

CITY OF SANTA FE

**QUARTERLY FINANCIAL PERFORMANCE REPORT**

As of September 30, 2018



**CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT**  
**TABLE OF CONTENTS**

	<u>Page #</u>
<b>I. QUARTERLY REVENUE UPDATE</b>	
A. Executive Summary .....	3
B. <u>Chart 1</u> : City of Santa Fe Total Gross Receipts Tax (GRT), September 2018.....	3
C. <u>Table 1</u> : City of Santa Fe Total Gross Receipts, September 2018 .....	4
D. <u>Table 2</u> : GRT Distribution Variance by Industry Sector, Month Over Month Comparison.....	4
E. <u>Table 3</u> : GRT Distribution Variance by Industry Sector, Cumulative FYTD.....	5
F. <u>Chart 2</u> : GRT Historical Four-Year Comparison .....	5
G. <u>Chart 3</u> : City of Santa Fe GRT by Industry Sector.....	6
H. <u>Chart 4</u> : Historical GRT Distribution.....	6
I. <u>Chart 5</u> : August Taxable GRT Distribution .....	7
J. <u>Chart 6</u> : 2013-2019 Lodgers Tax Revenue Comparison.....	7
K. <u>Chart 7</u> : Unemployment Rate, FY 2014-2019, Seasonally Adjusted.....	8
<b>II. REVENUE/EXPENDITURE PROJECTIONS</b>	
A. Executive Summary .....	9
B. <u>Table 4</u> : All Funds – Operating Budget Summary .....	10
C. Year-End Analysis:	
1. <u>Chart 8</u> : FY 2017-18 Budget vs. Actual – All Funds.....	11
2. <u>Chart 9</u> : FY 2017-18 General Fund Actuals .....	11
D. <u>Table 5</u> : General Fund Budget Summary .....	12
<b>III. INVESTMENT PORTFOLIO</b>	
A. <u>Chart 10</u> : Total Return Annualized .....	13
B. <u>Chart 11</u> : Portfolio Composition by Security Type.....	13
C. <u>Chart 12</u> : Portfolio Composition Yields.....	14
D. <u>Chart 13</u> : Investment Income .....	14
E. <u>Chart 14</u> : Total Interest Income by Month.....	15
F. <u>Chart 15</u> : Change in Market Value by Month.....	15
G. <u>Chart 16</u> : Total Investment Income by Month .....	16
H. <u>Chart 17</u> : Monthly Rate of Return.....	16
I. <u>Chart 18</u> : Cumulative Return .....	17
J. <u>Chart 19</u> : Portfolio by Security Type .....	17
K. <u>Chart 20</u> : Portfolio by Maturity.....	18
L. <u>Chart 21</u> : Money Market Funds .....	18
M. <u>Chart 22</u> : Securities by Issuers .....	19
N. <u>Chart 23</u> : Bank CDs .....	19
O. <u>Chart 24</u> : Duration at Quarter End .....	20
P. <u>Chart 25</u> : Weighted Average Maturity at Quarter End.....	20
Q. Investment Strategy .....	21
R. <u>Table 6</u> : Collateral for Demand Deposits.....	21
S. <u>Table 7</u> : Portfolio Holdings Report .....	22

**I. CITY OF SANTA FE – QUARTERLY REVENUE UPDATE**

As we move into the second quarter of the fiscal year, various economic indicators tend to be reflected in the GRT reporting. The foretelling of a slow-down in proposed interest rate increases may be observed in the decline in hiring during November, while wage growth increased to its highest level in a decade. Economic stimulus through interest rate increases over the last year and a half have led to unemployment diminishing to its lowest level in nearly half a century. The consumer price index, which measures consumer prices paid for products (excluding food and energy costs), was flat in November. The recent drop in WTI oil prices from \$70.75 per barrel in October to \$51.78 per barrel in mid-December (~37% drop), is actively contributing to holding down inflationary pressures. Additionally, a stronger dollar keeps the prices of goods lower as a majority of which are purchased overseas or compete with imports. The proposed trade tariffs with China and rising wages are two indicators which may lead to an increase in inflation, although an anticipated slowdown in the housing market would keep inflation at low levels. All of these are prominent indicators of an economy that is losing momentum after a very strong year. The meeting of the Federal Reserve on December 18-19 is expected to raise the benchmark short-term interest rate to a range between 2.25% and 2.50%. The level of inflation is a key player in the decision regarding the pacing of rate increases next year. Anticipated inflation levels are expected to contribute to the slowing of interest rate increases as the economy stabilizes in response to previous increases and stimulus efforts by the Federal Reserve.

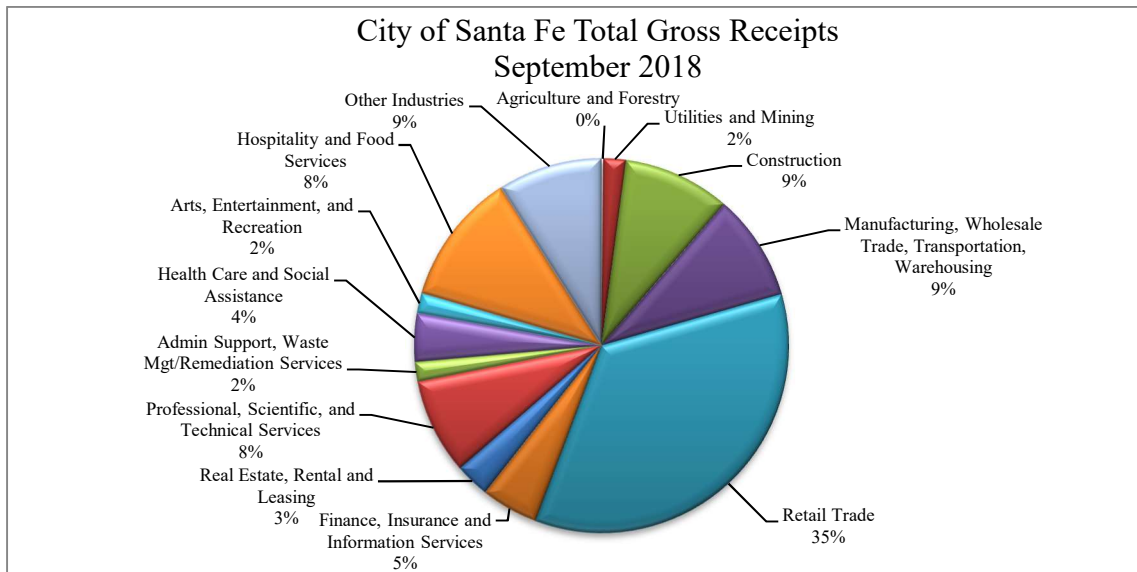
**City of Santa Fe Gross Receipts & Lodgers’ Tax Quarterly Update through November 2018**

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 September 2018, reported in November 2018.

The gross receipts activity reported in the month of September, presents an annual cyclical continuation of the summer’s consumer activities and hospitality and tourism. The period between summer activities, the start of the school year and the annual Balloon Fiesta, tend to reflect a slower period. Total gross receipts as reported for September 2018 were \$425 million, down approximately 7 percent from \$457 million reported for September 2017. Receipts received reported weakening in professional, scientific and technical services sector, administrative support, waste management/remediation services sector and the construction sector. Strength was reported in the agriculture and forestry and arts, entertainment and recreation sectors, offsetting some of the above reported weaknesses. A slight increase was observed for the September 2018 GRT distribution to the City of approximately \$9.2 million, up 1.5 percent over September 2017 at \$9 million. Areas of increased tax payments include the wholesale, finance and insurance and the arts, entertainment and recreation sectors, while weakness was observed in the educational, public administration and construction sectors.

During the fourth quarter of fiscal year 2018, the food and medical distributions reported by TRD were significantly higher than normal. Over the first quarter of fiscal year 2019, the distributions appear to have reverted back to a normal level as observed historically.

**Chart 1**



Data Source: NM Taxation & Revenue Dept.

# FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY 2018-2019

Table 1

City of Santa Fe Total Gross Receipts				
	Sept-18	Sept-17	YOY \$ Change	YOY % Change
Agriculture and Forestry	\$705,271	\$504,540	\$200,731	39.79%
Utilities and Mining	\$8,188,908	\$7,923,655	\$265,253	3.35%
Construction	\$39,439,776	\$48,812,940	(\$9,373,164)	-19.20%
Manufacturing, Wholesale Trade, Transportation, Warehousing	\$39,096,035	\$39,622,567	(\$526,532)	-1.33%
Retail Trade	\$149,542,711	\$137,285,253	\$12,257,458	8.93%
Finance, Insurance and Information Services	\$20,933,424	\$22,732,292	(\$1,798,868)	-7.91%
Real Estate, Rental and Leasing	\$12,691,865	\$12,040,521	\$651,344	5.41%
Professional, Scientific, and Technical Services	\$35,153,737	\$67,939,227	(\$32,785,490)	-48.26%
Admin Support, Waste Mgt/Remediation Services	\$7,172,161	\$8,725,931	(\$1,553,769)	-17.81%
Health Care and Social Assistance	\$17,722,037	\$18,579,307	(\$857,271)	-4.61%
Arts, Entertainment, and Recreation	\$7,469,904	\$4,257,006	\$3,212,899	75.47%
Hospitality and Food Services	\$48,668,260	\$49,552,502	(\$884,242)	-1.78%
Other Industries	\$38,337,811	\$39,179,307	(\$841,496)	-2.15%
All Industries	\$425,121,900	\$457,155,047	(\$32,033,147)	-7.01%

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 Month over Month Comparison				
Category	November FY19	November FY18	\$ Variance	% Variance
Agriculture, Forestry, Hunting, Fishing	\$ 11,947	\$ 11,282	\$ 665	6%
Mining	\$ -	\$ -	\$ -	0%
Utilities	\$ 201,561	\$ 200,160	\$ 1,401	1%
Construction	\$ 795,366	\$ 1,036,162	\$ (240,796)	-23%
Manufacturing	\$ 148,917	\$ 147,251	\$ 1,666	1%
Wholesale	\$ 199,073	\$ 178,171	\$ 20,902	12%
Retail	\$ 2,376,128	\$ 2,587,379	\$ (211,251)	-8%
Transportation & Warehousing	\$ 37,134	\$ 40,318	\$ (3,184)	-8%
Information and Cultural Industries	\$ 357,459	\$ 436,598	\$ (79,139)	-18%
Finance & Insurance	\$ 179,501	\$ 142,878	\$ 36,623	26%
Real Estate, Rental & Leasing	\$ 275,454	\$ 271,001	\$ 4,453	2%
Professional, Scientific, Technical	\$ 673,256	\$ 788,633	\$ (115,377)	-15%
Management of Companies	\$ 5,899	\$ 5,841	\$ 58	1%
Admin & Support, Waste Mgt.	\$ 142,737	\$ 151,593	\$ (8,856)	-6%
Educational Services	\$ 29,781	\$ 52,021	\$ (22,240)	-43%
Health Care and Social Assistance	\$ 394,906	\$ 410,243	\$ (15,337)	-4%
Arts, Entertainment & Recreation	\$ 100,104	\$ 82,096	\$ 18,008	22%
Accommodation & Food	\$ 1,417,626	\$ 1,459,307	\$ (41,681)	-3%
Other Services	\$ 838,929	\$ 760,721	\$ 78,208	10%
Public Administration	\$ 3,427	\$ 4,990	\$ (1,563)	-31%
Unclassified	\$ 42,587	\$ 36,239	\$ 6,348	18%
State Reimb-Food/Med Tax**	\$ 694,618	\$ 644,682	\$ 49,936	8%
Muni. Equivalent Distribution	\$ 23,285	\$ 26,603	\$ (3,318)	-12%
<b>Total Distribution</b>	<b>\$ 8,949,695</b>	<b>\$ 9,474,169</b>	<b>\$ (524,474)</b>	<b>-5.54%</b>

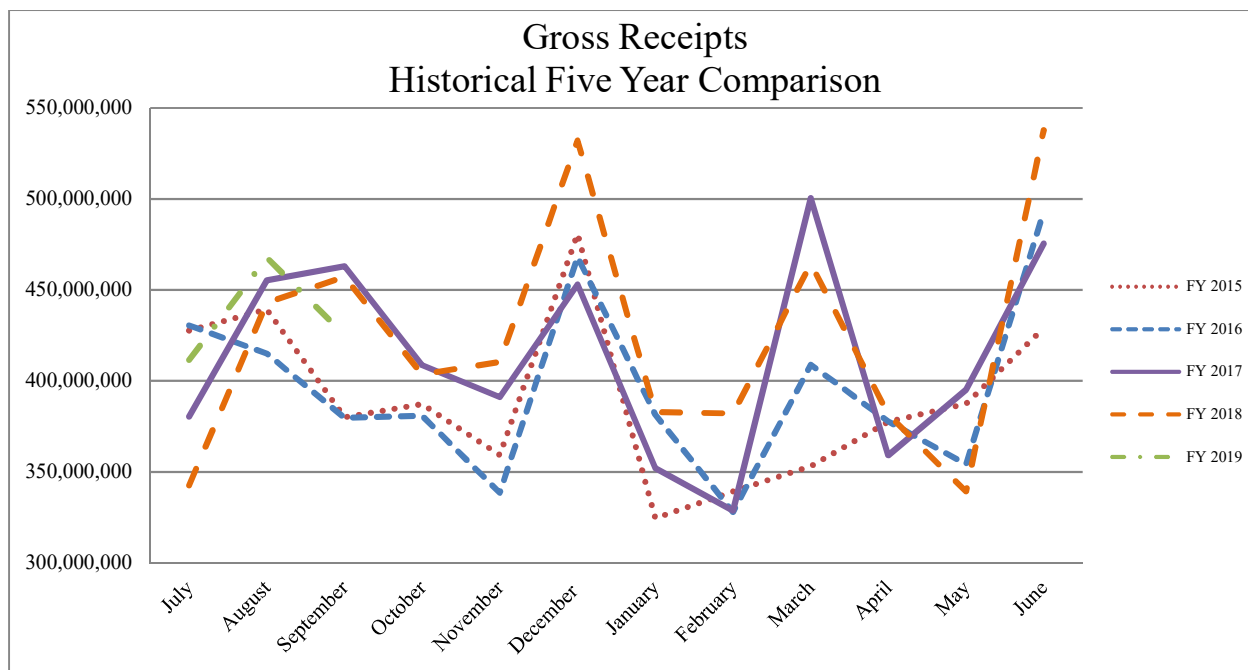
Data Source: NM Taxation & Revenue Dept. Please note a two month lag in data provided per reporting from TRD.

Table 3

City of Santa Fe GRT Distribution Variance by Industry Sector FY 2019 vs. FY 2018 Cumulative FYTD				
Category	November FY19	November FY18	\$ Variance	% Variance
Agriculture, Forestry, Hunting, Fishing	88,497	112,877	(24,380)	-22%
Mining	1,443	739	704	95%
Utilities	1,019,176	1,041,384	(22,208)	-2%
Construction	6,258,625	5,328,818	929,807	17%
Manufacturing	857,544	766,580	90,964	12%
Wholesale	1,031,158	966,410	64,748	7%
Retail	12,638,338	12,654,148	(15,810)	0%
Transportation & Warehousing	150,964	181,247	(30,283)	-17%
Information and Cultural Industries	1,766,900	1,767,082	(182)	0%
Finance & Insurance	722,819	737,943	(15,124)	-2%
Real Estate, Rental & Leasing	1,419,238	1,298,384	120,854	9%
Professional, Scientific, Technical	3,743,153	3,750,008	(6,855)	0%
Management of Companies	30,657	37,147	(6,490)	-17%
Admin & Support, Waste Mgt.	723,419	641,735	81,684	13%
Educational Services	155,600	216,198	(60,598)	-28%
Health Care and Social Assistance	2,229,635	1,878,212	351,423	19%
Arts, Entertainment & Recreation	614,711	467,759	146,952	31%
Accommodation & Food	7,563,089	6,561,762	1,001,327	15%
Other Services	4,130,158	4,020,717	109,441	3%
Public Administration	6,311	12,346	(6,035)	-49%
Unclassified	279,803	303,961	(24,158)	-8%
State Reimb-Food/Med Tax**	6,452,497	3,417,420	3,035,077	89%
Muni. Equivalent Distribution	124,568	132,796	(8,228)	-6%
<b>Total Distribution</b>	<b>52,008,303</b>	<b>46,295,673</b>	<b>5,712,630</b>	<b>12.34%</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

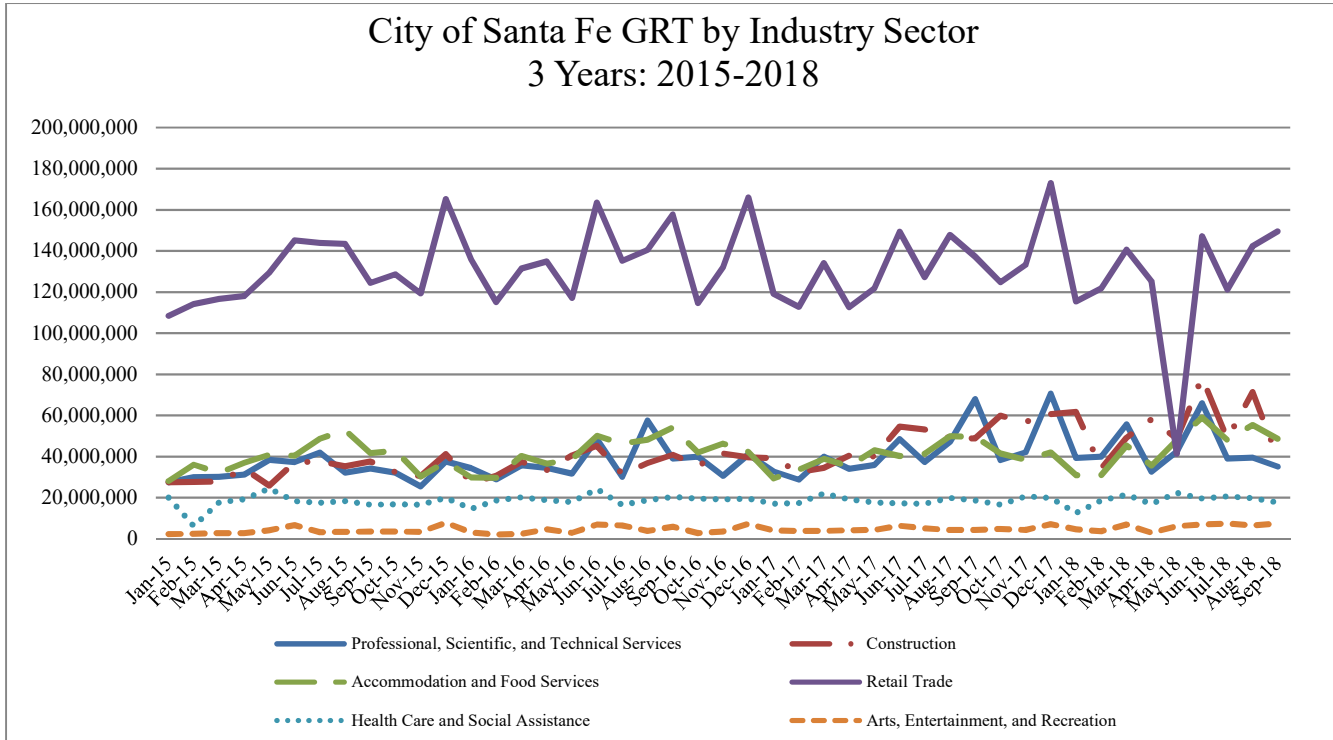


Chart 4

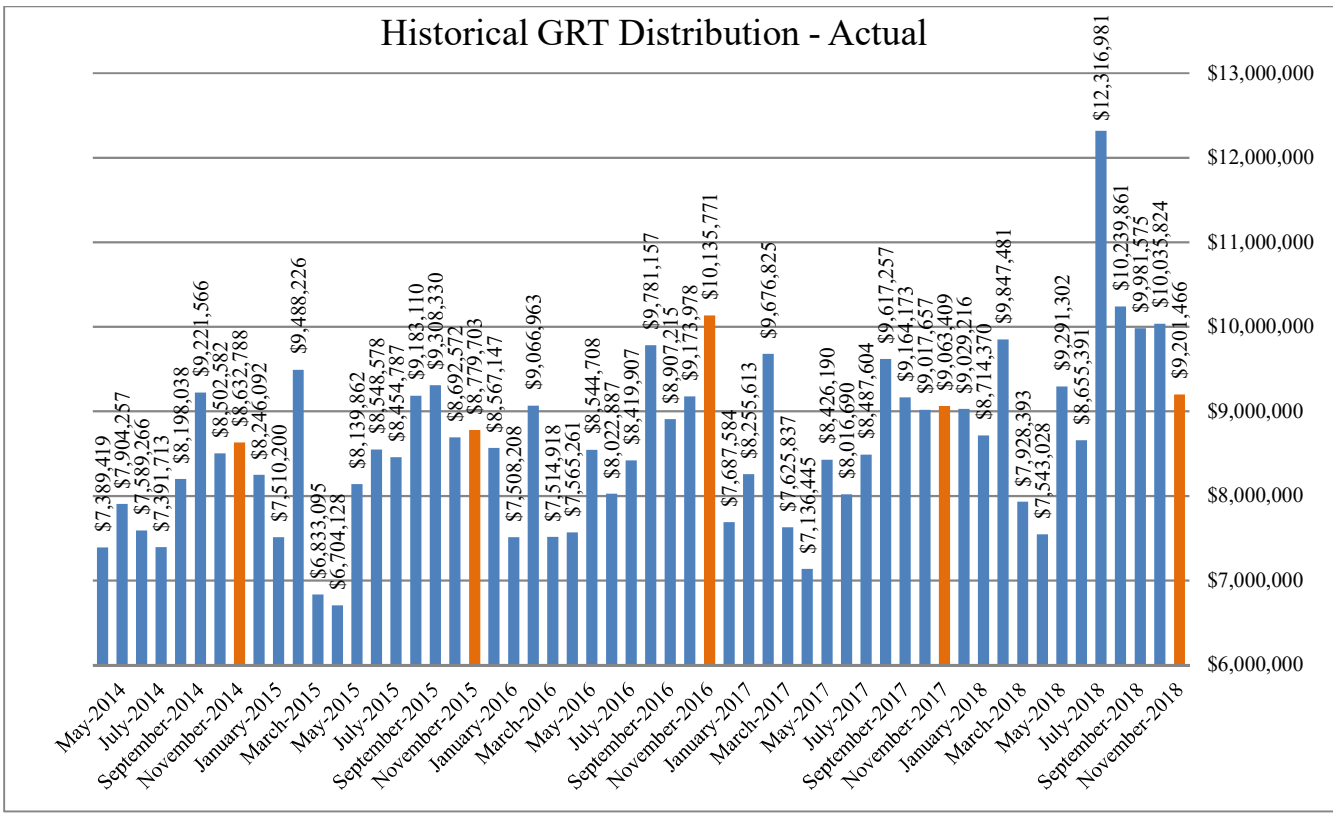
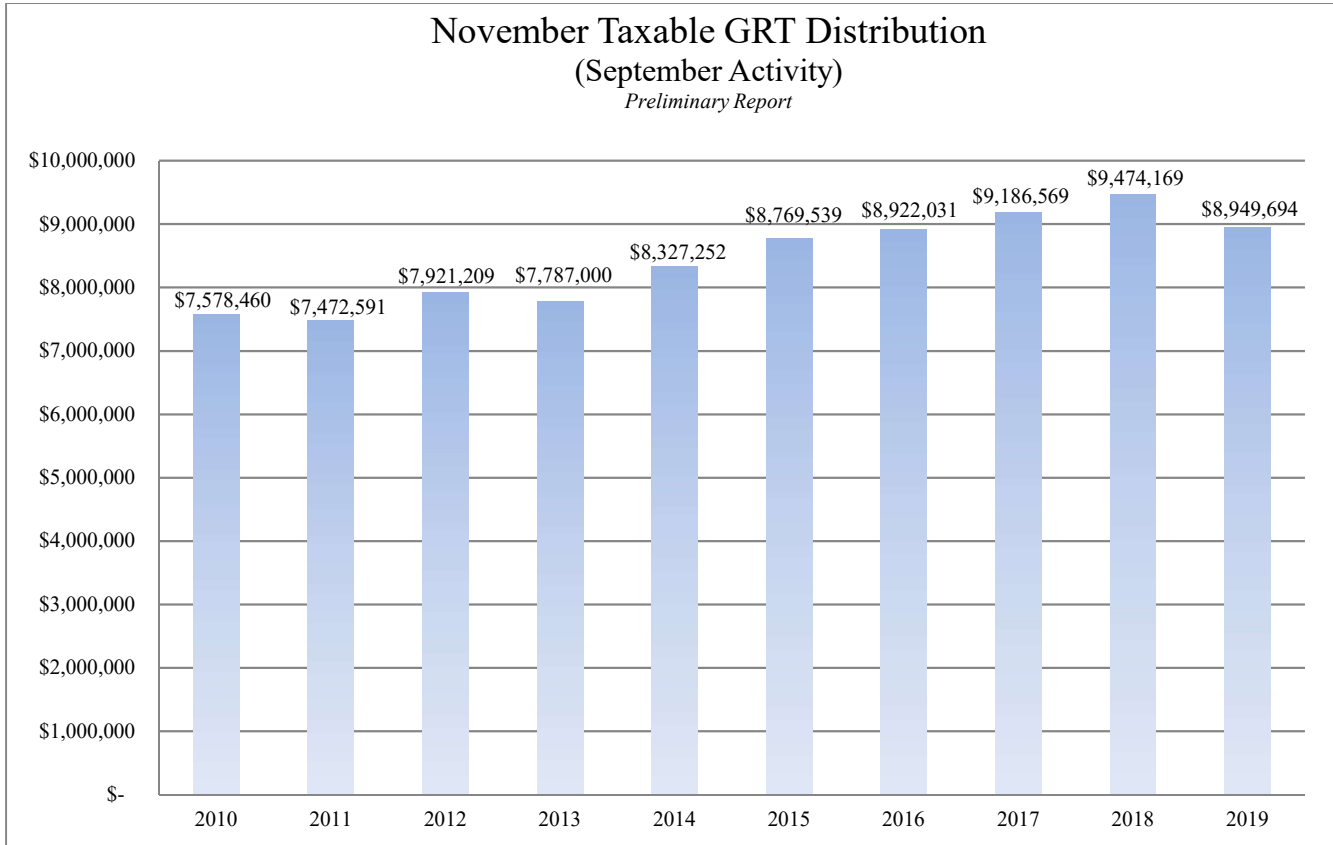


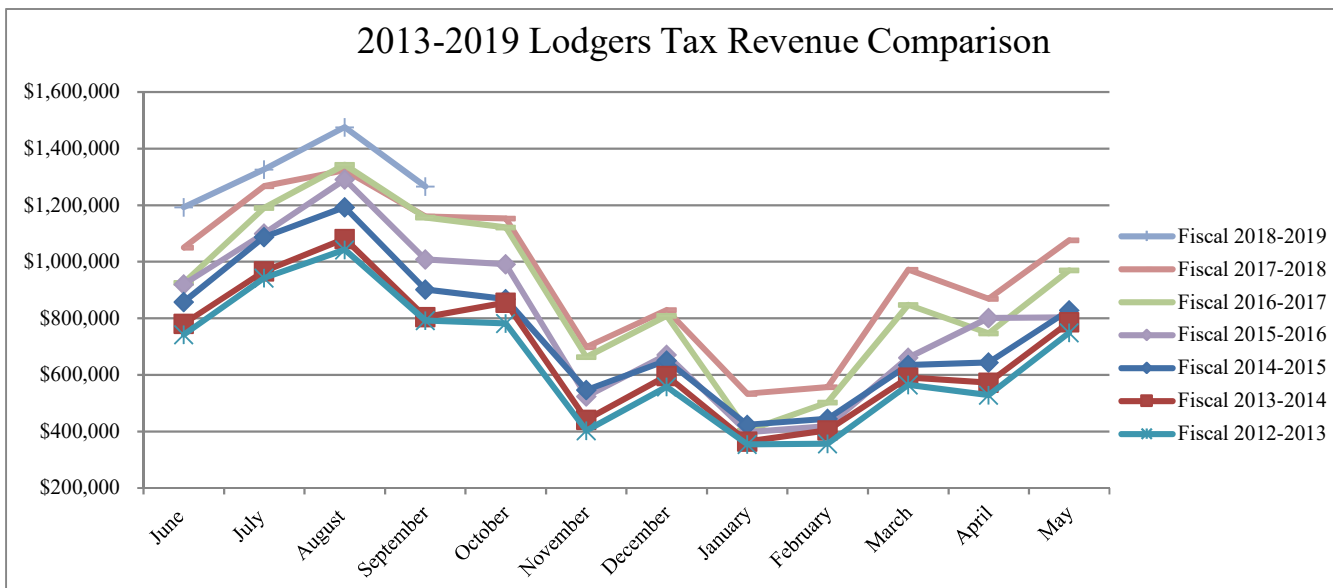
Chart 5



Data Source: NM Taxation & Revenue Dept.

Lodgers Tax payments received for the month of September 2018 were \$1.26 million, an increase of approximately 9.15 percent over September 2017. The payments reported are a marked improvement 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



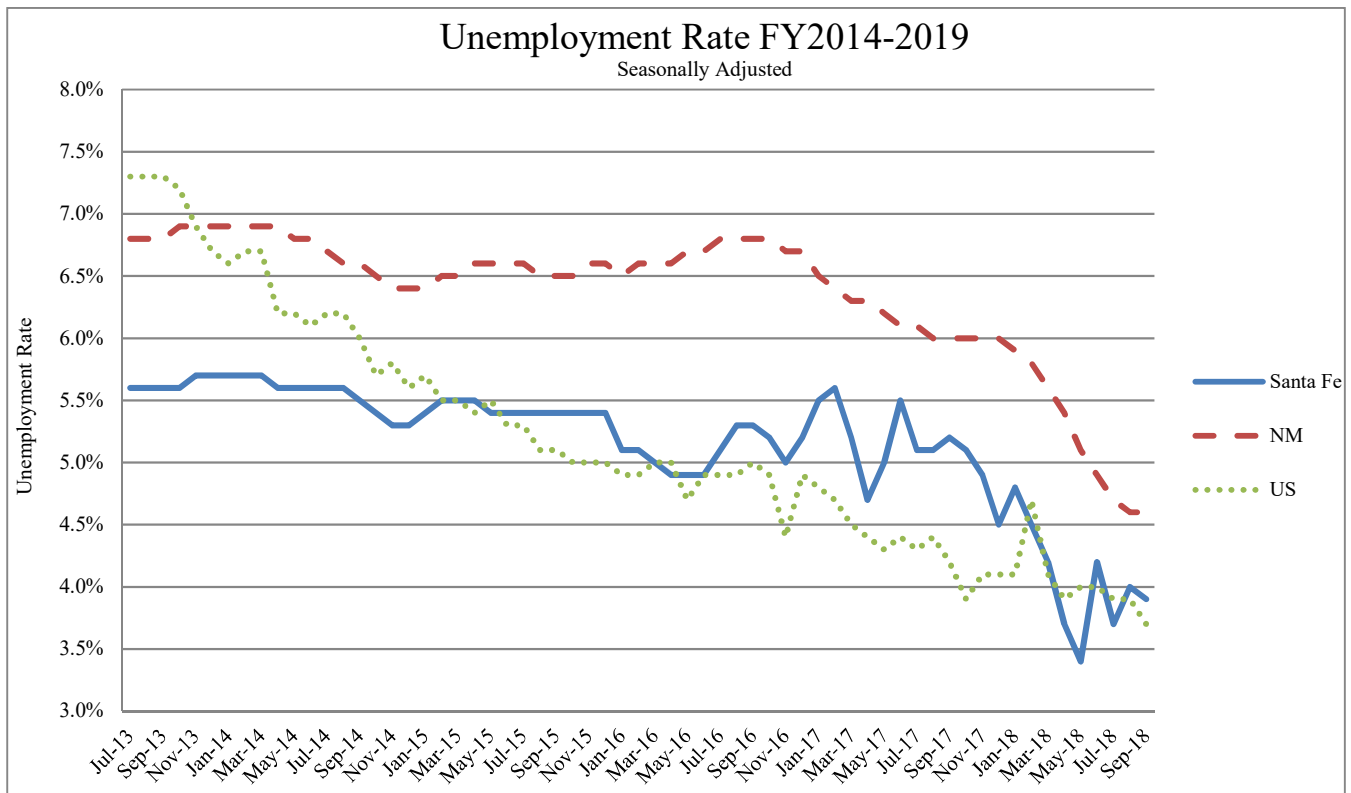
Data Source: City of Santa Fe – Finance Dept.



# FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY 2018-2019

Employment is a primary indicator of the health of an economy. Over the last fiscal year, the Santa Fe MSA (metropolitan statistical area) has reported some growth in certain sectors, leading the area to move closer to historically low levels achieved during 2006-2007. In September, the Department of Workforce Solutions (DWS) reported total non-seasonally adjusted, total nonfarm employment in Santa Fe declined by 1.4 percent. Gains were reported were in the education and health services industries, while the leisure and hospitality sector was down approximately 5.9 percent. Most losses were observed in the private service providing industries and the goods producing industries. Employment levels in construction and financial activities were unchanged from the August level. The seasonally adjusted unemployment rate for Santa Fe was 3.8 percent in September 2018, down markedly from 5.1 percent in September 2017. Santa Fe has moved closer to low levels of unemployment as observed similarly nationwide.

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 first 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 meet budgeted levels. Due to a one-time surge in State distributions in the 1<sup>st</sup> Quarter (see Section I – Quarterly Revenue Update), YTD Gross Receipts Tax (GRT) revenue is higher than projected. Other revenue sources like Franchise Tax, Lodgers' Tax and Miscellaneous Revenues are performing above budgeted expectations, while many other revenue sources such as Property Tax, Other Taxes, and Ambulance Fees are projected to be under budgeted levels. Overall revenues are projected slightly below budgeted levels.

On the expenditures side, the projections are largely based on past usage history in more 'discretionary' accounts such as contractual services, repairs/maintenance and supplies. It is important to note projections for both revenues and expenditures are based on one quarter of the fiscal year; therefore, it is likely that some revenue or expenditure trend predictions will change in subsequent financial forecasts as the fiscal year progresses and clear patterns emerge. Currently, expenditures are projected to come in slightly below budgeted levels.

### **GENERAL FUND**

Although a few revenue categories in the General Fund such as the previously-noted Property Tax and Ambulance Fees and Planning & Land Use Fees are trending below budget, GRT receipts and Planning & Land Use Fees and Miscellaneous Revenues are projected in line with budgeted levels, with overall revenue projected to come in slightly below the FY19 budget. Overall, General Fund expenditures are also projected to be slightly below budgeted levels. As noted above, the fiscal year is still quite young, and more definitive positive or negative trends will 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.

# FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY 2018-2019

## ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

Table 4

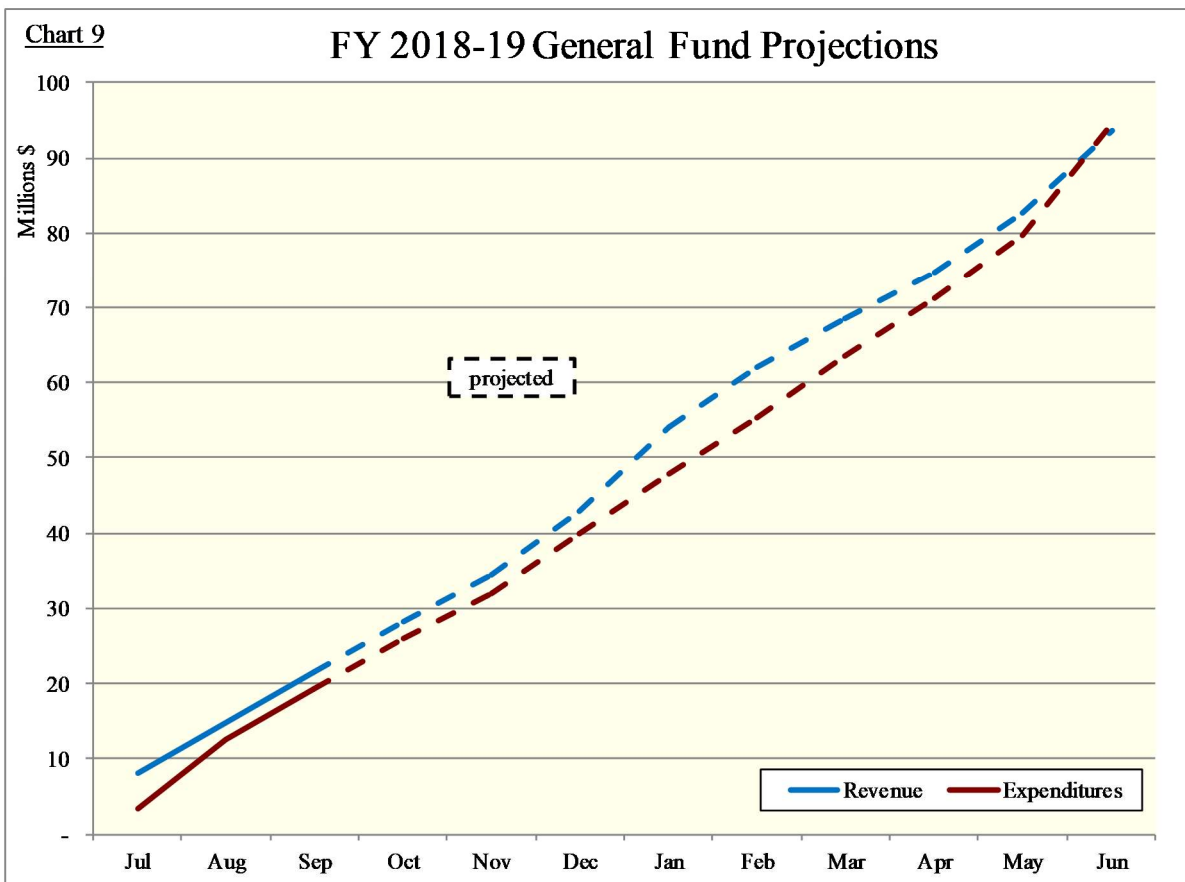
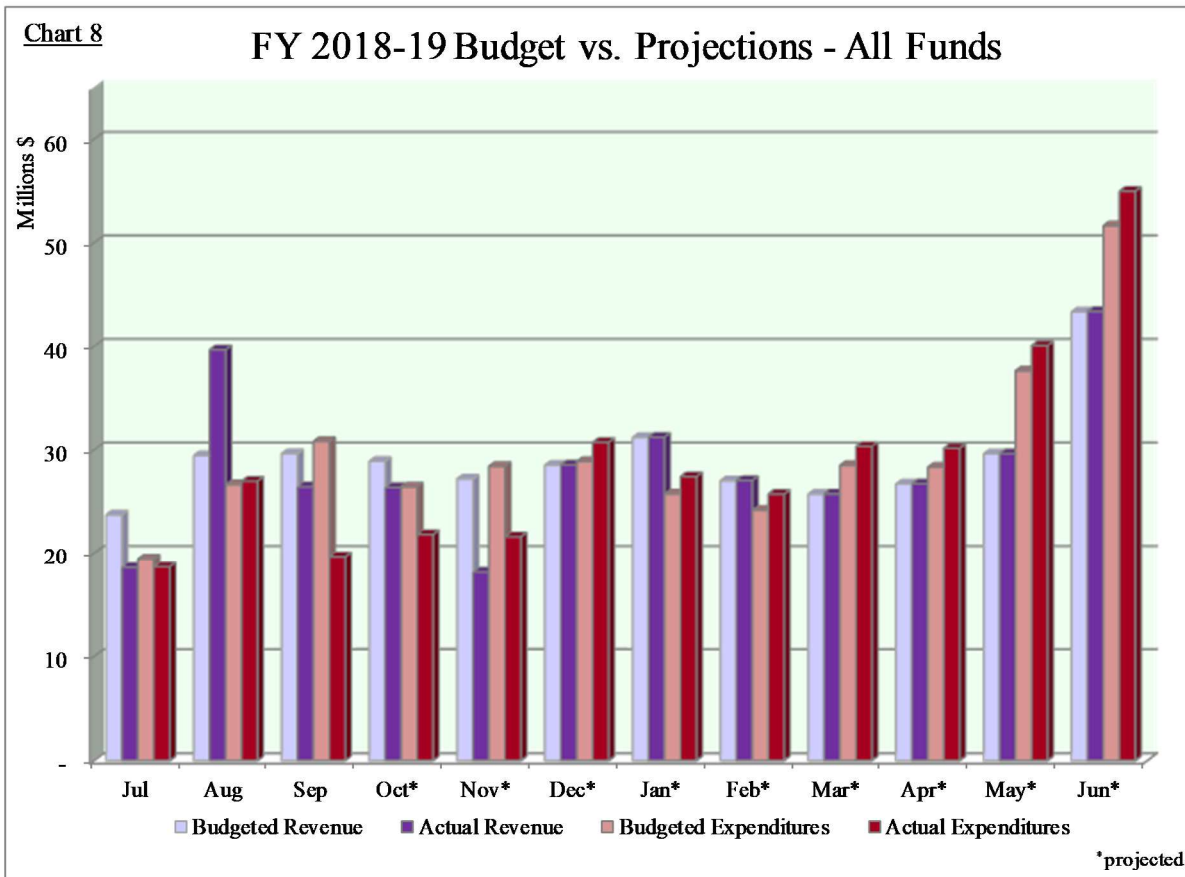
DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2018/2019				
	2017/2018 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
<b>BEGINNING BALANCE</b>	<b>136,387,313</b>	<b>148,800,264</b>	<b>148,800,264</b>	<b>148,800,264</b>	<b>148,800,264</b>	
<i>Revenues:</i>						
Gross Receipts Tax	110,811,262	105,633,024	105,633,024	9,981,575	105,633,024	0%
Property Tax	11,392,416	10,128,419	10,128,419	124,055	9,589,479	-5%
Franchise Tax	4,397,467	4,625,575	4,625,575	51,323	4,625,575	0%
Lodgers' Tax	11,530,595	11,300,000	11,300,000	3,551,066	11,300,000	0%
Gasoline Tax	1,445,498	1,445,000	1,445,000	236,061	1,445,000	0%
Other Taxes	562,889	550,605	550,605	76,828	427,841	-22%
Licenses & Permits	4,225,644	4,333,389	4,333,389	875,496	4,018,437	-7%
Ambulance Fees	2,544,706	4,000,000	4,000,000	632,583	3,196,383	-20%
Insurance Premiums/Deductibles	28,182,348	29,450,216	29,450,216	5,605,774	29,013,128	-1%
Parking Fees	4,833,610	4,689,416	4,689,416	1,357,188	4,516,269	-4%
Recreation Fees	3,328,686	3,270,324	3,270,324	667,902	3,191,406	-2%
Solid Waste Fees	20,040,359	19,742,282	19,742,282	2,766,069	19,110,052	-3%
Wastewater Fees	13,197,506	11,654,000	11,654,000	976,101	10,263,726	-12%
Water Fees	40,325,867	35,424,057	34,985,967	2,489,516	30,044,052	-14%
Other Fees/Services**	28,858,381	24,690,971	24,908,737	2,552,542	24,908,737	0%
Fines & Forfeitures	1,268,140	1,412,334	1,412,334	310,970	1,392,006	-1%
Miscellaneous Revenues***	18,580,832	3,305,889	3,484,447	957,958	3,484,447	0%
Interest on Investments	2,447,023	4,594,530	4,594,530	16,337	4,594,530	0%
State Grants	3,986,982	4,934,275	5,938,346	767,869	5,938,346	0%
Federal Grants	3,136,174	2,684,693	3,937,349	38,861	3,937,349	0%
SF County/Other Grants	71,749	45,900	8,595,276	18,600	8,595,276	0%
Transfers In	56,934,786	51,405,397	52,306,854	2,690,883	52,306,854	0%
<b>Subtotal - Revenues</b>	<b>372,102,922</b>	<b>339,320,296</b>	<b>350,986,090</b>	<b>36,745,558</b>	<b>341,531,916</b>	<b>-3%</b>
<b>TOTAL RESOURCES</b>	<b>508,490,235</b>	<b>488,120,560</b>	<b>499,786,354</b>	<b>185,545,822</b>	<b>490,332,179</b>	
<i>Expenditures:</i>						
Salaries	77,579,341	74,286,261	77,076,174	17,968,538	73,596,844	-5%
Benefits	32,573,189	41,823,081	43,057,339	8,909,087	38,025,023	-12%
Contractual Services	19,219,255	27,008,272	31,114,605	17,149,002	31,114,605	0%
Utilities	13,088,635	12,758,848	14,134,574	8,172,881	14,134,574	0%
Repairs & Maintenance	5,875,539	6,652,225	8,037,323	3,304,968	8,037,323	0%
Supplies	10,939,388	13,605,285	13,773,341	4,978,679	13,773,341	0%
Insurance	30,721,981	32,402,470	32,627,534	9,592,066	32,627,534	0%
Travel & Training	1,009,738	1,603,001	1,657,705	308,911	1,657,705	0%
Other Operating	29,260,232	34,474,300	35,195,989	5,444,903	35,195,989	0%
Capital Purchases	7,358,727	9,831,716	12,943,441	6,357,109	12,943,441	0%
Land & Building	4,048,005	472,910	5,247,252	3,472,417	5,247,252	0%
Debt Service-Principal	19,273,707	20,097,066	20,097,066	1,295,104	20,097,066	0%
Debt Service-Interest	10,401,380	10,193,085	10,193,085	391,916	10,193,085	0%
Transfers Out	69,006,466	51,341,647	51,467,829	2,690,883	51,467,829	0%
<b>TOTAL EXPENDITURES</b>	<b>330,355,582</b>	<b>336,550,167</b>	<b>356,623,257</b>	<b>90,036,463</b>	<b>348,111,612</b>	<b>-2%</b>
<b>ENDING BALANCE</b>	<b>148,800,264</b>	<b>151,570,393</b>	<b>143,163,097</b>	<b>95,509,359</b>	<b>142,220,568</b>	

\*Includes year-to-date actuals plus encumbrances; 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



# FINANCIAL PERFORMANCE REPORT: FIRST 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	5,749,922	65,988,414	0%
Property Tax	8,965,751	8,119,189	8,119,189	89,980	7,673,497	-5%
Franchise Tax	4,378,595	4,605,575	4,605,575	51,323	4,605,575	0%
Other Taxes	495,819	489,000	489,000	76,828	463,393	-5%
Licenses & Permits	4,180,409	4,312,589	4,312,589	868,716	4,004,182	-7%
Ambulance Fees	2,544,706	4,000,000	4,000,000	632,583	3,196,383	-20%
Planning/Land Use Fees	399,614	284,550	284,550	110,553	284,550	0%
Recreation Fees	445,143	456,720	456,720	90,597	429,282	-6%
Reimbursed Expenditures**	5,032,074	4,861,572	4,861,572	38,733	4,861,572	0%
Other Fees/Services	272,994	259,276	259,276	52,313	231,481	-11%
Fines & Forfeitures	241,812	508,956	508,956	63,669	415,188	-18%
Miscellaneous Revenues	220,764	99,000	106,058	70,659	106,058	0%
Interest on Investments	33,994	394,659	394,659	-	394,659	0%
State/Other Grants	830,182	75,000	75,000	138,480	138,480	85%
Transfers In	1,658,068	719,508	770,678	117,200	770,678	0%
<b>Subtotal - Revenues</b>	<b>94,615,334</b>	<b>95,174,008</b>	<b>95,232,236</b>	<b>8,151,557</b>	<b>93,563,392</b>	<b>-2%</b>
<b>TOTAL RESOURCES</b>	<b>102,459,652</b>	<b>102,858,228</b>	<b>102,916,456</b>	<b>15,835,777</b>	<b>101,247,612</b>	
<i>Expenditures :</i>						
Salaries	42,131,835	40,785,563	40,845,391	9,995,585	40,809,817	0%
Benefits	21,499,229	24,058,302	24,079,228	4,966,358	22,862,522	-5%
Contractual Services	4,164,142	4,797,365	4,917,885	2,072,784	4,917,885	0%
Utilities	4,382,223	3,840,806	3,840,806	2,515,014	3,840,806	0%
Repairs & Maintenance	626,912	885,351	880,115	163,377	880,115	0%
Supplies	2,481,636	2,605,455	2,614,843	795,576	2,614,843	0%
Insurance	3,097,678	3,295,397	3,295,397	-	3,295,397	0%
Travel & Training	308,480	504,106	503,206	42,432	503,206	0%
Other Operating	6,538,751	8,919,115	8,944,741	732,032	8,944,741	0%
Capital Purchases	941,990	1,273,000	1,282,822	583,858	1,282,822	0%
Land & Building	97,989	129,910	119,910	25,633	119,910	0%
Transfers Out	6,739,886	4,479,732	4,479,732	150,000	4,479,732	0%
<b>TOTAL EXPENDITURES</b>	<b>93,010,751</b>	<b>95,574,102</b>	<b>95,804,076</b>	<b>22,042,650</b>	<b>94,551,797</b>	<b>-1%</b>
<b>ENDING BALANCE</b>	<b>7,684,220</b>	<b>7,284,126</b>	<b>7,112,380</b>		<b>6,695,815</b>	
<i>State-Mandated Minimum</i>						
<i>General Fund Balance***</i>	7,362,262	7,657,082	7,657,082		7,657,082	
<i>Equivalent # Days of Operation</i>	32	29	28		27	

\*Includes year-to-date actuals plus encumbrances

\*\*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 1/12 (1 month) budgeted annual General Fund expenditures excluding transfers

### III. CITY OF SANTA FE INVESTMENT PORTFOLIO AS OF SEPTEMBER 30, 2018

The Federal Reserve raised interest rates for the eighth time in September 2018 as was expected by Treasury staff and the market. Chart 10 shows the past three years of performance for the portfolio and the impact the Federal Reserve has had on the City’s yield, the blue line. However, as interest rates increase, the market value of the existing securities in the portfolio will decline. The decline is determined by the duration of the portfolio and the amount that interest rates change. The impact of rising interest rates on the market value is the green line.

Chart 10

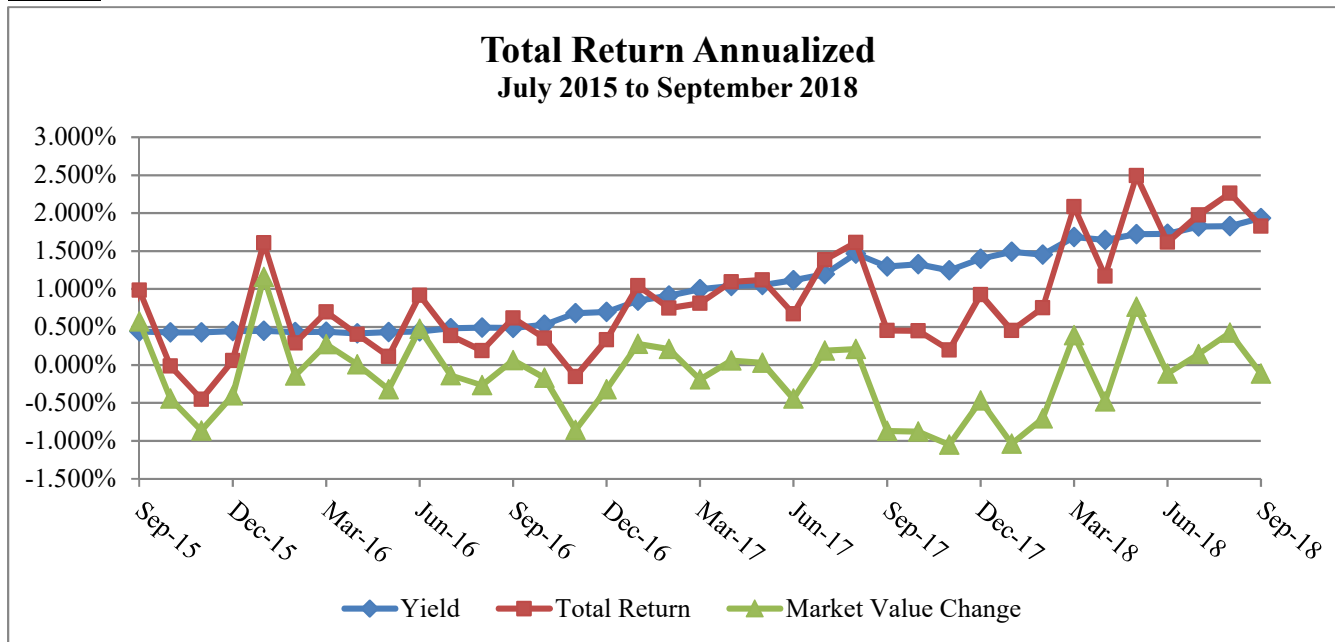
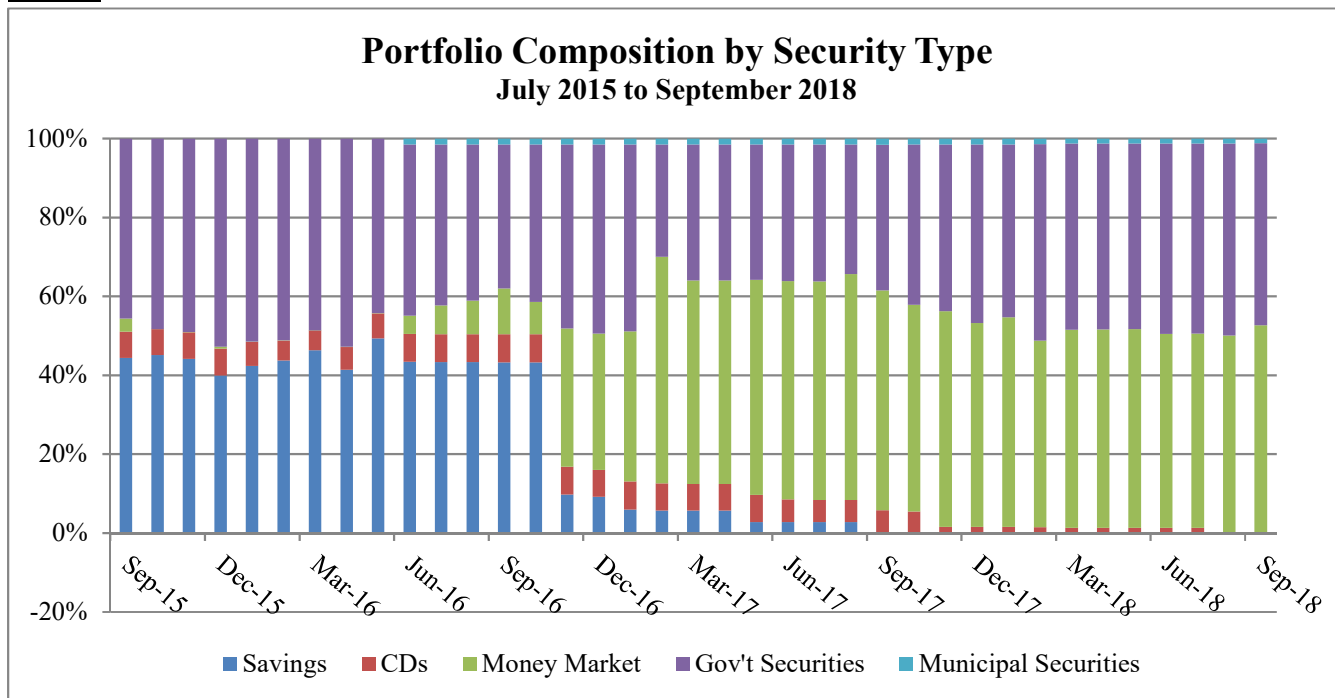


Chart 11



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

Market indicators and Federal Reserve Governors are beginning to sound more dovish in their comments regarding future increases in the Fed Funds rate. Federal Reserve Chairman Powell has stated that Fed Funds is approaching neutral and Dallas Federal Reserve President Robert Kaplan stated that he is more data-dependent and that there are no more automatic rate increases planned in the future. Given this backdrop, the balance in Money Market Funds will begin to decline as staff extends duration and purchases US Government securities.

Chart 12

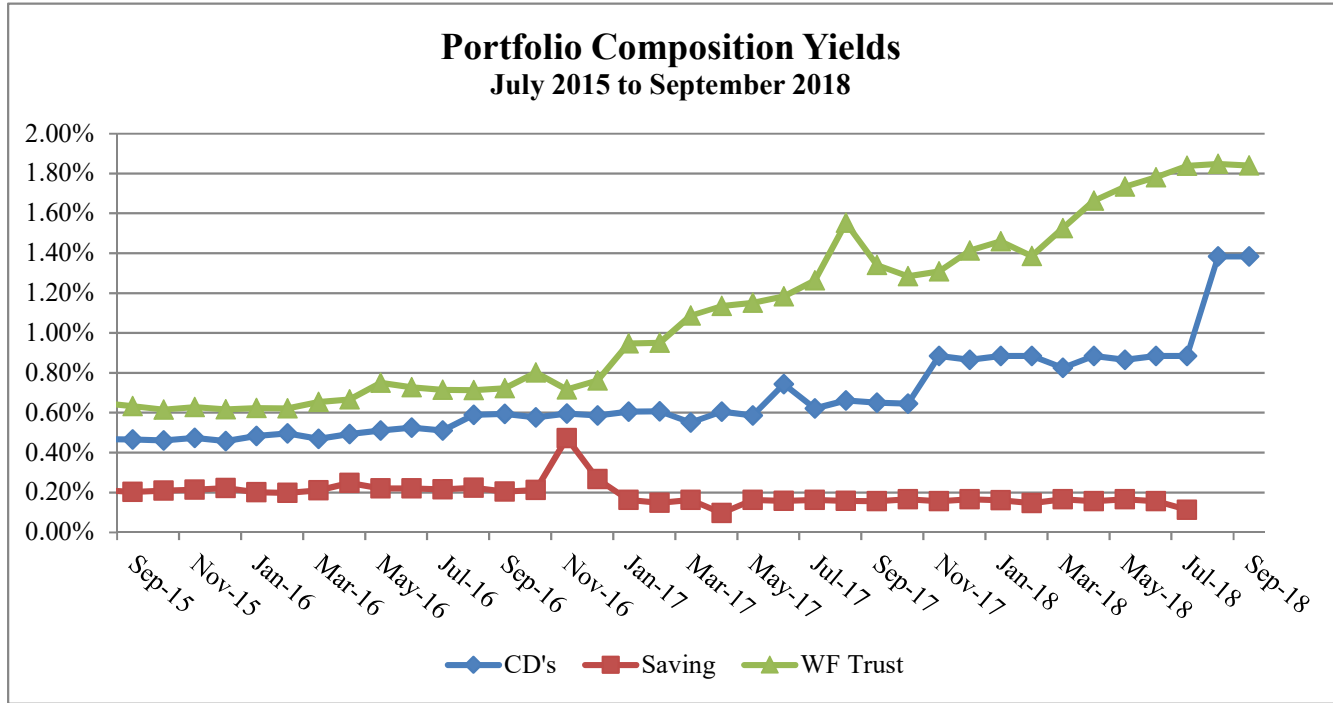
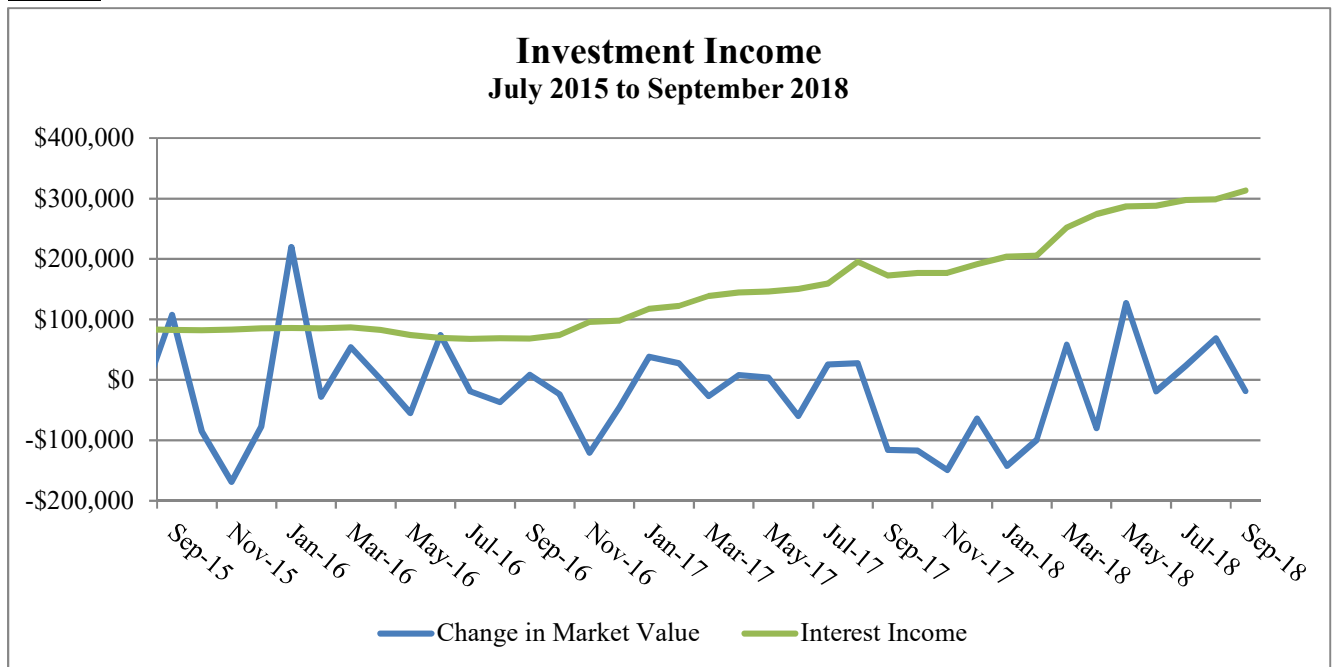


Chart 12 shows the three primary investments that the City utilizes to invest cash. The last deposit in a savings account was withdrawn and moved into the Trust for investments in the first quarter of FY19. The large increase in CD yield was due to the fact that the City renewed its CD with Guadalupe Credit Union for two years at 2.62 percent.

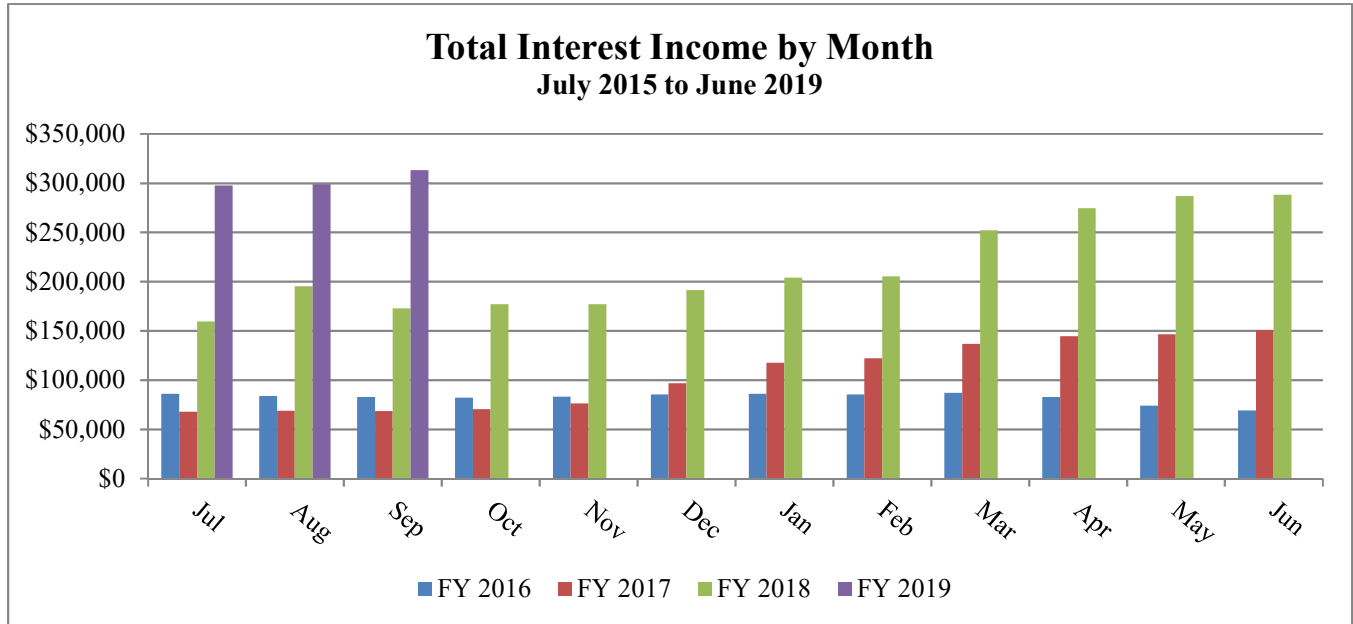
Chart 13



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

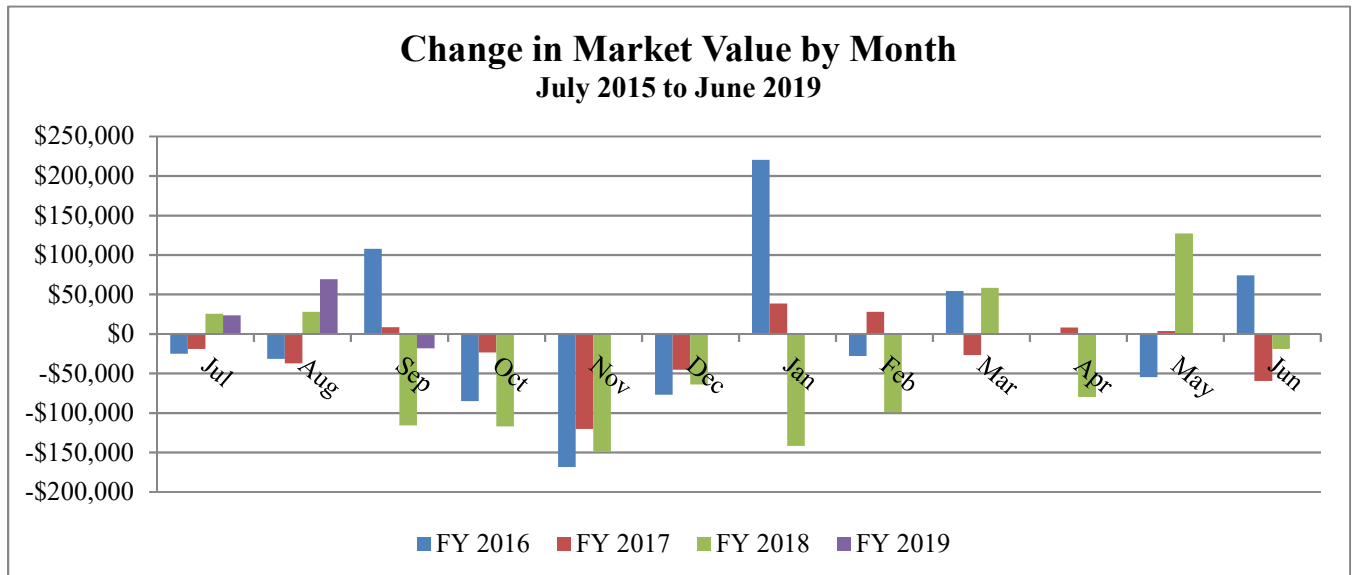
The City's interest income reached over \$300,000 in the month of September, and with the latest Federal Reserve tightening, staff expects interest income will continue to rise. Much of the increase in the future will no longer come from rate increases by the Federal Reserve, but staff extending the portfolio's duration.

Chart 14



Interest income continues to trend higher as the Federal Reserve raises short-term interest rates. However, in the past few months, the Federal Reserve has become much more dovish in their speeches, putting the three rate increases previously expected in 2019 in doubt. In fact, the Fed Funds Futures show not even one rate hike in 2019.

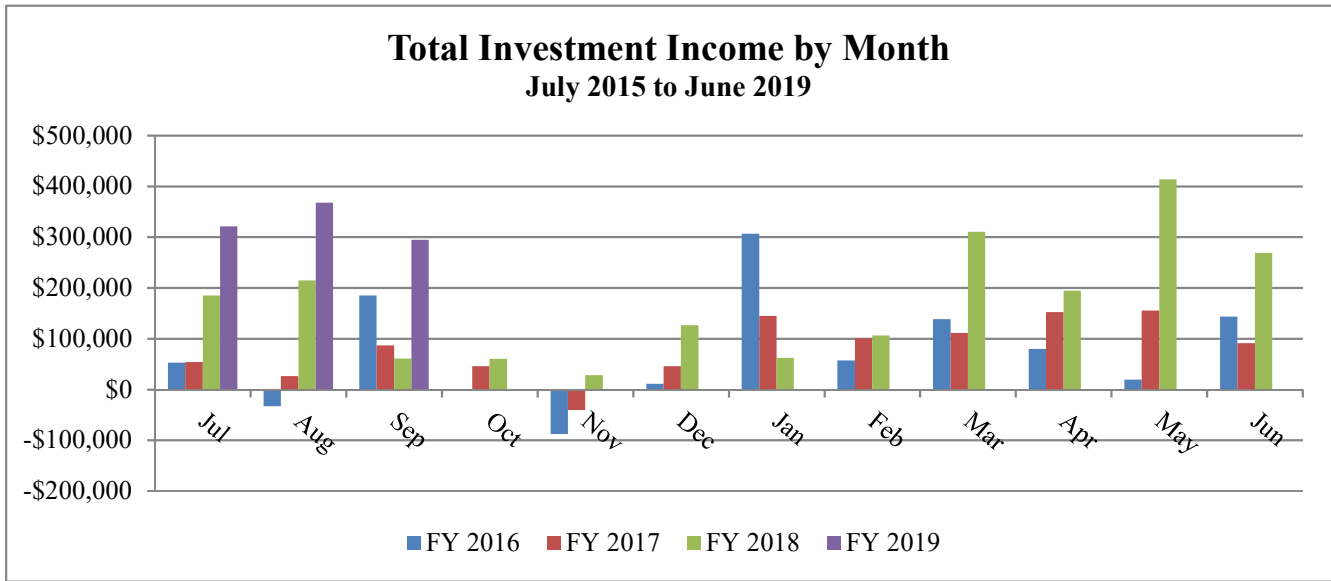
Chart 15



Staff has intentionally kept the duration of the portfolio low, given the expectation that the Federal Reserve will continue to increase interest rates. However, as the Federal Reserve appears to have changed their expectations, staff will be slowly increasing the portfolio's duration to lock in the higher yield currently offered in US Government Securities.

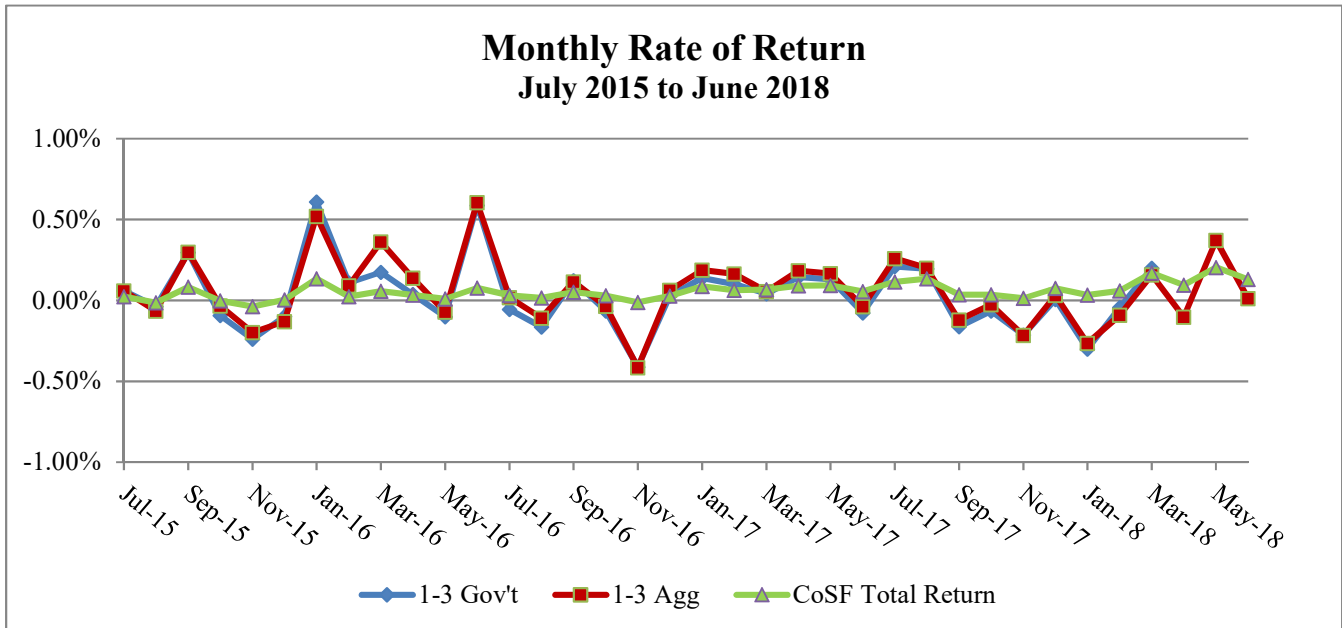


Chart 16



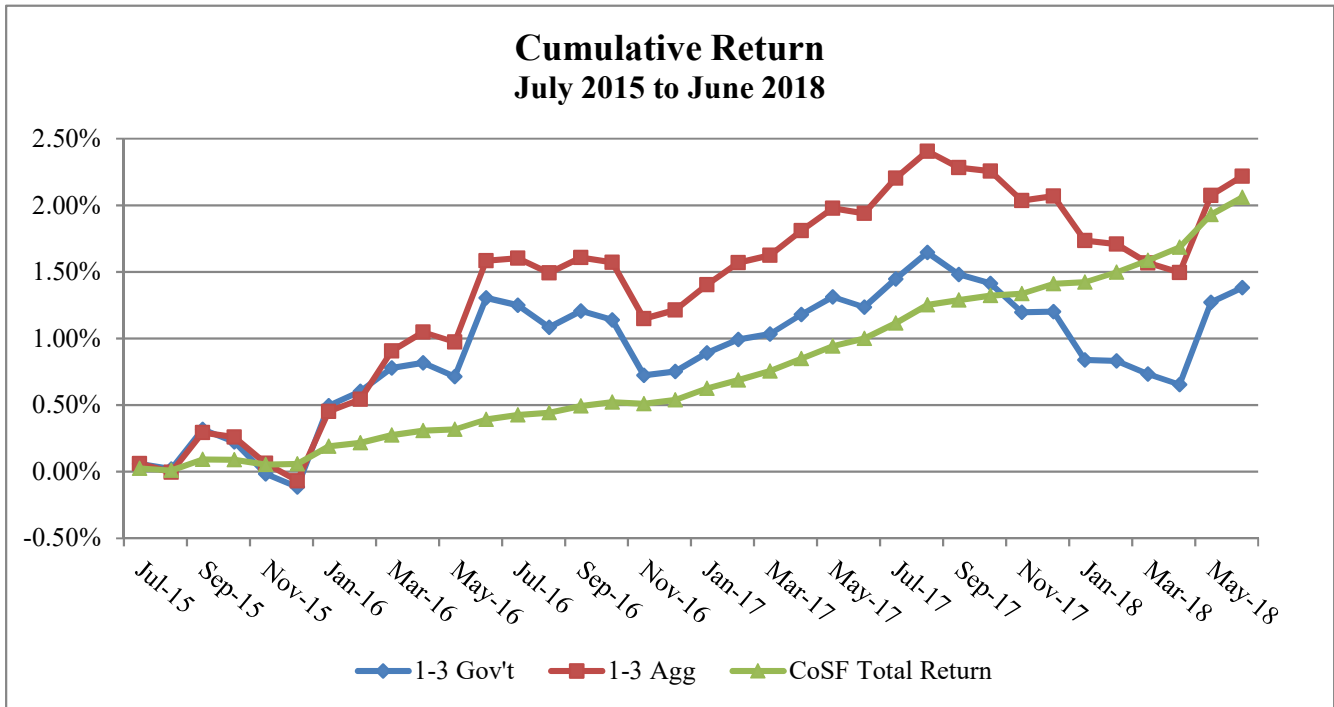
Total return is the combination of Charts 14 and 15, interest income and changes in market value (both realized and unrealized). Staff has strategically positioned the portfolio to take advantage Federal Reserve rate changes; however, now that short-term interest rates are equal to or slightly higher than measures of inflation, such as the Consumer Price Index, market expectations are for the Federal Reserve to be more data-driven on rate changes. Employment continues to be very strong and is starting to impact wages. Wage growth is the strongest it has been in over a decade and the CPI hit 2.9 percent year over year in June (substantially higher than the Federal Reserve’s target rate of 2.0 percent), but declined to 2.5 percent in September 2018.

Chart 17



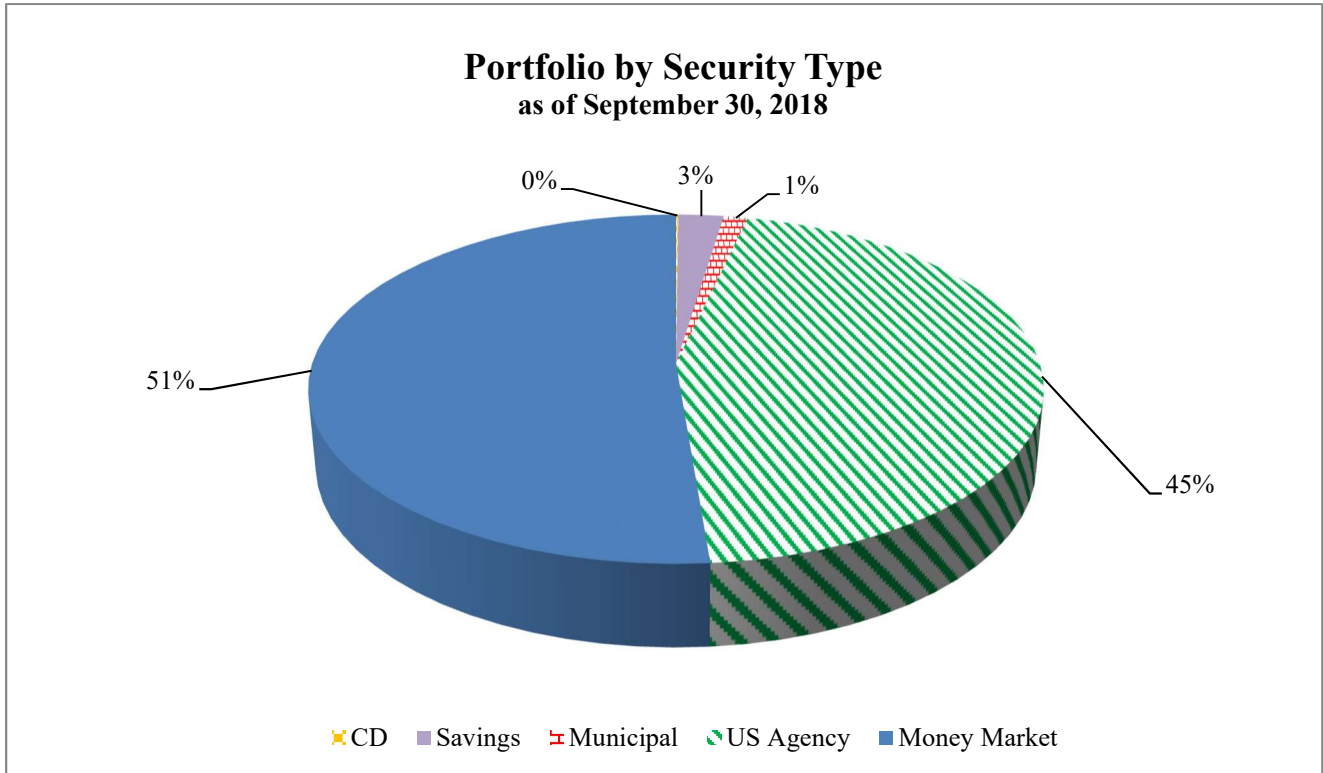
Charts 17 and 18 compare the City’s investment returns to standard industry benchmarks for short-term investment portfolios: The Bloomberg 1-3 year Government and the Bloomberg 1-3 year Aggregate includes investment grade issuers including Corporate, Mortgage and other Asset Backed Securities. Chart 17 demonstrates that the City’s investment portfolio is not as volatile as the market benchmarks. Chart 18 demonstrates the cumulative effect of adding “Credit Risk” to a portfolio.

Chart 18



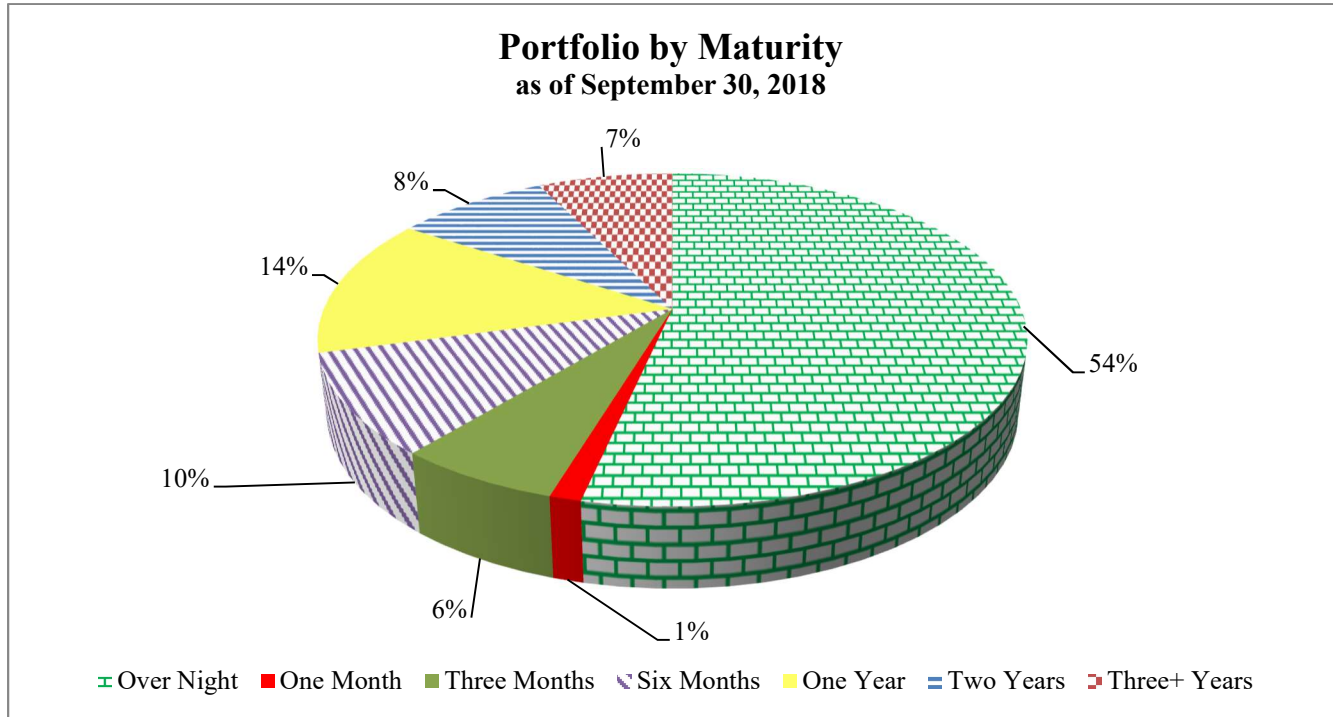
The reason the City has caught up to the benchmarks is because the City has a duration of .28 years and the benchmarks have a duration of 1.9 years. As interest rates increased the past two years, the City's portfolio has out-performed the benchmarks. If interest rates level off or begin to decline, the benchmarks will outperform the City's portfolio.

Chart 19



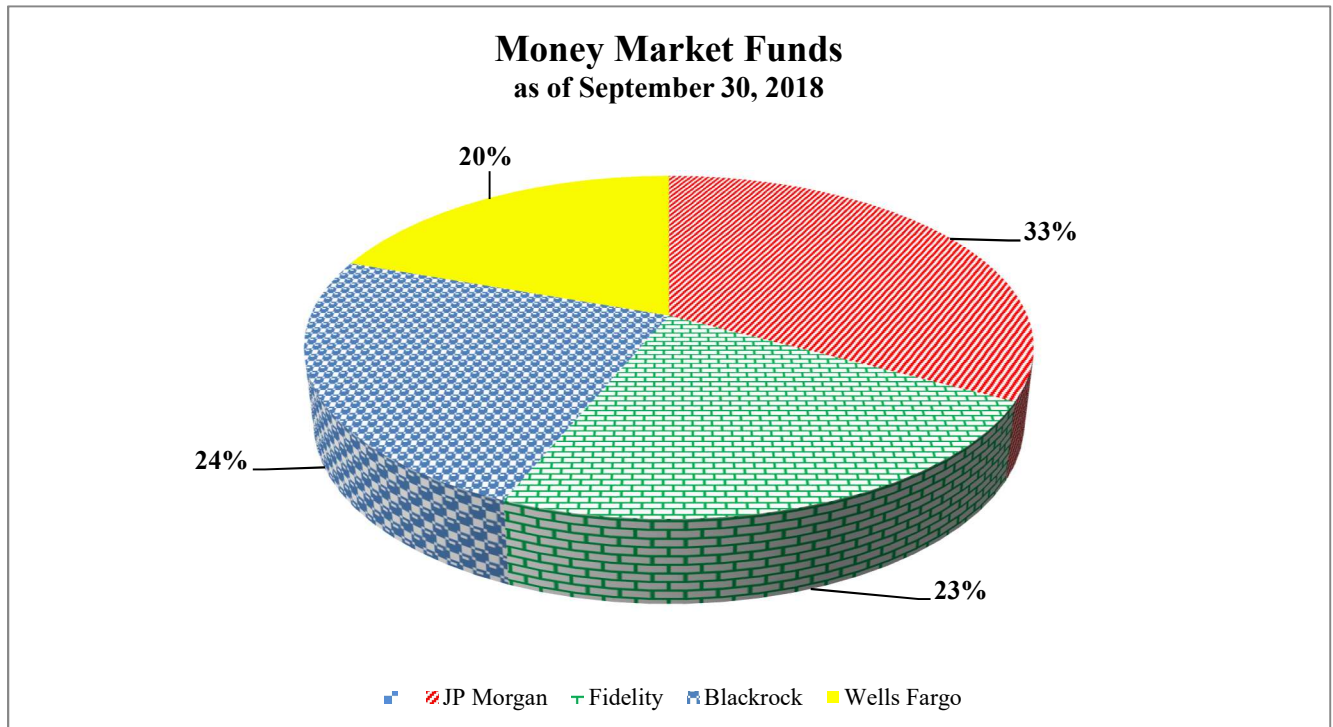
Treasury staff continues to keep a large balance in the money market funds; however, given expectations that the Federal Reserve will not continue to raise short-term interest rates, Money Market Funds will be a source of funds to purchase US Government Securities.

Chart 20



The ten percent with three year maturities are the floating rate notes which have a duration of .25 years or less since the interest rate on the notes resets every 30 to 90 days.

Chart 21



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

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. The Wells Fargo Government Money Market fund invests only in US Government and US Government Agency securities.

Chart 22

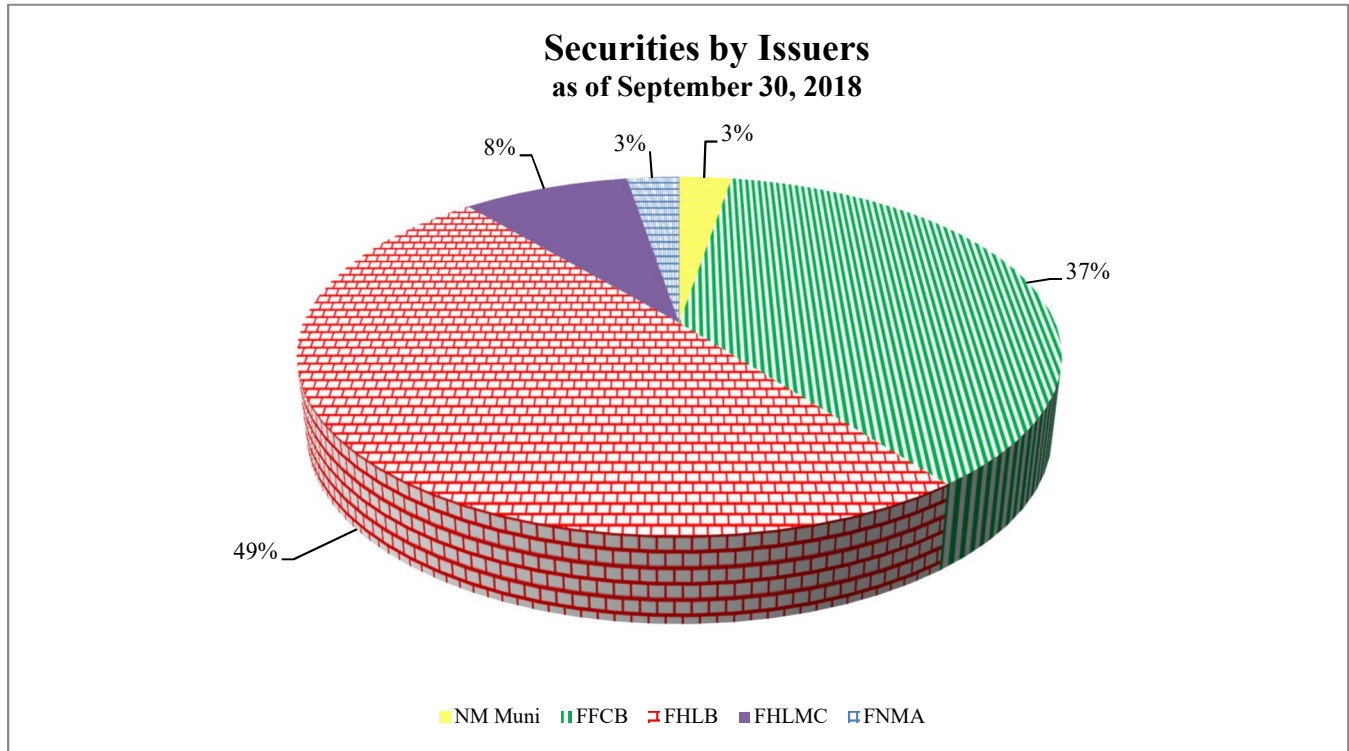
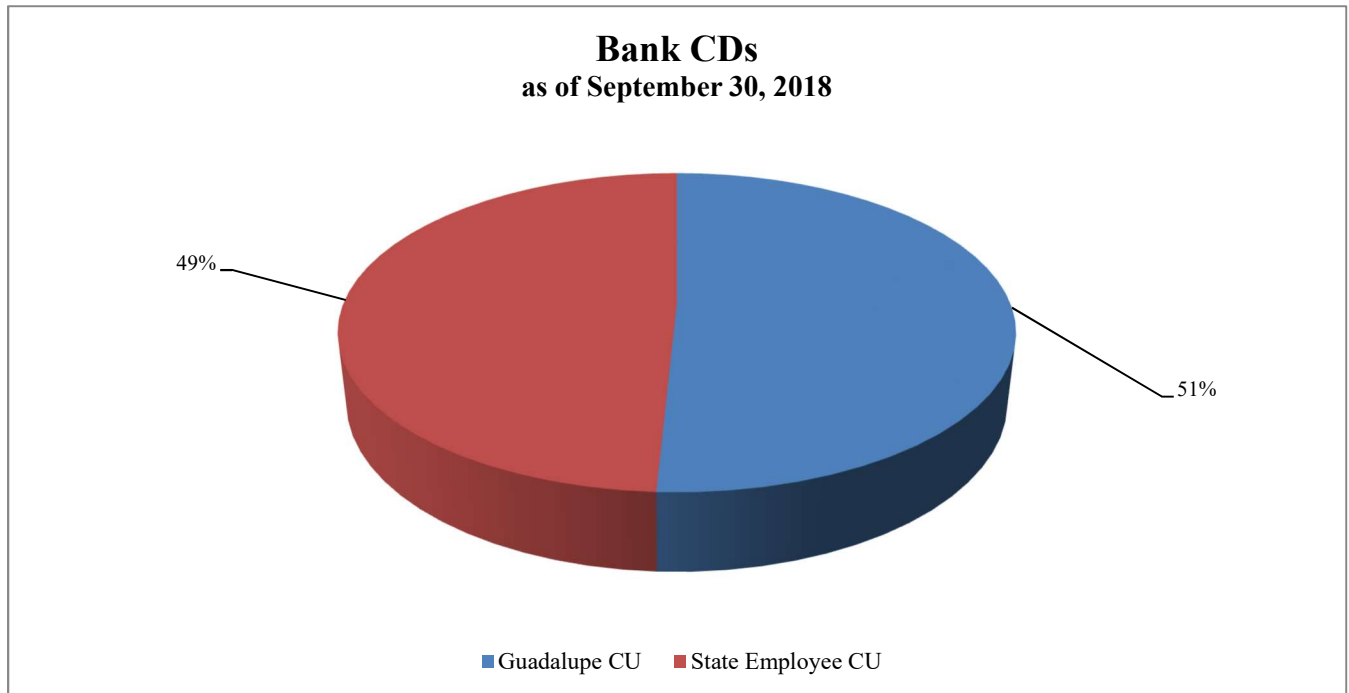


Chart 23

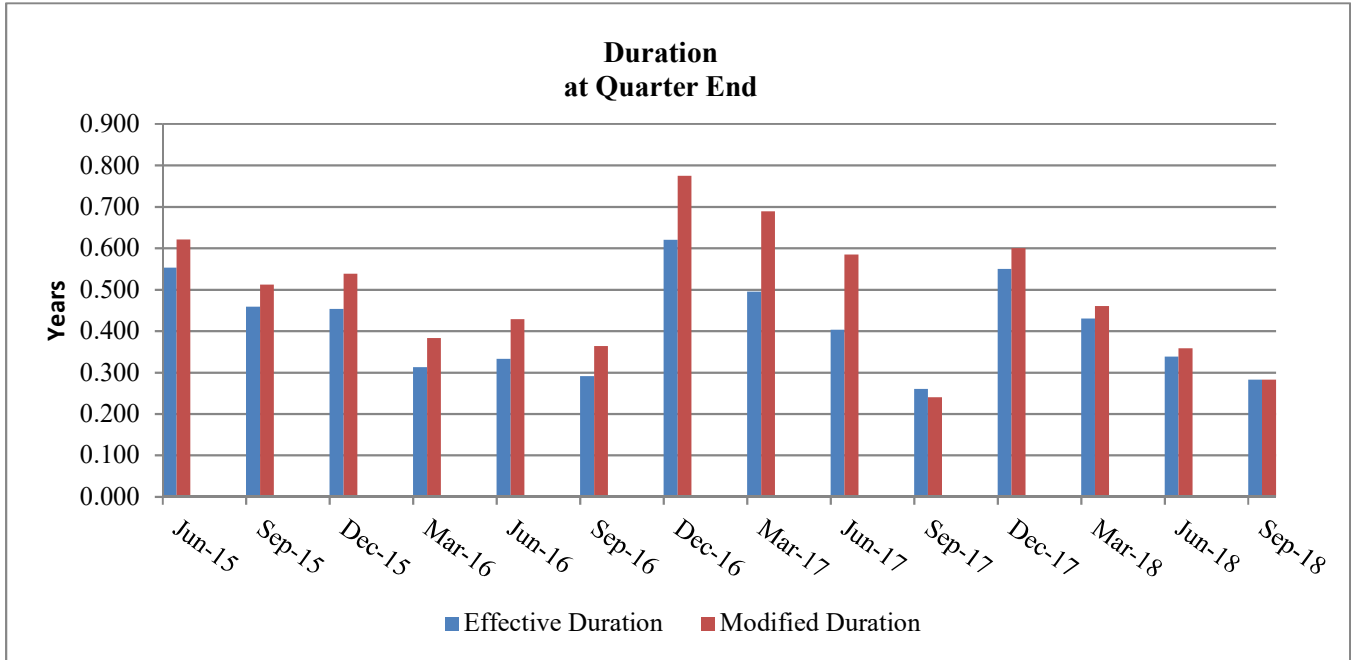


The City continues to offer Certificates of Deposit to Banks and Credit Unions within the City's borders. The City's CD program has not generated any interest from local banks, but the Credit Unions are willing to pay market rates of interest on CDs.

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

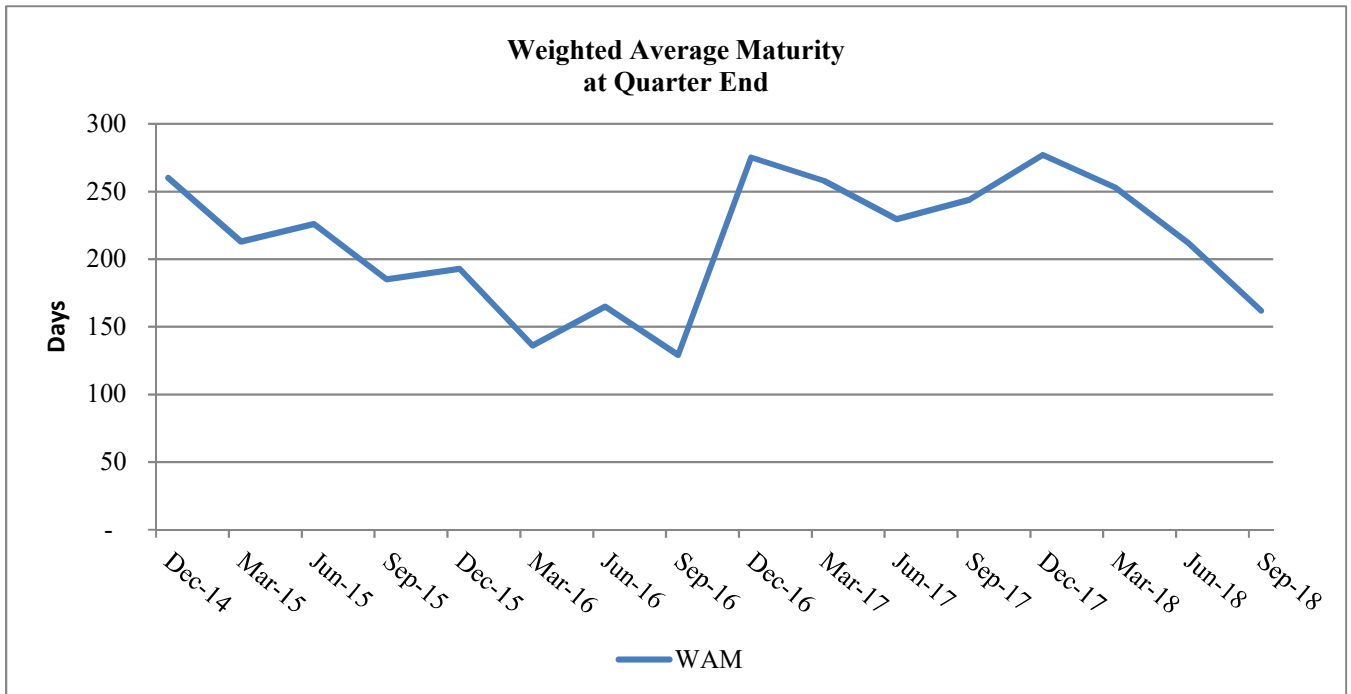
The portfolio's duration and weighted average maturity reflects the Treasury Department's investment strategy to avoid interest rate risk.

Chart 24



The difference between Modified Duration and Effective Duration is the market value of callable and floating rate securities in the portfolio relative to all securities.

Chart 25



**Investment Strategy**

The large cash position has greatly benefited the City as the Federal Reserve started raising interest rates two years ago. The market expects the Federal Reserve to raise interest rates at its December meeting, but the market has done an about-face regarding the previously-expected two or three rate increases in 2019.

While employment remains strong, cracks are appearing in other economic data. A number of market indicators reveal that expectations for two rate increases by the Federal Reserve have all but vanished. Paul Tudor Jones stated in an interview with CNBC that he does not think the Federal Reserve will raise interest rates at all in 2019. However, Citibank’s Tobias Levkovich, Chief US Equity Strategist, says the economy is strong enough for two rate hikes in 2019. For the past two years, there was great certainty that the Federal Reserve would be increasing interest rates; however, after eight rate hikes and questions regarding US and Global economic growth, uncertainty on how the Federal Reserve will proceed has grown dramatically. To that end, Treasury staff is keeping a watchful eye on both the economy and the Federal Reserve.

**Table 6**

City of Santa Fe				
Collateral for Demand Deposits				
As of September 30, 2018				
<b>Wells Fargo Bank, NA</b>				
<b><u>Security</u></b>	<b><u>CUSIP</u></b>	<b><u>Maturity</u></b>	<b><u>Par Value</u></b>	<b><u>Market Value</u></b>
FNMA FNMS 2.5000%	3138WHPY2	07/01/1931	603,143.00	443,925.87
FNMA FNMS 2.5000%	31418CAK0	08/01/1931	9,116,604.00	6,496,042.49
FNMA FNMS 3.000%	3138MKPU4	11/01/1942	13,517,697	7,358,828
FNMA FNMS 3.000%	3140J8YB3	10/01/2026	9,420,176	9,057,859
<b>Total Wells Fargo Bank, NA</b>			<b>32,657,620</b>	<b>23,356,655</b>
<b>Total Collateral</b>			<b>32,657,620</b>	<b>23,356,655</b>

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

Table 7

City of Santa Fe								
Portfolio Holdings Report								
As of September 30, 2018								
<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>
Guadalupe CU	245,000	245,000	245,000	2.62%	2.62%	07/31/2020	0.797	0.797
State Employee CU	240,000	240,000	240,000	1.56%	1.56%	07/21/2019	1.784	1.784
<b>Total CDs</b>	<b>485,000</b>	<b>485,000</b>	<b>485,000</b>		<b>2.10%</b>		<b>1.285</b>	<b>1.285</b>
Blackrock Prime Inst #24	26,127,013	26,127,039	26,127,013		2.17%			
JP Morgan Prime MM Fund #3605	35,733,832	35,733,832	35,733,832		2.16%			
Fidelity Prime MM Port #2014	20,280,273	20,280,314	20,280,273		2.11%			
Wells Fargo Bank MM	15,984,763	15,984,763	15,984,763		1.99%			
<b>Total Money Market</b>	<b>98,125,881</b>	<b>98,125,948</b>	<b>98,125,881</b>		<b>2.12%</b>		-	-
New Mexico Severance Tax	2,500,000	2,483,750	2,555,425	2.00%	1.25%	07/01/2019	0.734	0.734
<b>Total Municipal</b>	<b>2,500,000</b>	<b>2,483,750</b>	<b>2,555,425</b>	<b>2.00%</b>	<b>1.26%</b>		<b>0.734</b>	<b>0.734</b>
Federal Home Loan Bank	5000000.00	4885600.00	5003550.00	1.63%	1.60%	09/11/2020	1.893	1.893
Federal Home Loan Bank	5000000.00	4907650.00	4953800.00	1.13%	1.44%	11/29/2019	1.136	1.136
Federal Home Loan Bank	2000000.00	1971300.00	1995780.00	1.38%	1.45%	11/15/2019	1.096	1.096
Farmer Mac	5000000.00	5012800.00	5017750.00	2.22%	1.99%	02/03/2021	0.25	0.25
Farmer Mac	5000000.00	4950500.00	5000000.00	1.44%	1.44%	08/20/2019	0.871	0.871
Federal Home Loan Bank	5000000.00	4995150.00	5054730.00	1.75%	1.20%	12/14/2018	0.202	0.202
Federal Home Loan Bank	10000000.00	9963100.00	9936000.00	1.50%	2.12%	03/08/2019	0.432	0.432
Federal Home Loan Bank	5000000.00	4968500.00	5034800.00	1.63%	1.34%	06/14/2019	0.689	0.689
Federal Home Loan Bank	5000000.00	4968500.00	5032550.00	1.63%	1.36%	06/14/2019	0.689	0.689
Federal Home Loan Bank	5000000.00	4941750.00	4985300.00	1.38%	1.53%	09/13/2019	0.934	0.934
Federal Home Loan Bank	5000000.00	4970200.00	5046450.00	2.00%	1.52%	09/13/2019	0.933	0.933
Federal Farm Credit Bank	5000000.00	4992400.00	5000000.00	1.70%	1.70%	01/07/2019	0.268	0.268
Federal Farm Credit Bank	5000000.00	4977050.00	4982400.00	1.25%	1.43%	02/27/2019	0.408	0.408
Federal Farm Credit Bank	10000000.00	10000200.00	10000000.00	2.17%	2.03%	10/20/2020	0.25	0.25
Federal Farm Credit Bank	5000000.00	5002050.00	5000000.00	2.35%	2.26%	03/26/2020	0.25	0.25
Federal Home Loan Mtg Corp	3000000.00	2996550.00	3000000.00	1.05%	1.05%	11/07/2018	0.101	0.101
Federal Home Loan Mtg Corp	2000000.00	1997700.00	1997600.00	1.05%	1.11%	11/07/2018	0.101	0.101
Federal Home Loan Mtg Corp	3000000.00	2994750.00	3000000.00	1.13%	1.13%	11/28/2018	0.158	0.158
Federal National Mtg Assn	2500000.00	2497900.00	2500000.00	1.13%	1.13%	10/29/2018	0.076	0.076
<b>Total Federal Government</b>	<b>92,500,000</b>	<b>91,993,650</b>	<b>92,540,710</b>	<b>29%</b>	<b>1.62%</b>	<b>0.00</b>	<b>0.568</b>	<b>0.568</b>
<b>Total Portfolio</b>	<b>193,610,881</b>	<b>193,088,348</b>	<b>193,707,016</b>		<b>1.87%</b>	<b>-</b>	<b>0.282</b>	<b>0.282</b>