

CITY OF SANTA FE

QUARTERLY FINANCIAL PERFORMANCE REPORT

As of December 31, 2022



CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT
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I. EXECUTIVE SUMMARY

This report is a summary of financial results for the City through the second 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 identified. 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. Finance Department staff continues to work with other City Departments to ensure that City resources will be used in the most efficient and cost-effective manner.

The overall City financial picture as of December 31, 2022 (presented in Table 1) is slightly more optimistic than expected when the FY23 budget was adopted in April 2022. The largest single source of revenue to the City is Gross Receipts Tax (GRT), which represents 32.7% of total operating City revenue. For the current fiscal year, GRT is projected to end up approximately 3% over budget, although it should be noted that this figure also reflects a 3% decrease from the FY22 GRT number. This projection may be subject to some revision when the next GRT disbursements are received over the next several weeks, as these disbursements reflect the usual peak of GRT earnings over the fiscal year arising from the higher sales activity that is seen during the Christmas season. Because the GRT disbursements seen in a given month are based on purchasing activity from 2 months prior, these next disbursements will give a much clearer picture to overall GRT trends. The Finance Department will continue to monitor these trends as the seasonal peak GRT earnings come in, and revise earnings estimates accordingly. As for the remainder of the revenue picture, other major items such as Property Tax, Franchise Fees, Other taxes and Utility Fees are also trending slightly above budgeted estimates, though some categories such as Gasoline Tax, Parking Fees and Fines/Forfeitures are underperforming so far in FY23. Overall, however, the revenue forecast is a positive one, with total overall revenues expected to come in at 4% over budget. On the expenditure side, we have seen the trend continue from past years, wherein major expense categories such as Contractual Services, Utilities, Repairs & Maintenance, and Capital Purchases are currently expected to end the year well under budget. Overall expenses are currently projected to end the year at 16% below budgeted levels.

The revenue and expenditure forecast for the General Fund (see Table 2) is quite similar to the overall picture, with GRT trending at approximately 3% over budget, but down from the previous fiscal year. Some other revenue categories such as Other Taxes, Ambulance Fees, Planning & Land Use Fees and Recreation Fees are performing significantly better than expected, while some others including Licenses & Permits, Fines & Forfeitures, and Miscellaneous Revenues are performing below budgeted estimates (the large negative number for Miscellaneous Revenues is attributable to reimbursements and refunds from various other categories; the Finance Department is currently working on adjusting these amounts to reflect reimbursements in the categories to which they belong, rather than in the Miscellaneous Revenue category, to give a clearer picture of revenue performance in all categories). Overall General Fund revenues are expected to come in at 6% over budget for the fiscal year. Meanwhile, expenditure trends in the General Fund are largely similar to those seen in the all funds forecast, with major categories such as Contractuals, Travel/Training, and Capital Purchases expected to come in well under budget. Overall, General Fund expenditures are currently projected to come in at 9% below budget for FY23.

Federal Update

The outlook for 2023 is one of caution, with climbing inflation spiking concerns of an impending recession. This outlook has caused the Federal Reserve to increase interest rates in an attempt to slow inflation, and projections anticipate another three-quarters of a percentage point increase in 2023. Despite high inflation rates, unemployment has stabilized at near pre-pandemic levels; however, January 2023 has seen extensive layoffs in technology-driven enterprises. Despite these concerns, many states and municipalities are entering 2023 in a strong financial position due in part to CARES Act (Coronavirus Aid, Relief, and Economic Security Act) and ARPA (American Rescue

Plan Act) funding. The City of Santa Fe received \$15 million in federal funding from the American Rescue Plan Act for use through the end of 2024, and the City still has pockets of CARES Act funding and additional ARPA funding available from the US Department of Transportation for Transit and the Airport. Other federal funding from grants is anticipated to remain stable, at near FY22 or slightly increased levels, for the City.

State Update

The State of New Mexico continues to show a strong economic recovery. FY22 State revenue was up \$1.59 billion over FY21 levels, representing a 19.7% annual increase. Estimated recurring revenues for FY23 are \$10.775 billion, up \$928 million from the August estimate (Legislative Finance Committee General Fund Consensus Revenue Estimate, December 12, 2022.) Oil and natural gas production revenue in New Mexico continues to lead the State's recovery. Year-to-date through September 2023, gross receipts taxes were up 20.8% compared with FY22 data for the same period, with retail trade, leisure and hospitality contributing to the growth. State economists did note that New Mexico lost about 104,000 jobs at the height of the pandemic, and current figures show that the sector is still 2.5% below 2019 figures. However, the report also indicated that the labor force participation is expected to grow 0.9% in 2023, with another 0.4% in 2024 and 2025. The State's Legislative Session began on January 17, 2023, and the City will actively lobby for additional capital outlay funds for key capital projects.

CITY OF SANTA FE - FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY23

Exhibit 1

ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2022/2023				
	2021/2022 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	154,002,957	244,894,928	244,894,928	244,894,928	244,894,928	
<i>Revenues:</i>						
Gross Receipts Tax	146,420,020	137,729,188	137,729,188	26,843,081	141,966,030	3%
Property Tax	11,173,551	11,063,527	11,063,527	332,939	11,313,124	2%
Franchise Fees	4,031,224	5,705,841	5,705,841	1,008,252	6,679,064	17%
Lodgers' Tax	17,074,505	12,863,702	12,863,702	7,206,476	13,617,397	6%
Gasoline Tax	1,542,860	1,674,660	1,674,660	416,653	1,396,612	-17%
Other Taxes	675,826	520,923	520,923	401,881	732,102	41%
Licenses & Permits	3,807,906	6,290,969	6,290,969	2,669,822	6,056,490	-4%
Ambulance Fees	4,366,880	5,800,000	5,800,000	4,652,890	11,396,624	96%
Insurance Premiums/Deductibles	19,912,608	27,094,210	27,094,210	10,221,719	25,413,429	-6%
Parking Fees	531,283	5,015,774	5,015,774	195,107	401,198	-92%
Recreation Fees	813,187	2,755,577	2,755,577	1,437,489	2,741,668	-1%
Solid Waste Fees	22,048,888	23,764,413	27,115,964	11,368,639	28,611,828	6%
Wastewater Fees	13,516,492	11,665,201	11,665,201	6,805,255	16,319,675	40%
Water Fees	35,540,415	34,045,448	34,112,472	18,186,619	42,338,850	24%
Other Fees/Services**	19,008,114	43,422,843	31,489,040	6,183,642	32,022,759	2%
Fines & Forfeitures	196,655	882,201	882,201	59,313	442,338	-50%
Miscellaneous Revenues***	1,957,111	6,234,386	6,251,430	(939,188)	2,979,598	-52%
Interest on Investments	(29,917)	838,168	779,689	-	779,689	0%
State Grants	3,360,628	4,696,535	6,675,819	790,336	6,675,819	0%
Federal Grants	15,331,548	5,282,160	22,784,416	8,674,224	22,784,416	0%
SF County/Other Grants	629,054	157,826	8,034,087	53,569	8,034,087	0%
Transfers In	4,550,589	51,802,791	55,306,105	-	55,306,105	0%
Subtotal - Revenues	326,459,427	399,306,343	421,610,795	106,568,718	438,008,902	4%
TOTAL RESOURCES	480,462,384	644,201,271	666,505,723	351,463,646	682,903,830	
<i>Expenditures:</i>						
Salaries	77,405,632	90,536,757	95,842,292	39,758,772	88,716,402	-7%
Benefits	36,173,607	42,501,818	45,191,079	19,345,548	42,414,025	-6%
Contractual Services	26,222,975	40,749,580	67,214,911	36,978,745	50,478,575	-25%
Utilities	14,094,341	13,670,488	15,446,707	6,918,657	10,636,919	-31%
Repairs & Maintenance	7,328,443	9,197,503	12,813,986	7,683,527	6,523,830	-49%
Supplies	13,236,332	14,540,045	16,795,367	9,863,535	13,380,308	-20%
Insurance	22,603,999	36,860,776	37,197,323	14,368,957	28,737,606	-23%
Travel & Training	791,339	1,315,506	1,483,976	410,496	797,018	-46%
Other Operating	8,350,286	40,232,523	45,718,480	9,265,425	32,279,929	-29%
Capital Purchases	2,824,786	6,973,208	19,691,743	15,006,164	14,768,807	-25%
Land & Building	1,470,230	760,000	5,340,514	1,712,870	4,005,386	-25%
Debt Service-Principal	12,974,125	16,486,640	16,486,640	-	16,486,640	0%
Debt Service-Interest	6,750,772	8,143,678	8,143,678	3,067,148	8,143,678	0%
Transfers Out	5,340,589	55,845,021	62,538,951	727,332	62,538,951	0%
TOTAL EXPENDITURES	235,567,456	377,813,543	449,905,647	165,107,174	379,908,075	-16%
ENDING BALANCE	244,894,928	266,387,728	216,600,076	186,356,472	302,995,754	

*Includes year-to-date actuals plus encumbrances as of December 31, 2022; excludes CIP funds

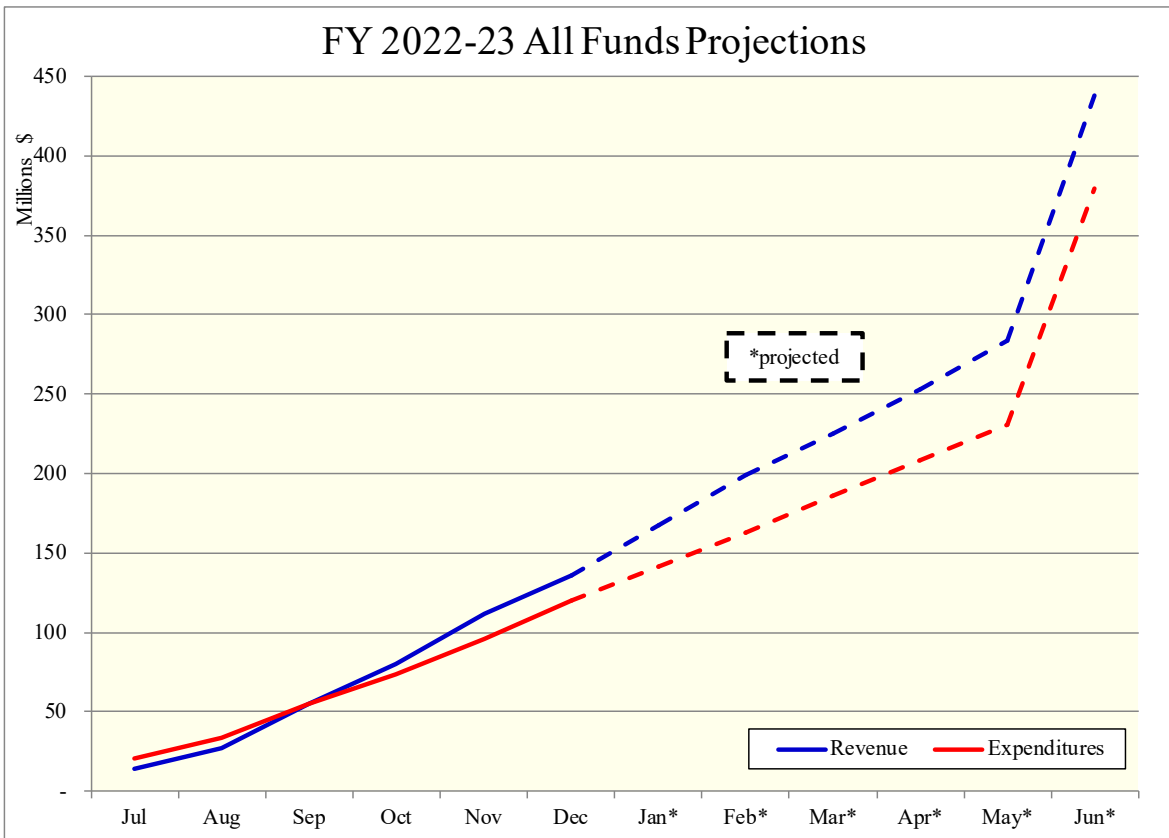
**Other Fees/Services include: Internal Service Charges; Airport Fees; Police/Court Fees; Transit Fees; Land Use Fees; and various other fees/services

***Miscellaneous Revenues include: Sales Revenue; Reimbursements/Refunds; Advertising Income; Insurance Recoveries; Rental Income; and other miscellaneous revenues

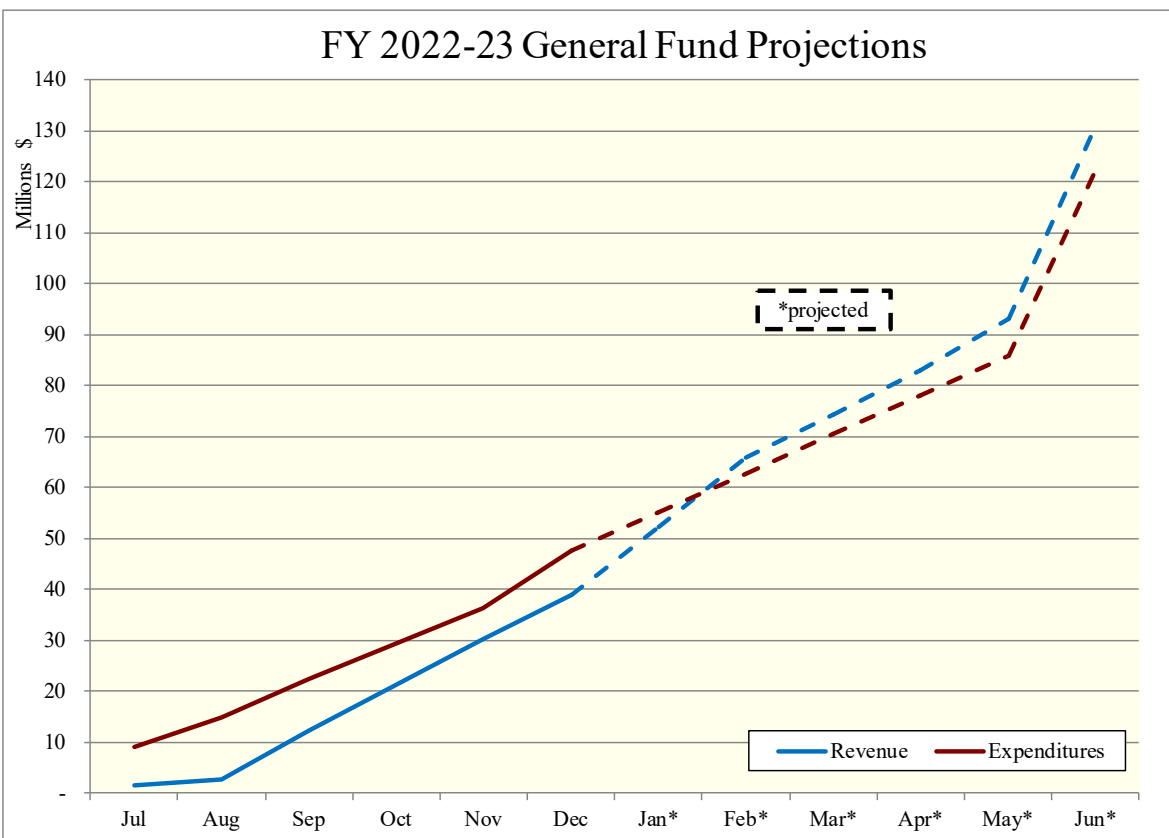
Exhibit 2

PROJECTIONS ANALYSIS

FY 2022-23 All Funds Projections



FY 2022-23 General Fund Projections



CITY OF SANTA FE - FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY23

Exhibit 3

GENERAL FUND SUMMARY & PROJECTIONS

DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2022/2023				
	2021/2022 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	14,415,915	25,642,647	25,642,647	25,642,647	25,642,647	
<i>Revenues :</i>						
Gross Receipts Tax	93,241,717	87,340,228	87,340,228	16,957,490	89,708,156	3%
Property Tax	8,642,543	9,092,019	9,092,019	260,325	9,283,853	2%
Franchise Fees	3,981,801	5,637,767	5,637,767	992,643	6,596,777	17%
Other Taxes	675,826	520,923	520,923	401,881	1,098,546	111%
Licenses & Permits	3,803,681	6,218,353	6,218,353	2,669,812	5,868,589	-6%
Ambulance Fees	4,366,880	5,800,000	5,800,000	4,652,890	11,396,624	96%
Planning/Land Use Fees	4,514,542	380,357	380,357	1,048,669	1,271,218	234%
Recreation Fees	188,012	116,120	116,120	101,086	250,448	116%
Reimbursed Expenditures**	29,060	5,074,520	5,074,520	-	5,074,520	0%
Other Fees/Services	80,161	81,791	81,791	42,138	88,891	9%
Fines & Forfeitures	143,153	156,046	156,046	45,872	107,762	-31%
Miscellaneous Revenues	(2,679,773)	458,664	458,664	(2,893,388)	(2,716,382)	-692%
Interest on Investments	-	57,826	57,826	-	57,826	0%
State/Other Grants	51,885	-	-	-	-	0%
Transfers In	-	3,102,180	3,112,782	-	3,112,782	0%
Subtotal - Revenues	117,039,487	124,036,794	124,047,396	24,279,419	131,199,611	6%
TOTAL RESOURCES	131,455,402	149,679,441	149,690,043	49,922,066	156,842,259	
<i>Expenditures :</i>						
Salaries	44,838,692	56,053,083	56,190,259	22,688,640	51,699,936	-8%
Benefits	20,546,648	24,477,523	24,586,382	11,109,291	24,471,115	0%
Contractual Services	7,087,236	13,165,961	14,911,514	9,885,325	11,313,345	-24%
Utilities	3,778,199	3,558,479	3,559,479	839,025	3,005,070	-16%
Repairs & Maintenance	687,235	1,577,553	1,581,185	1,032,065	1,123,001	-29%
Supplies	4,102,292	3,976,413	3,928,153	2,129,293	3,580,004	-9%
Insurance	-	2,040,730	2,040,730	-	2,040,730	0%
Travel & Training	232,392	565,968	563,721	158,144	348,818	-38%
Other Operating	715,179	12,891,321	14,954,229	2,061,295	10,886,198	-27%
Capital Purchases	799,957	549,592	3,744,677	3,105,306	3,252,272	-13%
Land & Building	-	-	-	-	-	0%
Transfers Out	-	5,180,171	8,205,824	727,332	10,771,390	31%
TOTAL EXPENDITURES	82,787,830	124,036,794	134,266,153	53,735,716	122,491,879	-9%
ENDING BALANCE	25,642,647	25,642,647	15,423,890	(3,813,650)	34,350,379	
<i>State-Mandated Minimum</i>						
<i>General Fund Balance***</i>	6,898,986	9,904,719	10,505,027		10,505,027	
<i>Equivalent # Days of Operation</i>	113	79	45		110	

*Includes year-to-date actuals plus encumbrances as of December 31, 2022

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

***State-mandated minimum balance defined as 1/12 (8.3%) of budgeted annual General Fund expenditures excluding transfers

II. REVENUE UPDATE

Gross Receipts Tax

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 (NMTRD) reports the monthly tax receipts collection activity data. As part of the City’s efforts to increase transparency and regular reporting on the City’s finances, City staff provides the written memos about Santa Fe’s taxable gross receipts and the GRT revenue distributions on a monthly basis. Due to the two month delay, the City received the GRT generated in October 2022 from NMTRD in December 2022.

Taxable gross receipts for the second quarter totaled \$1.15 billion, up 11% or \$149.8 million from the \$1.14 billion seen in the second quarter of FY22 (October – December 2021). Taxable gross receipts also exceeded the pre-pandemic levels of \$825.7 million during the second quarter of FY20 (October – December 2019) by 36%, or \$465.7 million. FY23 second quarter gross receipts were particularly strong in the Accommodation and Food services category, which returned to its historic weight of 15% of total taxable gross receipts. Retail sales have also been particularly strong, coming in over \$100 million per month for the second quarter.

Exhibit 4

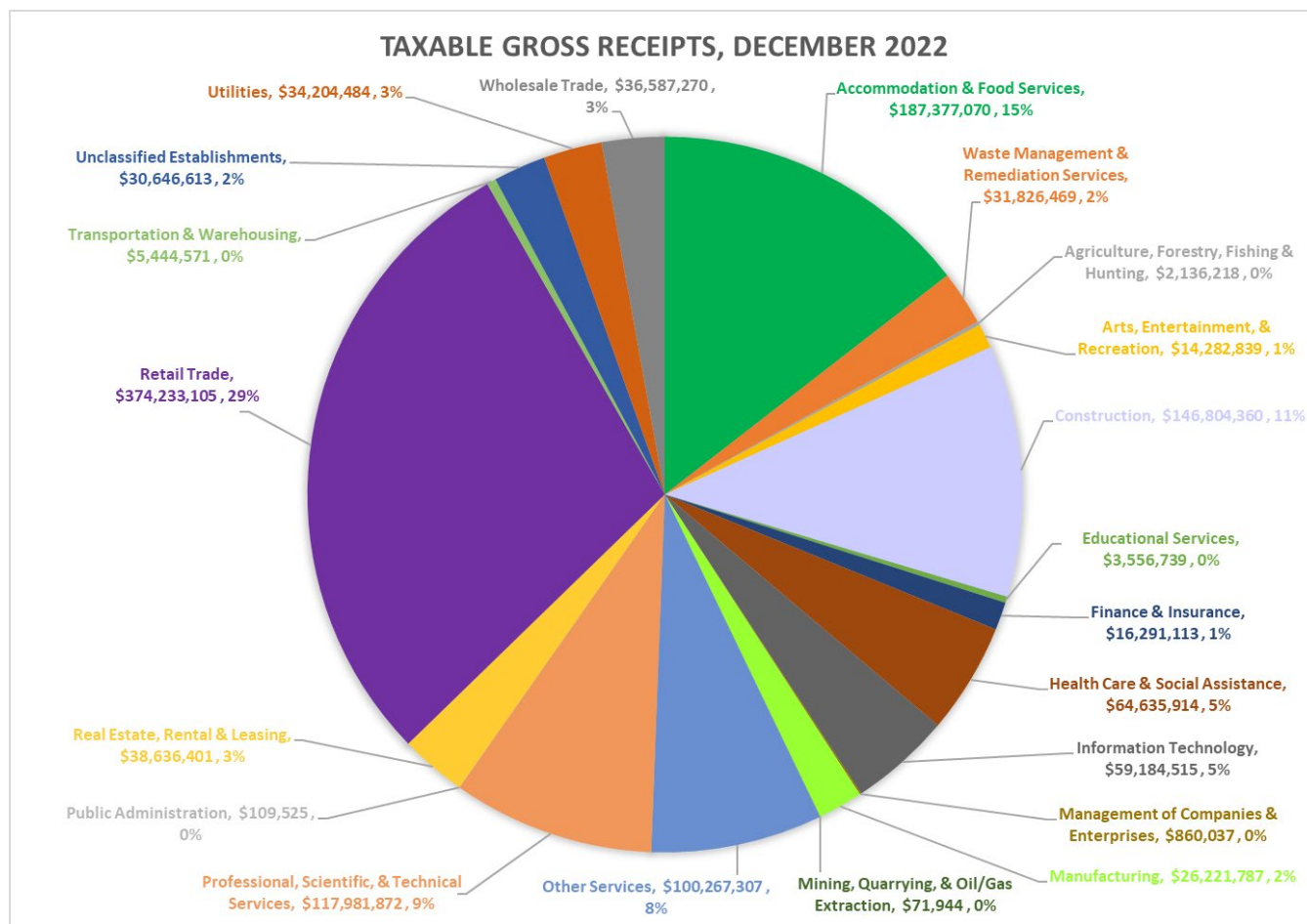
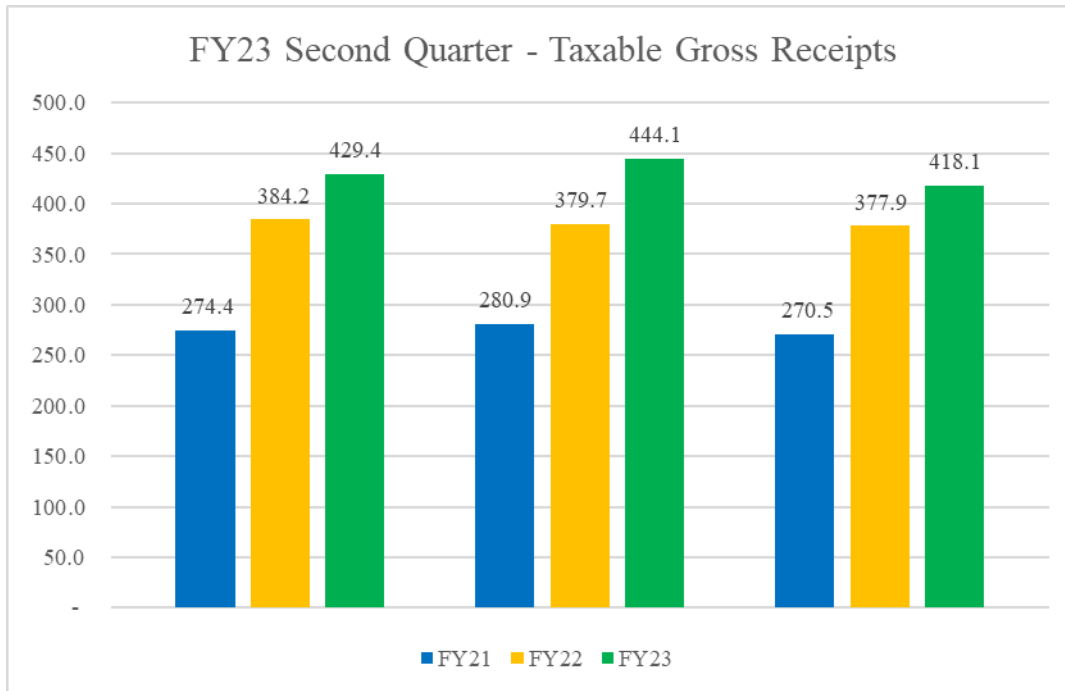


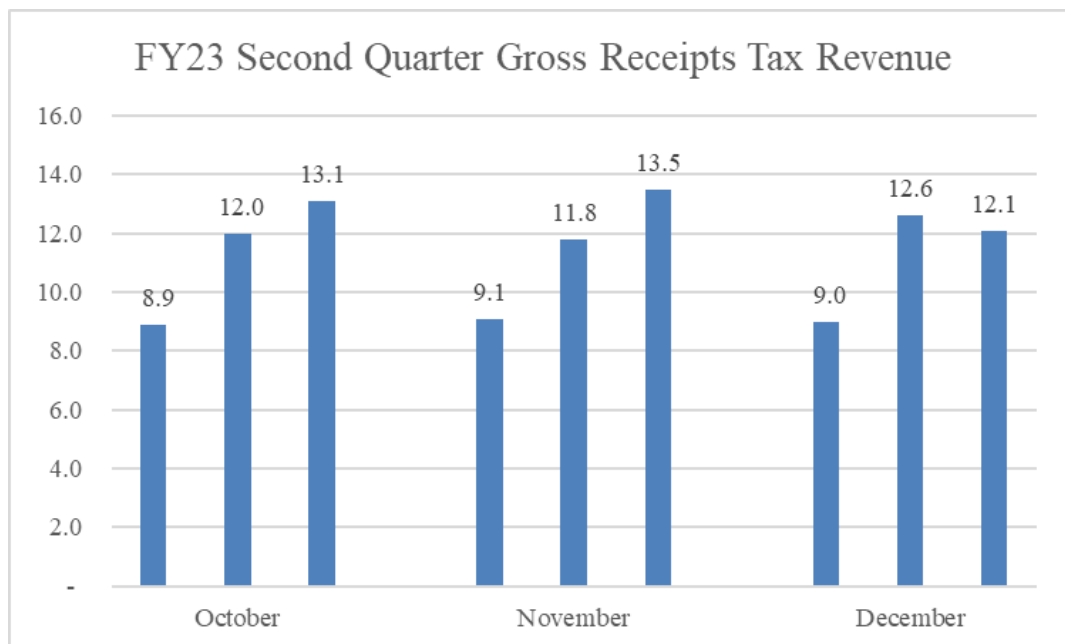
Exhibit 5



(Source: NM Taxation & Revenue Dept.)

The data below represents the GRT revenue distribution in October, November and December 2022, for which the distribution is made to the City by NMTRD. Second quarter distributions to the City totaled \$38.7 million. The total second quarter distribution for FY22 was 6% greater than the second quarter FY21 distribution of \$36.4 million.

Exhibit 6



(Source: NM Taxation & Revenue Dept.)

Property Tax

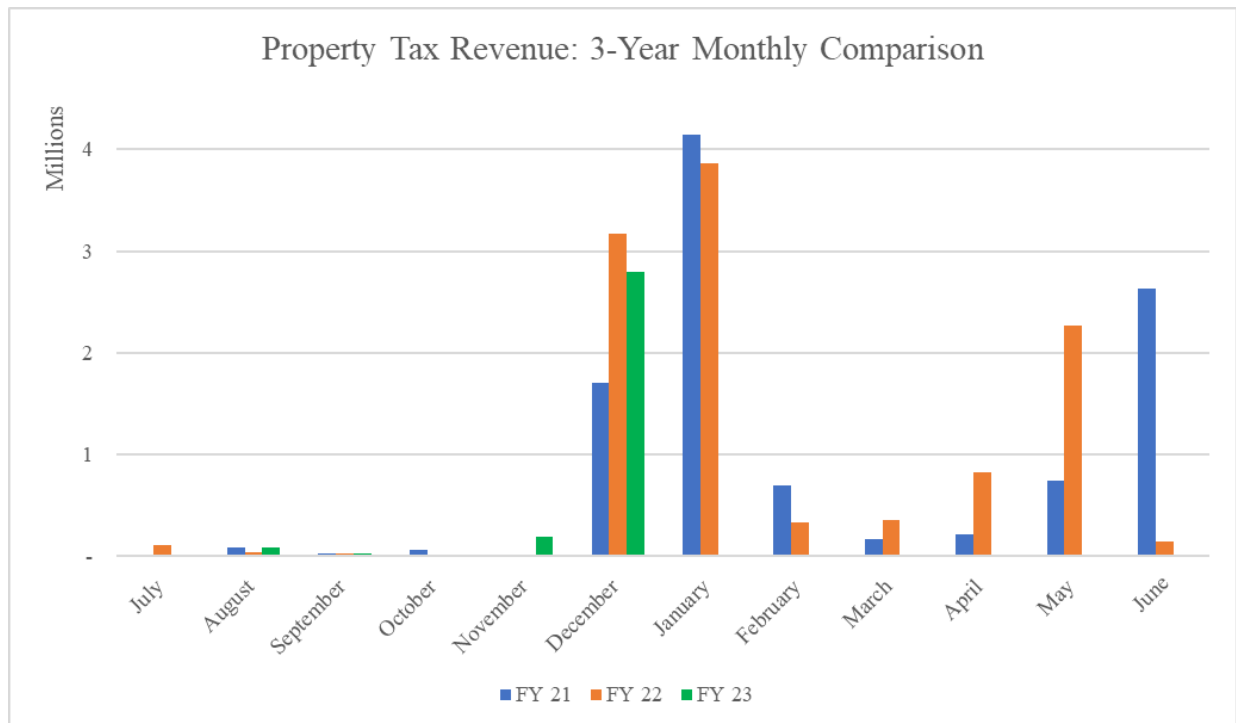
Property tax is assessed on all real property, tangible movable business property, mobile homes and agricultural properties located in the City of Santa Fe. Changes in property valuation may occur when ownership transitions to a new owner, improvements to the property occur, damage due to disaster or calamity occurs, or the property is reassessed.

As the table below illustrates, 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. During the pandemic, property tax collections decreased by 3%, or \$324 thousand. In FY23, year-to-date property tax revenue collections through the second quarter totaled \$7.6 million.

Exhibit 7

City of Santa Fe - Property Tax Revenue							
	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
July	172,569	158,252	212,697	161,529	-	109,539	-
August	63,996	79,868	81,281	110,346	89,304	39,363	81,642
September	42,455	44,247	42,774	34,766	28,086	25,985	31,899
October	30,150	28,885	17,268	17,654	67,877	18,479	21,876
November	15,353	19,190	29,698	17,828	18,451	18,938	197,531
December	3,302,302	3,320,524	3,954,097	1,740,341	1,708,123	3,174,973	2,799,470
January	3,510,709	3,686,706	2,614,809	3,459,982	4,139,156	3,865,911	
February	175,880	367,028	216,805	1,661,070	700,858	329,934	
March	140,224	170,670	143,742	137,126	171,915	354,632	
April	260,779	257,874	227,314	272,546	218,482	826,890	
May	1,058,610	1,122,336	1,101,607	1,686,092	746,199	2,267,058	
June	2,370,471	2,240,642	2,193,829	1,544,454	2,630,929	141,849	
Totals	11,143,498	11,496,223	10,835,922	10,843,734	10,519,380	11,173,551	3,132,418

Exhibit 8



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 taxable premises within the City limits. 5% of the lodgers' tax is an imposed occupancy tax and 2% is a convention center fee, for a total of 7% 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 and tourist attractions; for the acquisition, construction and maintenance of tourist attractions and recreational facilities; and for all other legally permissible purposes."

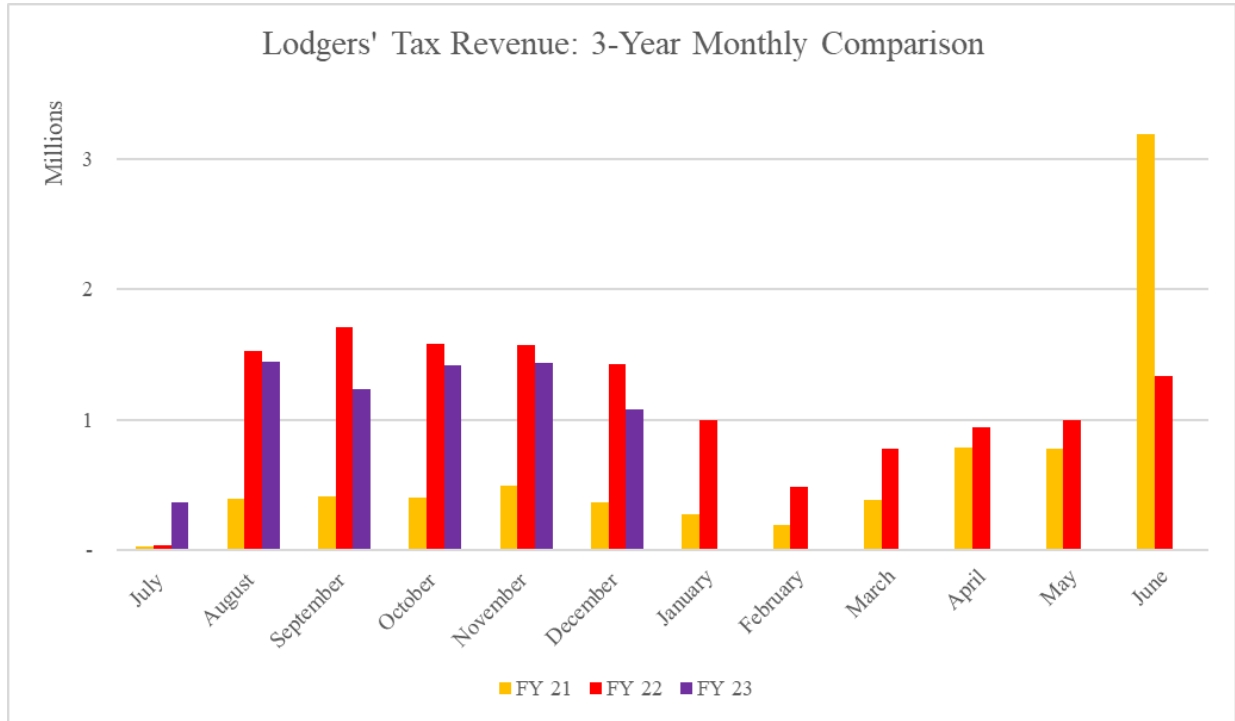
Between FY16 and FY19, lodgers' tax saw a steady climb, averaging 8% growth. FY20 saw a decline of 14.2%, or \$1.7 million, with FY21 revenue declining an additional 27%, or \$2.9 million. The large collection in June 2021 was the result of many lodgers' tax payers catching up with past due payments. Over the last few years the New Mexico Legislature has amended the State Lodgers Tax code and the City amended its code in April 2021. Primary changes to the State Statutes addressed two exemptions: the three-room rule and the exemption for non-permanent residence rentals greater than 30 days were both eliminated.

As the economy recovered after the pandemic in FY22, the City benefited from gains in lodgers' tax revenue as well, although in FY23 those gains have declined. Year-to-date FY23 lodgers' tax revenue collections through the second quarter decreased by 11.3%, or \$884 thousand, from FY22 levels.

Exhibit 9

City of Santa Fe - Lodgers' Tax Revenue							
	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
July	941,920	1,078,010	1,048,015	1,240,740	23,931	37,619	362,428
August	1,227,105	1,272,253	1,400,668	1,468,833	391,580	1,522,137	1,443,418
September	1,368,372	1,040,098	1,189,742	1,589,619	407,336	1,712,716	1,234,193
October	1,140,638	1,163,774	1,675,466	1,302,014	403,827	1,582,737	1,413,713
November	1,168,681	1,433,342	1,224,889	1,336,926	492,280	1,569,771	1,437,987
December	666,376	681,448	584,388	814,187	363,491	1,424,155	1,073,405
January	750,601	592,630	1,185,232	1,071,043	271,213	998,285	
February	237,906	199,416	592,367	615,993	191,006	487,352	
March	726,119	1,105,901	692,646	461,249	378,936	778,192	
April	867,925	998,849	980,496	273,786	784,365	942,867	
May	718,793	822,564	858,851	160,471	778,087	999,558	
June	995,027	1,085,668	827,742	187,915	3,191,660	1,329,612	
Totals	10,809,464	11,473,953	12,260,502	10,522,776	7,677,712	13,384,999	6,965,144

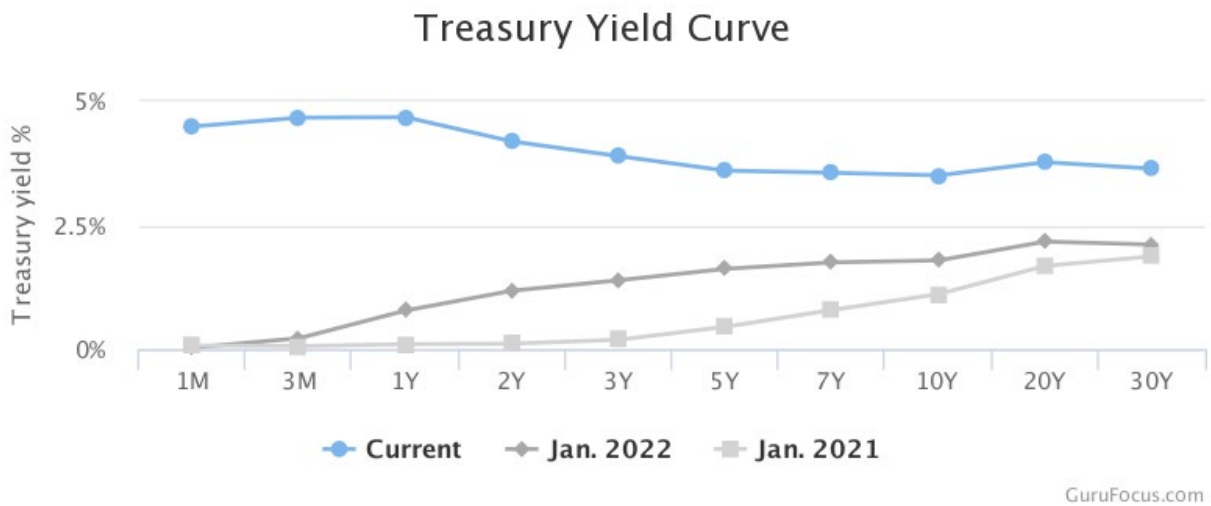
Exhibit 10



III. INVESTMENT PORTFOLIO UPDATE

After an extended period of near-zero interest rates, the Federal Reserve started raising the discount rate aggressively beginning in March 2022 in response to inflation. As of January 2023, the seven consecutive rate increases have collectively formed the most aggressive rate increase by the Federal Reserve since 1980. While inflation peaked at 9.1% in June 2022, inflation remains substantially above its 2% target rate. Combined with strong fourth quarter GDP and unemployment numbers, this leaves one or two additional increases possible in early 2023. As the Fed increased rates, the yield curve flattened, with short-term bonds yielding higher interest rates than long-term bonds. Each of the last eight recessions was preceded by an inverted yield curve of this character, leading consensus economic projections to suggest that a recession is likely in 2023 or 2024.

Exhibit 11



The yield curve has changed drastically in the last year. Higher interest rates created challenging conditions for fixed-income securities. The U.S. Core Bond Index dropped 12.9% in 2022, the largest annual loss in its performance history dating to 1999. The S&P 500 fell 19.4%, marking a similarly miserable year for equities. Short-term yields remain attractively high, but are likely to fall when the Federal Reserve pivots in its monetary policy trajectory. The Federal Reserve will likely cease rate increases early this year as inflation continues to fall. Adverse economic conditions will encourage the Fed to lower rates again to stimulate the economy, but it remains uncertain when this might occur.

CITY OF SANTA FE - FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY23

Investment Strategy

With the yield curve as low and flat as it is from overnight to one year, there is no reason to take any interest rate risk. Currently 17% of the portfolio is in Prime Money Market Funds, giving the City a small exposure to credit risk. Finance Department staff continue to monitor the investment markets, interest rates and economic activity and will ensure that City funds are prudently invested for safety, liquidity and yield.

Exhibit 12

City of Santa Fe							
Portfolio Holdings Report							
as of December 31, 2022							
<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	265,581	265,581	265,581	1.00%	1.00%	8/1/2023
	Total CDs	265,581	265,581	265,581		1.00%	
	Investment Trust						
	Principal Group						
	Allspring Government MM	164,604,128	164,604,128	164,604,128		4.13%	
	BlackRock Temp Fund MM	25,393,573	25,393,573	25,393,573		4.13%	
	JP Morgan Prime MM 3605	22,369,817	22,369,817	22,369,817		4.13%	
	US Treasury Note	54,580,469	52,734,000	54,580,469		1.40%	
Money Market	NM LGIP	40,490,786	40,490,786	40,490,786		3.93%	
		307,438,773	305,592,304	307,438,773			
	Restricted Cash						
Money Market	Wells Fargo Bank Restricted	4,829,059	4,829,059	4,829,059		0.03%	
Wells Fargo Bank	Cash in Common						
	Library - Redeemed CD	272,110	272,110	272,110			
	City - Redeemed CD	260,951	260,951	260,951			
	Total	533,061	533,061	533,061			
	Total Portfolio	313,066,474	311,220,005	313,066,474			