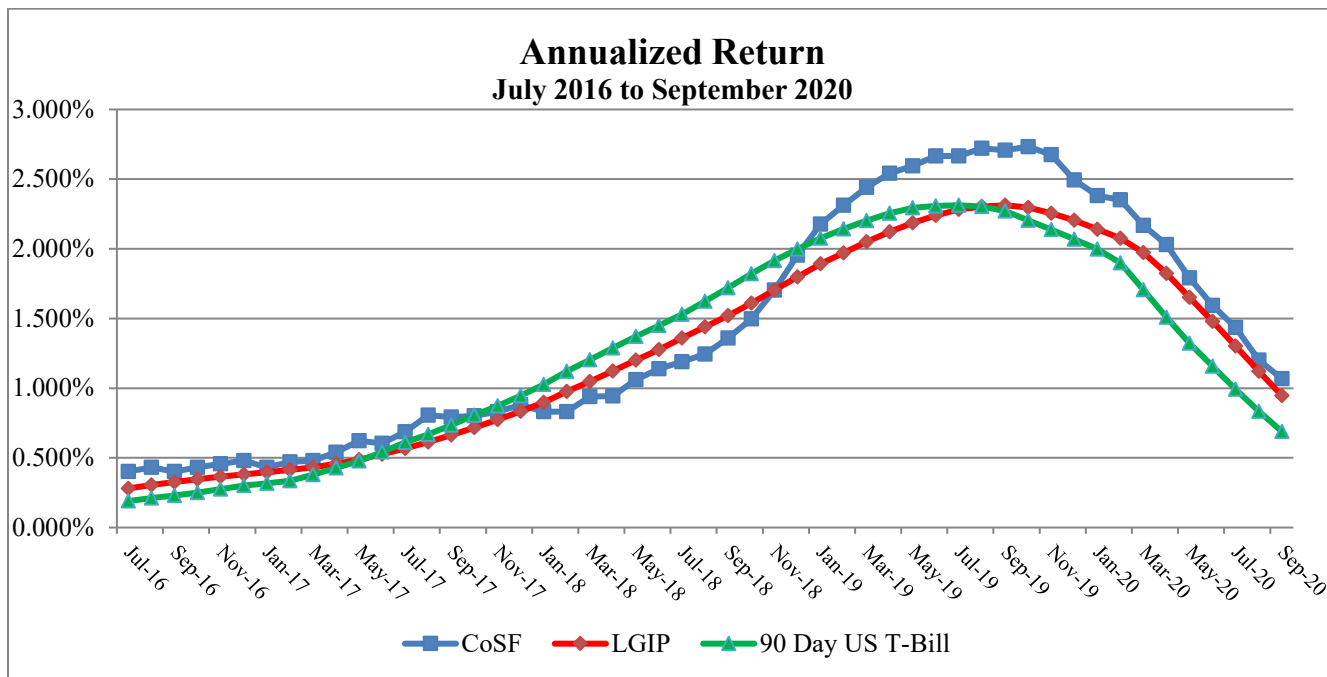


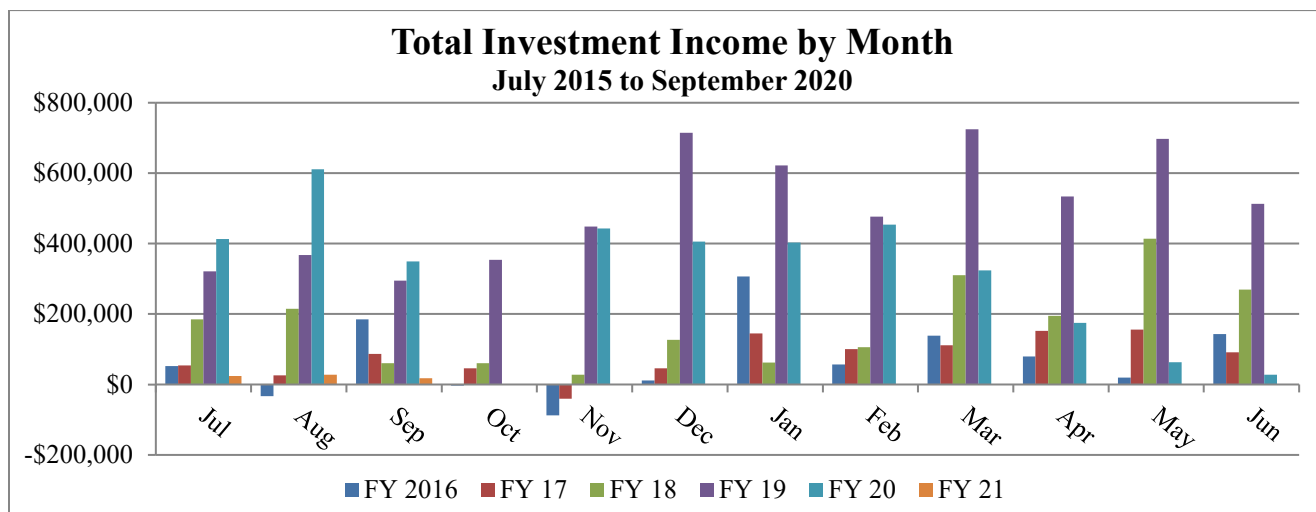
Chart 8 below shows the yield of the Two-Year United States Treasury note. The yield of the two-year note peaked in November 2018 at just under three percent, and the 90 day US T-Bill peaked in August 2019.

Chart 8



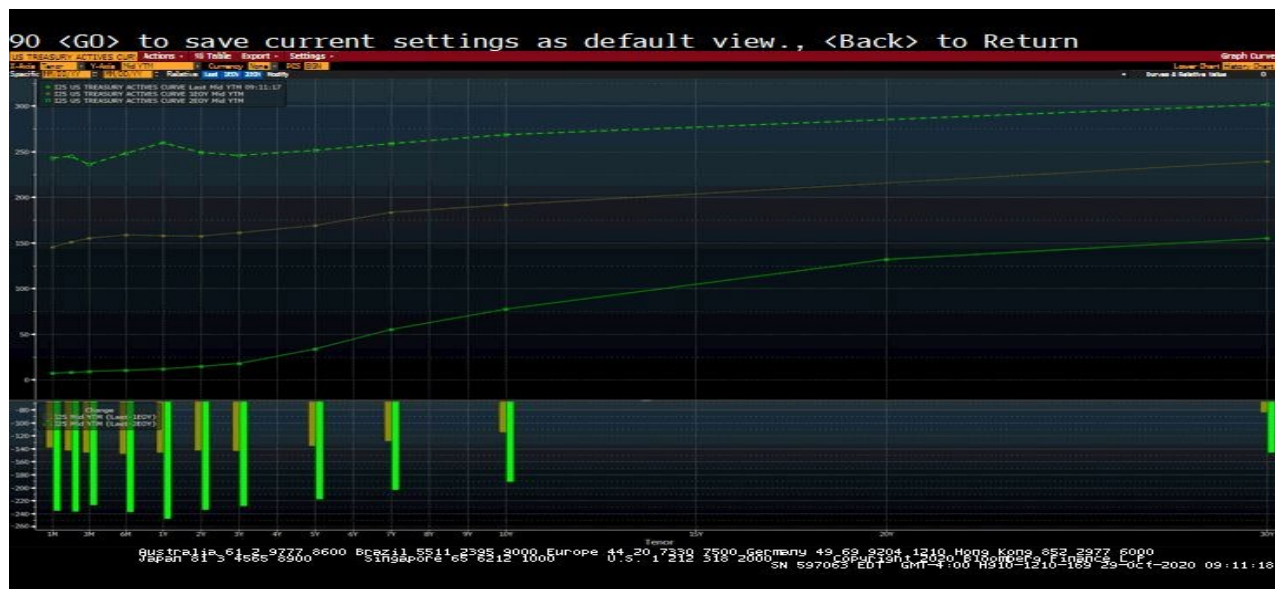
The Federal Reserve started lowering the Fed Funds rate in July 2019 as the economy was stagnating and inflation was not moving to its target rate. In response, the Federal Reserve cut interest rates incrementally in July, September and October 2019 to stimulate the economy. Given the onset of the pandemic and the policy actions it was going to require to manage it, the Federal Reserve cut the Fed Funds rate to zero in March 2020, effectively eliminating investment income for savers like the City. As an example, in three different months in FY 2019, the City earned \$700,000 in investment income for each of those months, while in September 2020, the \$250 million portfolio earned \$19,000.

Chart 9



This is not the investment environment in which to take interest rate risk, as the yield curve is incredibly flat. Chart 10 below shows the US Treasury Curve from one month to 30 years, including the current curve (the bottom line) the curve as of 12/31/2019 (the middle line) and the curve as of 12/31/2018 (the top line). While all three curves are flat, the current curve starts at nine basis points and the five year at 56 basis points, whereas the top curve starts at 250 basis points. Thus the risk is not worth the potential increase in return. As an example, the two year treasury has a yield of 15 basis points; if interest rates were to increase to 1.15 percent, the change in market value of the investment would be close to negative two percent.

Chart 10



The Federal Reserve has stated that they have no intention of raising the Fed Funds rate anytime soon; in the Dot Plot, only one Federal Reserve Governor sees higher rates in 2022 and only four Governors in 2023.

The allocation to Money Market funds allows the City to take incremental credit risk by investing in Funds with maturities less than one year, including Commercial Paper, Banker Acceptance Notes, and Asset backed securities.

Chart 11

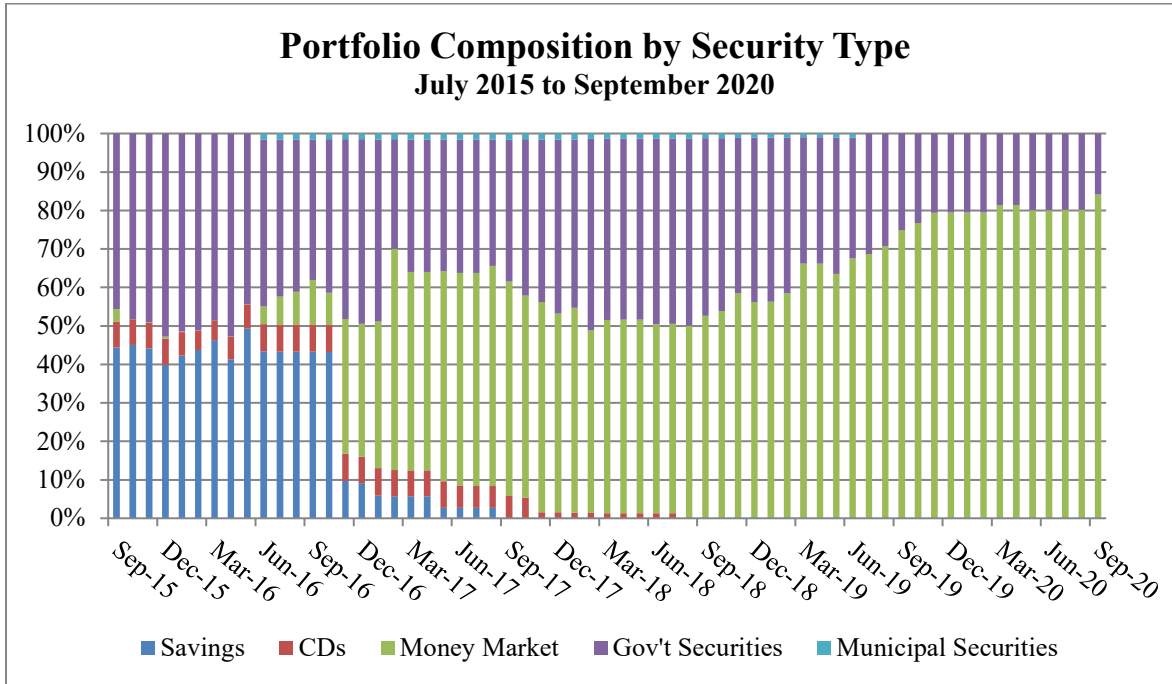
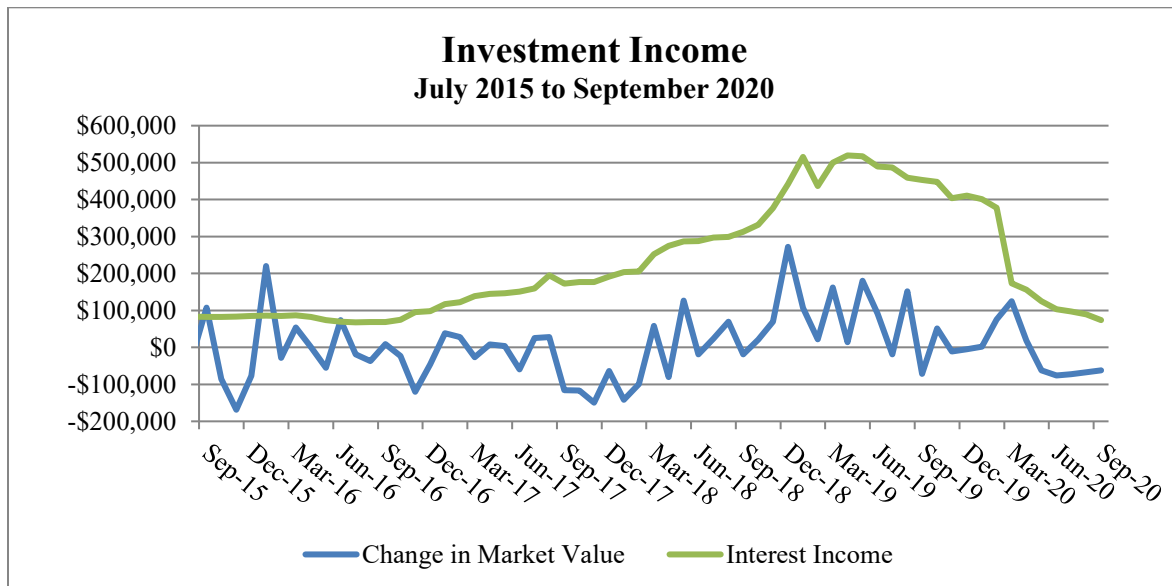


Chart 12 below depicts the two major components of investment income - interest and change in market value. Over the coming months, change in market value will flat line as funds are invested in Money Market Funds. As the portfolio’s duration declines (money market fund balance increases), interest rate risk declines as well and changes in market value will decrease.

Chart 12



CITY OF SANTA FE - FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY21

Investment Strategy

With the yield curve as low and flat as it is, there is no reason to take any interest rate risk. Currently 20 percent of the City's portfolio is in Prime Money Market Funds, giving the City a small exposure to credit risk. The economy was strong before the pandemic and the reduction in activity is not due to financial volatility. The unprecedented US monetary and fiscal policy response to the coronavirus pandemic is an effort to bridge the duration of economic downturn due to the public health emergency. Staff continues to monitor the investment markets, interest rates and economic activity during this global crisis and will insure that City funds are prudently invested for safety, liquidity and yield.

Table 5

| City of Santa Fe | | | | | | | |
|----------------------------------|-------------------------------|--------------------|---------------------|--------------------|---------------|--------------|----------------------|
| Portfolio Holdings Report | | | | | | | |
| As of September 30, 2020 | | | | | | | |
| <u>Type</u> | <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> |
| CD | Guadalupe CU | 260,502 | 260,502 | 260,502 | 0.10% | 0.05% | 8/1/2021 |
| CD | SECU Library | 250,000 | 250,000 | 250,000 | 0.10% | 0.05% | 4/30/2021 |
| CD | SECU City | 250,000 | 250,000 | 250,000 | 0.10% | 0.05% | 7/21/2021 |
| | Total CDs | 760,502 | 760,502 | 760,502 | | 0.05% | |
| Money Market | Blackrock Prime Inst #24 | 25,337,351 | 25,360,154 | 25,348,649 | | 0.10% | |
| Money Market | JP Morgan Prime MM Fund #3605 | 22,309,499 | 22,325,116 | 22,316,987 | | 0.07% | |
| Money Market | Fidelity Prime MM Port #2014 | 94 | 94 | 94 | | 0.07% | |
| Money Market | Wells Fargo Bank MM | 164,697,988 | 164,697,988 | 164,697,988 | | 0.05% | |
| Money Market | Wells Fargo Bank Restricted | 4,829,880 | 4,831,752 | 4,829,880 | | 0.08% | |
| | Total Money Market | 217,174,811 | 217,215,103 | 217,193,598 | | 0.07% | |
| | Issuer | Par Value | Market Value | Book Value | Coupon | | |
| Agency | Federal Home Loan Bank | 5,000,000 | 4,980,550 | 5,041,900 | 2.38% | 2.36% | 2/16/2021 |
| Agency | Fed Agric MTG | 5,000,000 | 5,000,700 | 5,017,750 | 1.98% | 1.68% | 2/3/2021 |
| Agency | Federal Farm Credit Bank | 10,000,000 | 10,000,100 | 10,000,000 | 1.55% | 1.55% | 10/20/2020 |
| Agency | Federal Farm Credit Bank | 10,000,000 | 10,042,400 | 9,986,200 | 2.80% | 2.79% | 11/27/2020 |
| Agency | Federal Farm Credit Bank | 10,000,000 | 10,053,900 | 9,990,365 | 2.75% | 2.74% | 12/14/2020 |
| | | 40,000,000 | 40,077,650 | 40,036,215 | | | 220,938 |
| | Total Portfolio | 257,935,314 | 258,053,255 | 257,990,314 | | 0.00% | |