

City of Santa Fe FY20 Review and FY21 Update



March 2021



Agenda

- FY20 Review- Finance Department Staff
- FY21 Economic Update- Dr. Reilly S. White
- FY21 Revenue Update- Finance Department Staff

Santa Fe Update

Featured Points



- One Year Ago- March & April 2020- Santa Fe faced uncertain economic outlook with the steep and sudden onset of a recession - unprecedented unemployment levels and declines in local economic sectors like tourism and retail with only 3 months in the FY20 to adjust
- One Year Later- FY21 and FY22 improved forecast - Key economic drivers include:
 - Strong consumer savings over the past year is powering higher demand for Travel, Healthcare, and Retail Spending
 - Federal stimulus (both consumer and State and Local government support)
 - Continued strength in Construction, Professional, Scientific and Technical Services, Real Estate and Financial Services
 - Recovery in Accommodations and Food Service, Arts and Entertainment, Retail, Healthcare
- FY21 City Revenues are expected to show continued improvement. Between now and end of FY21 the City is positioned to adjust budget to spend unanticipated revenue
- FY22 revenue is forecasted for improvement over FY21 budget, ex: GRT and Lodgers Tax, which will support hiring into critical vacant/unfunded positions, and support spending in the local economy in FY22
- Potential Risks- More dangerous variant of the virus causes closures and restrictions



FY20 Review



FY20 Review

Spring 2020, National Economic Data

- 2020 1Q data indicated a national recession in full swing and initial economic outlook for GDP and consumer spending for the remainder of 2020 and 2021 were bleak due to high transmission rates, and the uncertainty of the timing of a vaccine.
- U.S. economy shrank by 4.8% in the first quarter of 2020, the sharpest decline since the 2008 financial crisis and U.S. Consumer spending decreased 7.6% in the first quarter of 2020.

US GDP growth since 2008

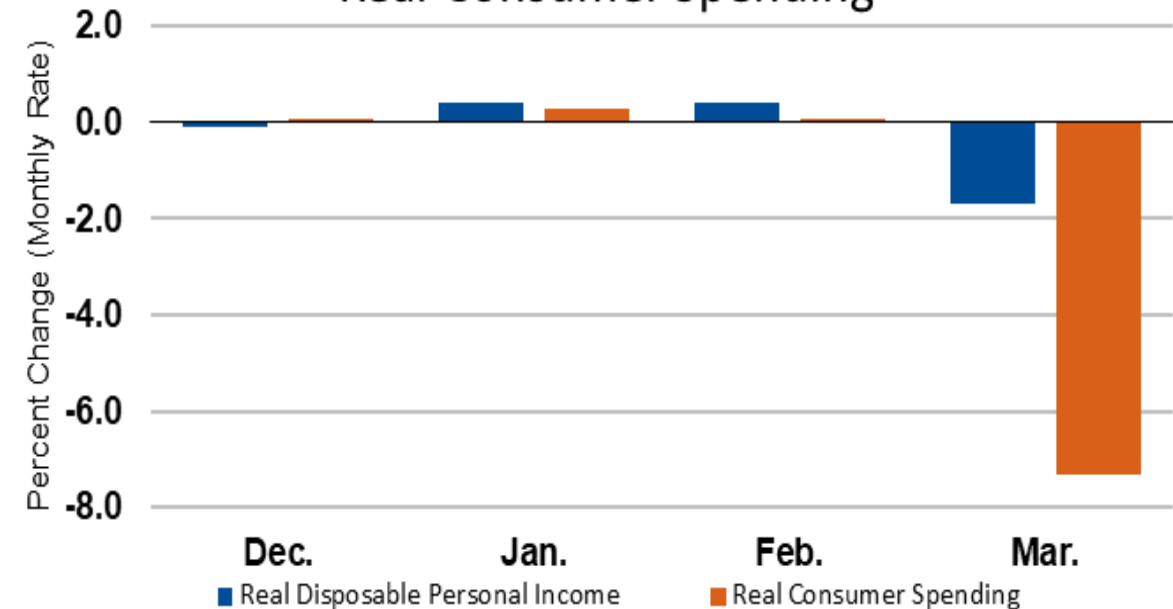
Real GDP, % change from previous quarter, annualized rate



Source: US Bureau of Economic Analysis

© AFP

Real Disposable Personal Income and Real Consumer Spending



Source: Bureau of Economic Analysis

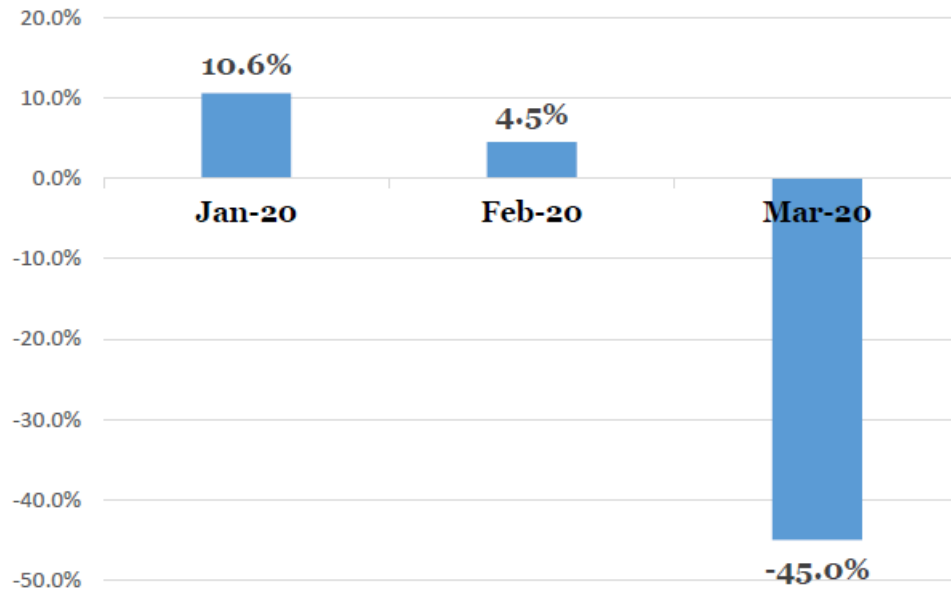


FY20 Review

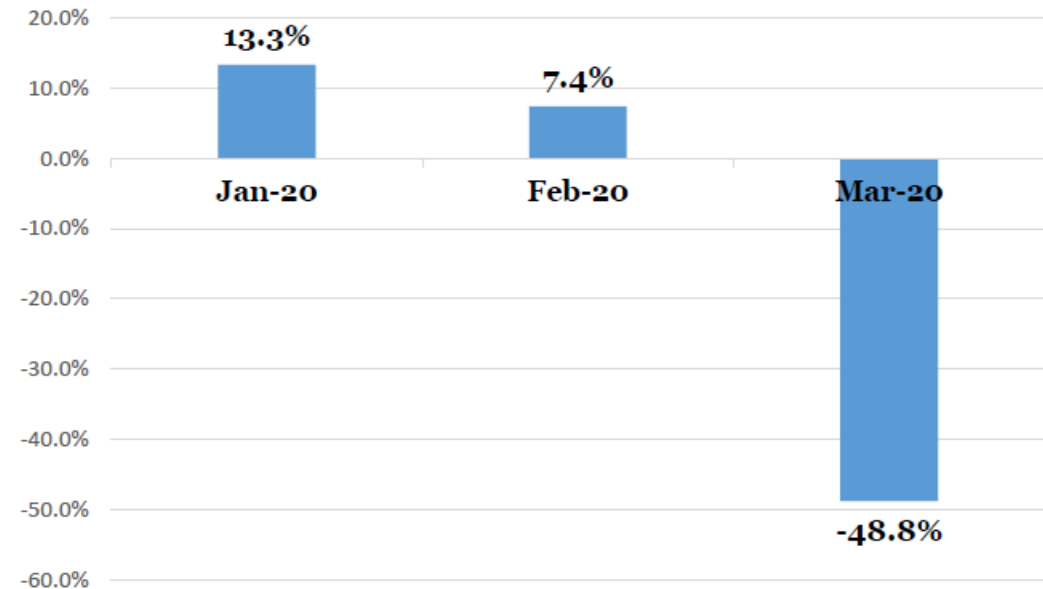
Spring 2020, Local Tourism Industry Data

- Trends in initial Santa Fe tourism industry data an early indicator City revenue would decline.
- March 2020 hotel occupancy decrease 45% and revenue per available room (RevPAR) decrease by close to 50%. Hotel occupancy decreased further from 63.8% in April 2019 to 15.1% in April 2020.
- Santa Fe Airport data showed passenger traffic declined 98 percent from 21,213 passengers in February 2020 to 502 passengers in April 2020.

Occupancy
Year over Year - Percent Change



RevPAR
Year over Year - Percent Change





FY20 Review

Spring 2020, Local Employment Impacts of Pandemic

- With the stay at home orders in the Spring of 2020, Many of Santa Fe's major employers closed, partially or fully.
- Given the uncertainty and loss of revenue, some of these major employers either furloughed or laid off employees like Christus St. Vincent Regional Medical Center, the Santa Fe Community College, casinos and hotels.
- When faced with the prospects of shut downs and revenue declines, other major Santa Fe Metro Area employers, such as hotels and casinos, also laid off and furloughed employees, contributing to the high unemployment numbers in Santa Fe and lost taxable gross receipts for business and lost wages for Santa Feans.

SANTA FE METROPOLITAN AREA EMPLOYERS		
Employer	Business	# of Employees
State of New Mexico	Government	20,000+
Christus St. Vincent	Healthcare	2000-3000
City of Santa Fe	Government	1000-2000
County of Santa Fe	Government	1000-2000
City Of Gold Casino	Tribal	500-999
Buffalo Thunder Resort and Casino	Tribal	500-999
Santa Fe Community College	Education	500-999
Wal-Mart	Retail	500-999
Eldorado Hotel and Spa	Tourism	250-499



FY20 Review

Spring 2020, Local and State Initial Unemployment Claims

- Initial unemployment claims quickly pushed unemployment in New Mexico above the highest point of unemployment that occurred during the 2008 recession, which was close to 3,000 statewide.
- Within a four week period, for Santa Fe County alone, NM Department of Workforce Solutions was reporting a total of 8,427 initial unemployment claims.

Initial Unemployment Claims, Week Ending Date

	3/7/2020	3/14/2020	3/21/2020	3/28/2020	4/4/2020	4/11/2020	Total
Santa Fe County	39	53	1,864	2,692	2,372	1,407	8,427
Statewide*	659	834	18,113	27,854	26,142	19,047	92,649
SF as % of Total	6%	6%	10%	10%	9%	7%	9%

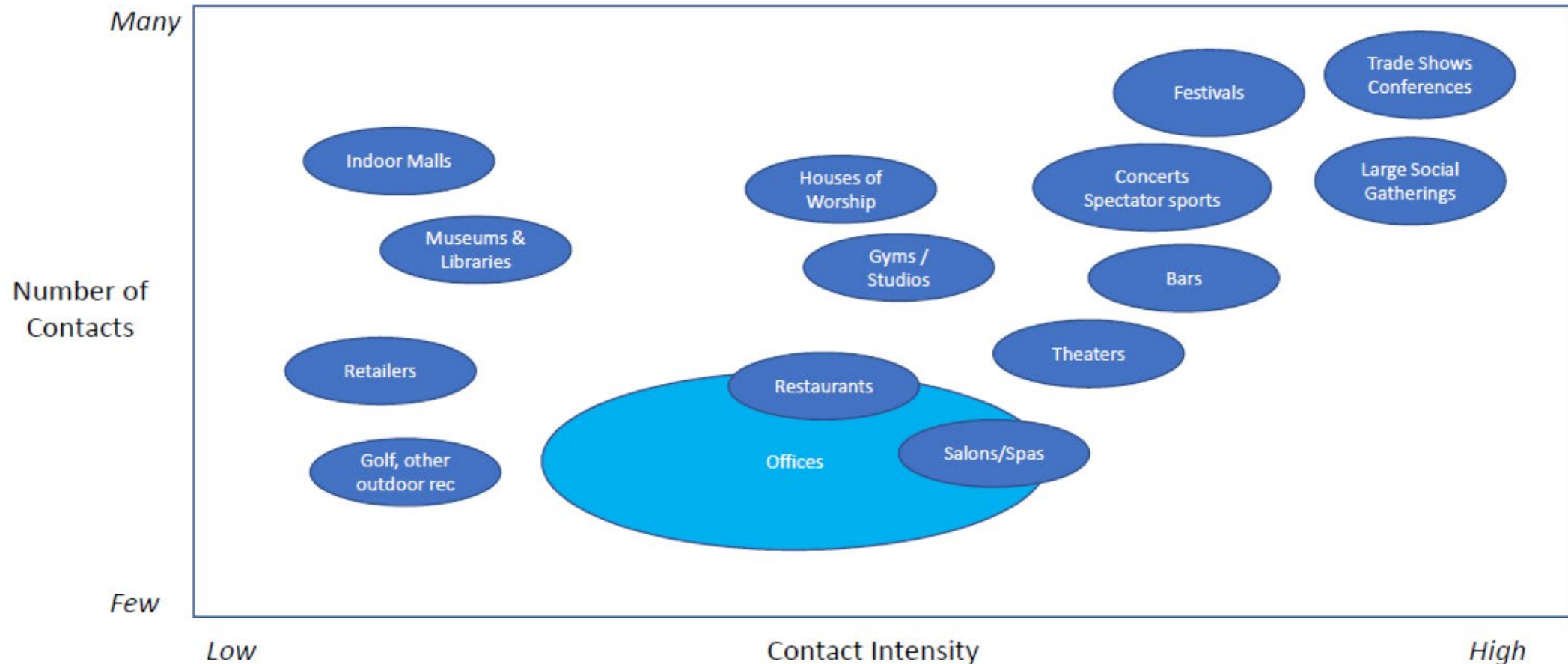
***Statewide weekly high during last recession was just over 3,000**

FY20 Review

Spring 2020, Impacts of Pandemic on Local Economy



- Understanding the unique nature and risks of the pandemic to the economy has been an important part of understanding the impact to different sectors of the Santa Fe economy.
- Overall, the taxable gross receipts in Santa Fe decreased \$504 million, or 14%, when comparing the period of February 2020 – January 2021 data to February 2019 – January 2020.





FY20 Review

Spring 2020, Impacts of Pandemic on Local Government

- Last spring, City governments nationwide were also grappling with uncertainty and lost tax revenue from stay-at-home orders to prevent the spread of the virus.
- Cities surveyed nationwide had unanticipated revenue shortfalls, increased costs of responding to the public health emergency leading to reductions in public services and furloughs and layoffs for municipal employees.

MUNICIPALITIES OF ALL SIZES WILL FEEL THE ECONOMIC IMPACT OF COVID-19.
Nearly 100% of cities with populations above 50,000 will see a revenue decline this year.

87%
of municipalities <50,000
anticipate a revenue shortfall this year

100%
of municipalities 200k-499,999
anticipate a revenue shortfall this year

98%
of municipalities 50k-199,999
anticipate a revenue shortfall this year

100%
of municipalities 500,000+
anticipate a revenue shortfall this year

96% OF ALL CITIES REPORT THAT BUDGET SHORTFALLS ARE THE RESULT OF UNANTICIPATED REVENUE DECLINES.

PRIMARY FACTOR FOR SHORTFALL

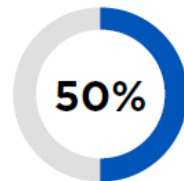


53%
UNANTICIPATED REVENUE DECLINE ONLY

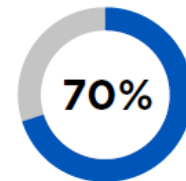


43%
UNANTICIPATED REVENUE DECLINES AND UNANTICIPATED EXPENDITURE INCREASES

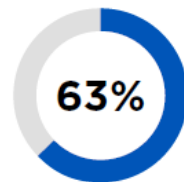
PUBLIC SERVICES WILL BE IMPACTED BY THE ECONOMIC STRAIN OF COVID-19.



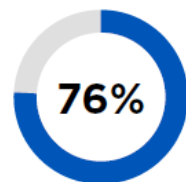
of municipalities <50,000 are anticipating having to cut public services.



of municipalities 200k-499,999 are anticipating having to cut public services.



of municipalities 50k-199,999 are anticipating having to cut public services.



of municipalities 500,000+ are anticipating having to cut public services.

MORE THAN **HALF** OF ALL CITIES OF ALL ALL SIZES REPORTED THAT POLICE WILL BE AFFECTED.

CORONAVIRUS WILL HAVE A STAGGERING IMPACT ON ALL MUNICIPAL EMPLOYMENT.

THERE WILL BE FURLOUGHS



26% OF MUNICIPALITIES <50,000 will have to furlough their employees

55% OF MUNICIPALITIES 50K-199,999 will have to furlough their employees

54% OF MUNICIPALITIES 200K-499,999 will have to furlough their employees

59% OF MUNICIPALITIES 500,000+ will have to furlough their employees

AND THERE WILL BE LAYOFFS

26% OF MUNICIPALITIES <50,000 will have to lay off their employees

36% OF MUNICIPALITIES 50K-199,999 will have to lay off their employees

39% OF MUNICIPALITIES 200K-499,999 will have to lay off their employees

47% OF MUNICIPALITIES 500,000+ will have to lay off their employees



2020 Federal Stimulus Worked

Stimulus helped us not fall off as deep of a cliff as we originally feared.



- Legislature issued a report in December 2020 concluding that \$9.3 billion in federal stimulus aid that New Mexico received during the coronavirus pandemic was a lifeline that helped cushion state and local governments from a massive drop in tax revenue.
- In Spring 2020 State of New Mexico received \$1.25 billion in Federal Cares Act funding
- In September, the City of Santa Fe received \$17.5 million in Cares Act Funds from the State
- The \$1,200 federal stimulus that was sent to most Americans as well as the weekly additional \$600 in federal funding added to unemployment checks through July 25 helped improve the economy
- The Federal Stimulus kept many businesses afloat and helped workers who lost their jobs
- The stimulus packages helps businesses and unemployed workers, and the individual stimulus checks would inject money into the local economies that would indirectly bump City revenues
- These federal dollars have played an essential role in keeping New Mexico's economy from facing a severe depression and in preventing the City budget from experiencing larger shortfalls



FY21 Economic Update



Reilly S. White, PhD
Principal, Erebor LLC

- Tenured Associate Professor of Finance, UNM
 - Director, \$4.5 Million Student-Run Portfolio
 - Daniels Fund Ethics Fellow
- 15 Years of Experience in Economic Analysis, Banking, Budgeting, and Academic Research

Areas of Expertise

- Budget Forecasting and Modeling
- Portfolio Analysis
- Scenario Analysis and Forecasting
- Cryptocurrencies and Financial Technology
- Financial Literacy

Range of Experience

- 15 Peer-Reviewed Publications over the last several years, including work in the *Journal of Corporate Finance*, *Physica A*, and *Technological Forecasting and Social Change*
- Developed early-stage model for COVID impacts on unemployment in poverty; modeled portfolio risk scenarios for wealth managers; co-wrote (with students) a free financial literacy manual.
- Frequent guest speaker and panelist at International Conferences and Events



National Economic Overview

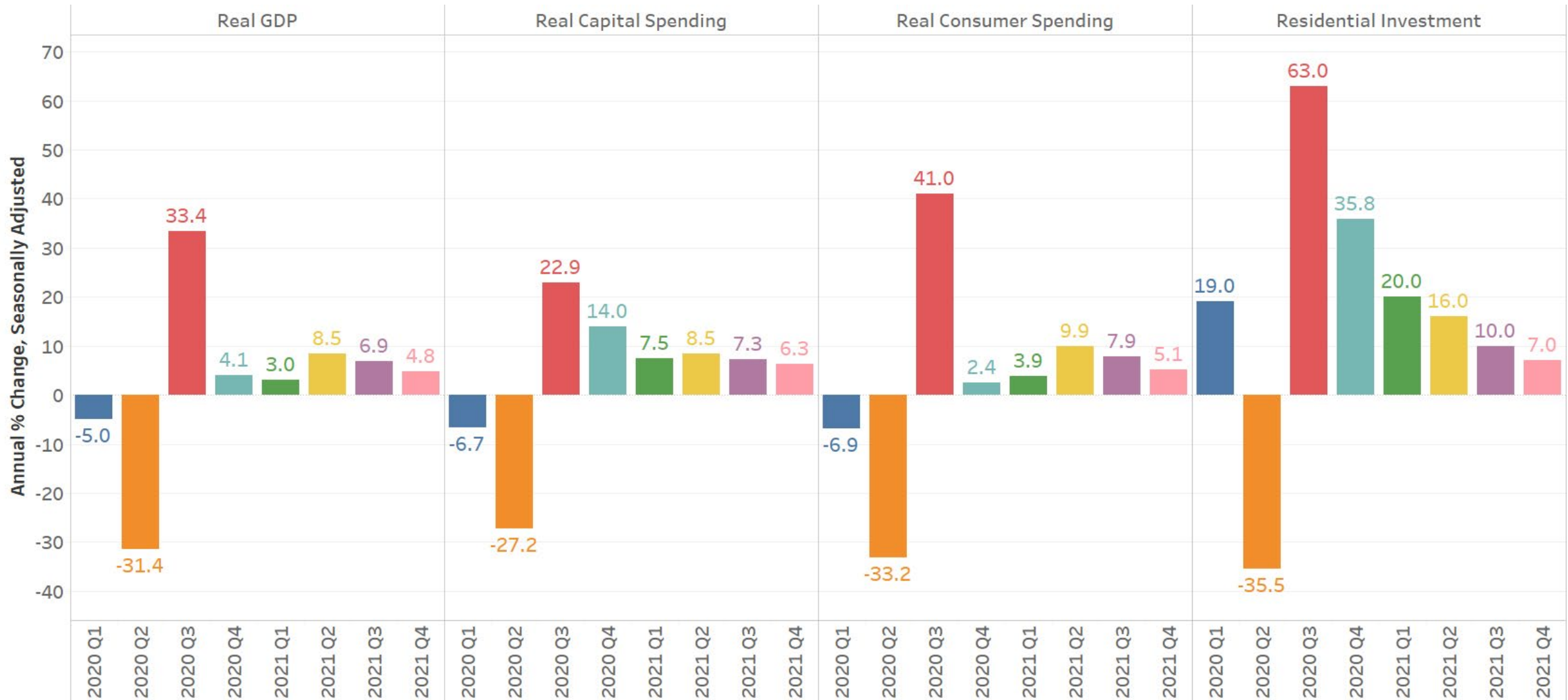
Summary

- Robust and continued economic recovery
 - 2021 GDP growth expected to near 6%
 - Low-to-moderate inflation expectations
 - Continued recovery in travel and leisure, consumer spending
 - Federal Reserve will keep rates near 0%, encouraging rapid economic growth
- Significantly lower recession probability (12%)
 - Persistent Unemployment remains an area of concern.



Major Macroeconomic Indicators

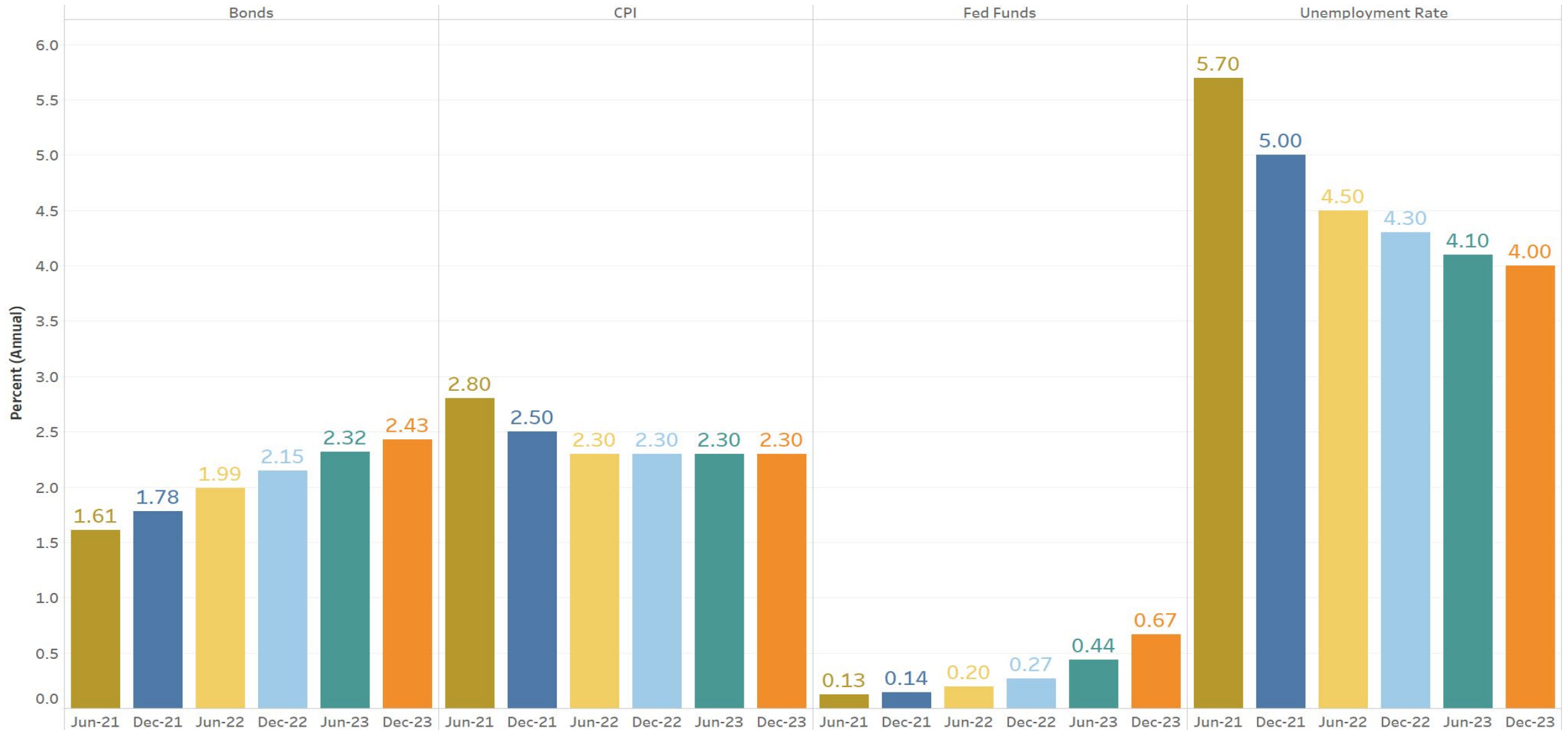
Consumer Confidence Board, Consensus Estimates



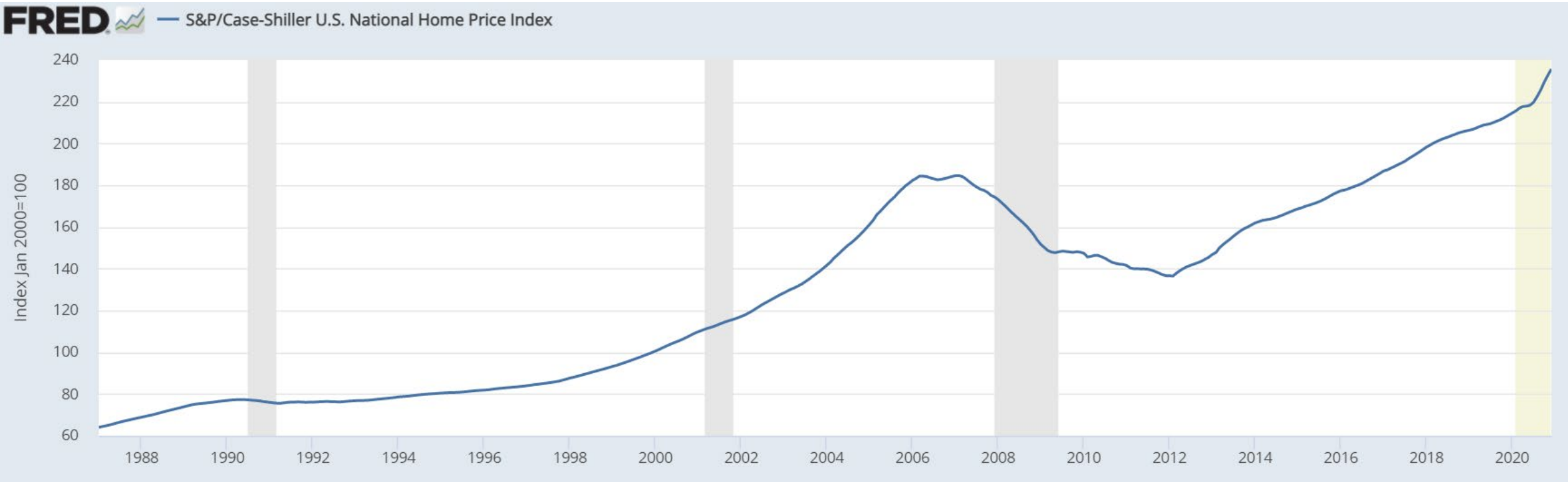


Major Macroeconomic Indicators

WSJ Economist Consensus, March 2021

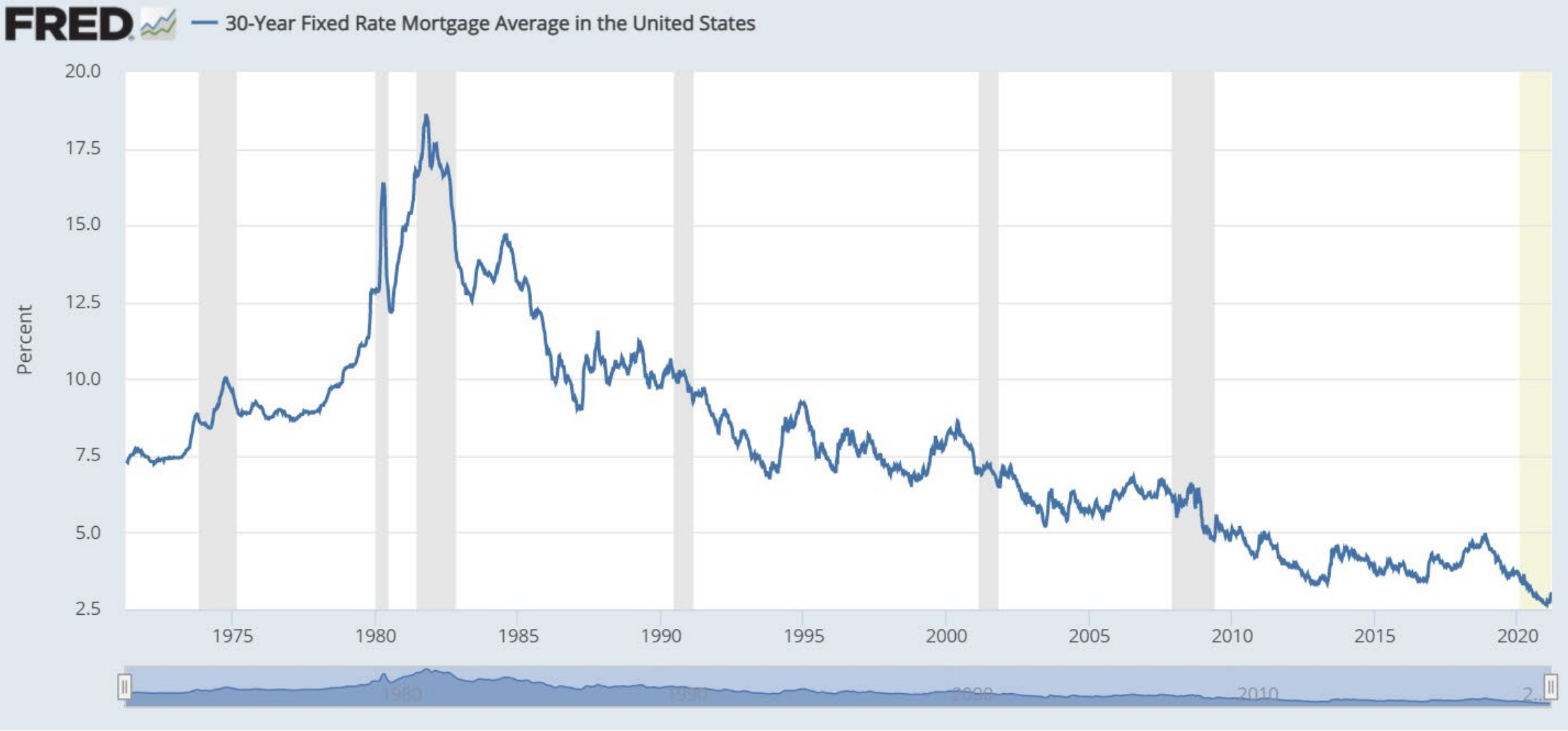


US Real Estate Appreciation 1987-2020, where Jan 2000=100





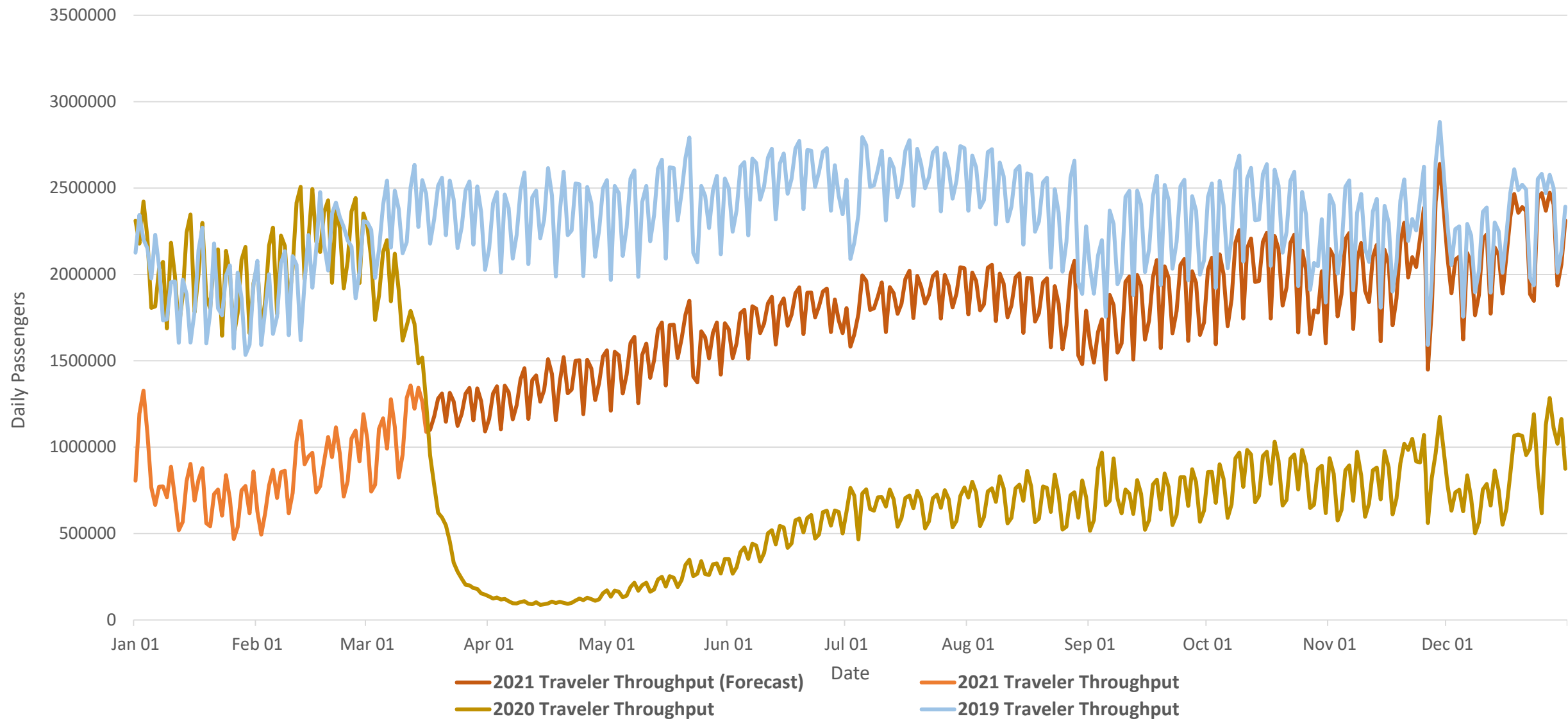
30-Year Average Fixed Mortgage Rates 1971-2021





Daily TSA Checkpoint Travel Numbers

2019-2021 (Forecasted)





\$1.9 Trillion Stimulus

Anticipated Economic Impacts

- 2021 Yearly GDP Growth will be the *highest since 1983*, accelerating hiring (~3 million jobs) and boosting both savings and spending rates.
- Inflation above 2% is likely, but the affect is anticipated to be short-lived.
- \$350 Billion in State and Local outlays should boost core services and maintain employment levels for municipal employees nationwide.
- Consumer spending and retail sales will likely exceed expectations



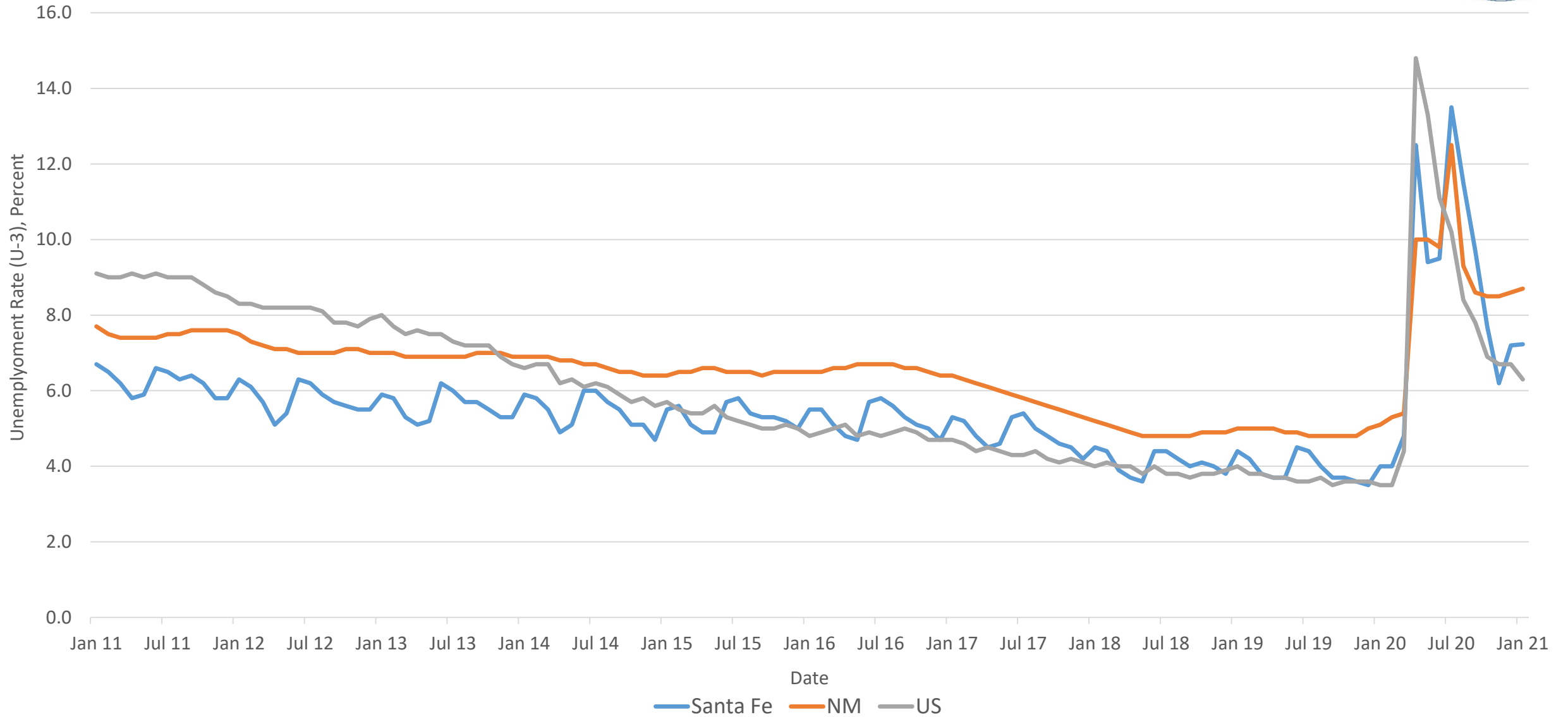
New Mexico Economic Overview

Summary

- Economic Growth Continues
 - Headwinds: persistently high unemployment
 - Depressed employment in oil and gas (-32% YoY), leisure and hospitality (-30% YoY), government (-8% YoY), and financial activities (-11% YoY)
 - Robust residential real estate growth and improving inventories
 - Oil and Gas Sector should recovery slowly with steady oil prices above \$60/bl



State Unemployment Dynamics, 2011-2021





Santa Fe Economic Overview

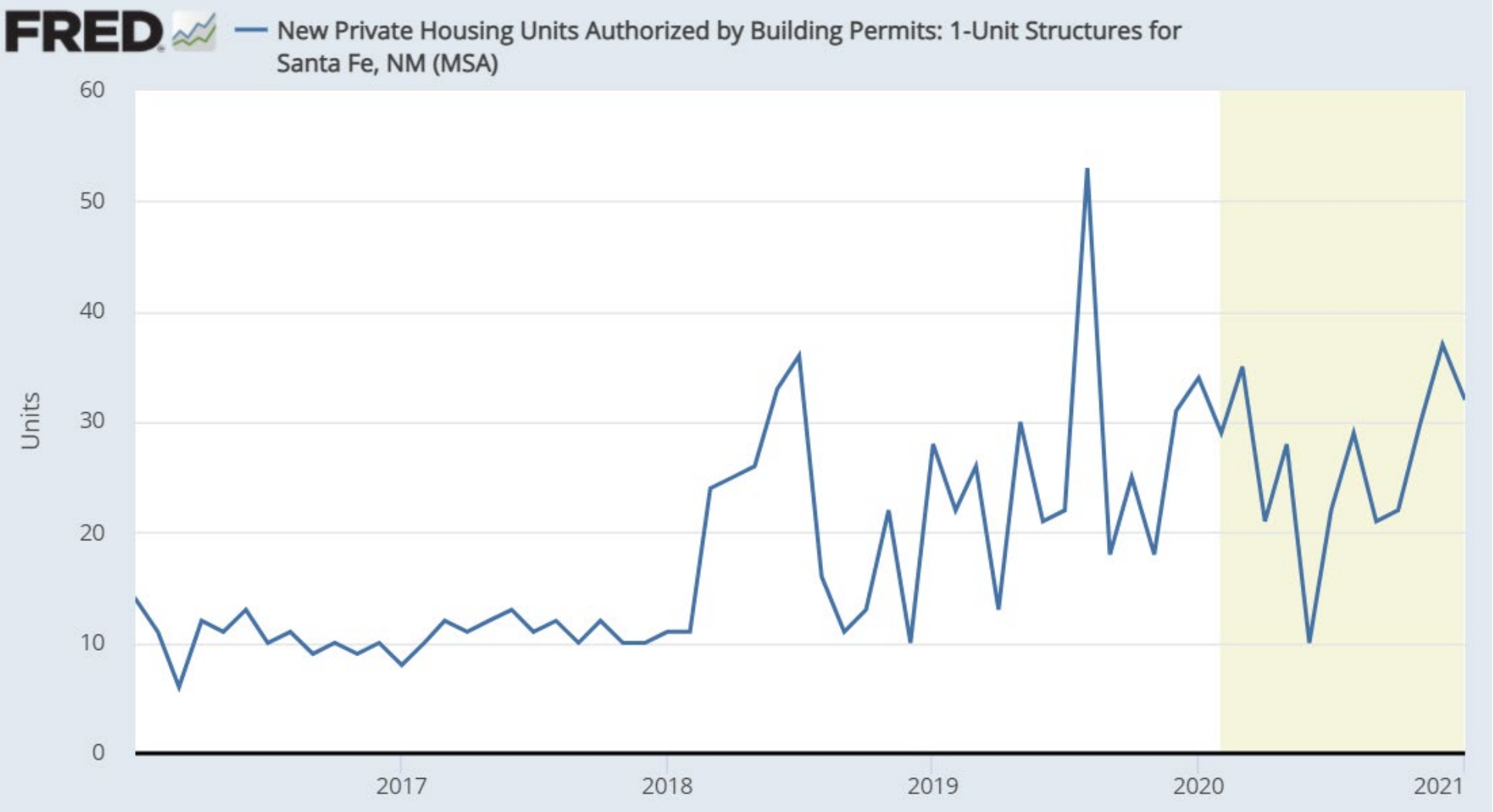
Summary

- Economic Growth Continues
 - Steady recovery in tourism expected in FY 2021, FY 2022
 - Gradual improvement improvements in hotel occupancy, restaurant spending
 - Low rates have powered rapid appreciation in Santa Fe Real Estate (15-25% in calendar year 2020, exceeding the US (11%) growth rates.
 - Construction activity has been strong and current employment has reached pre-pandemic levels.
 - Consumer spending will increase between 4-10% in FY 2021, benefitting retail establishments, particularly electronics, home furnishing, and luxury stores.
 - Public Sector Employment remains 10% below last year (roughly -1,400 jobs), but stronger fiscal positioning will allow greater hiring in this sector.



Construction Boom Continues

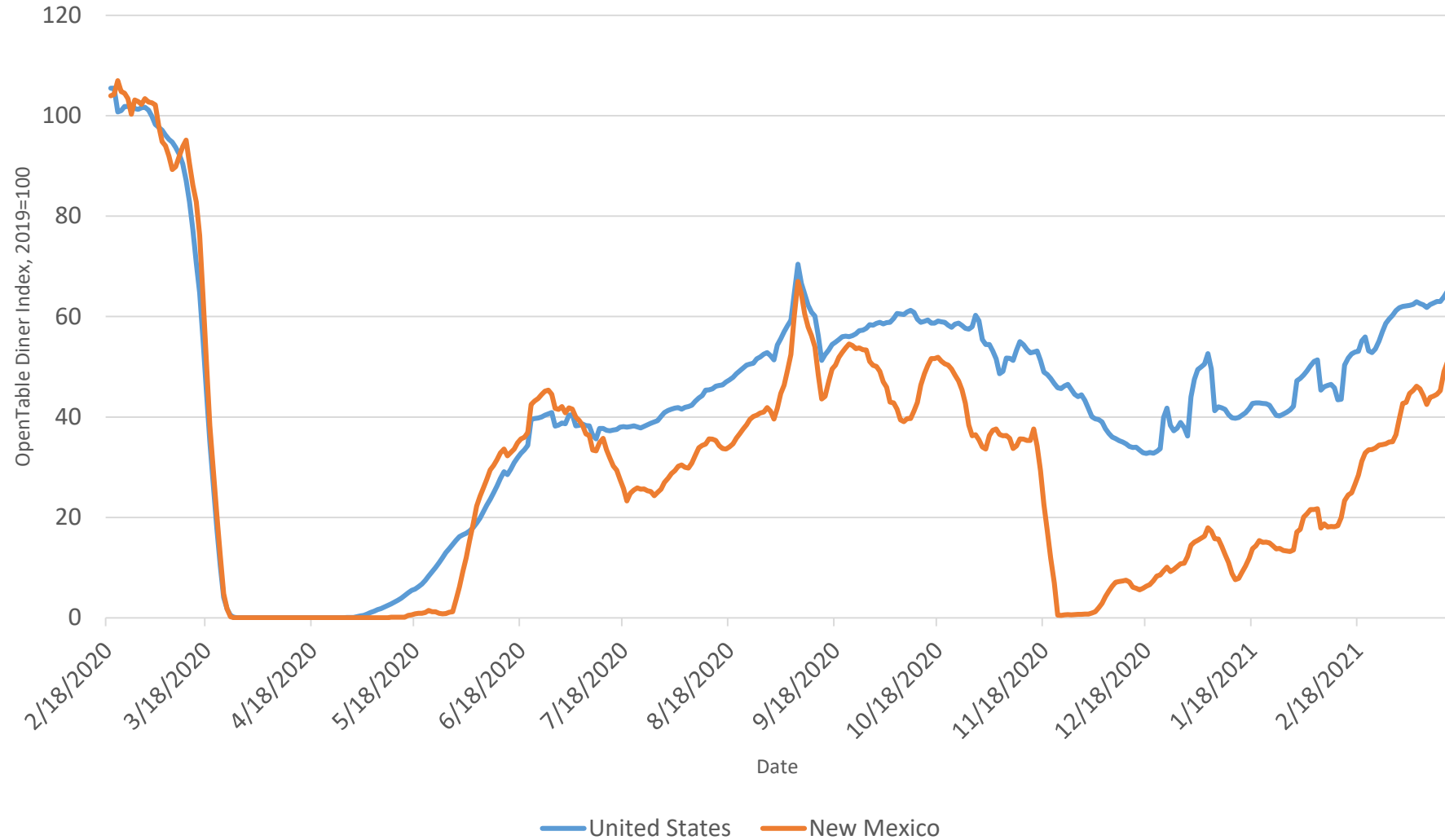
Monthly Data, 2016-2021





Wining and Dining

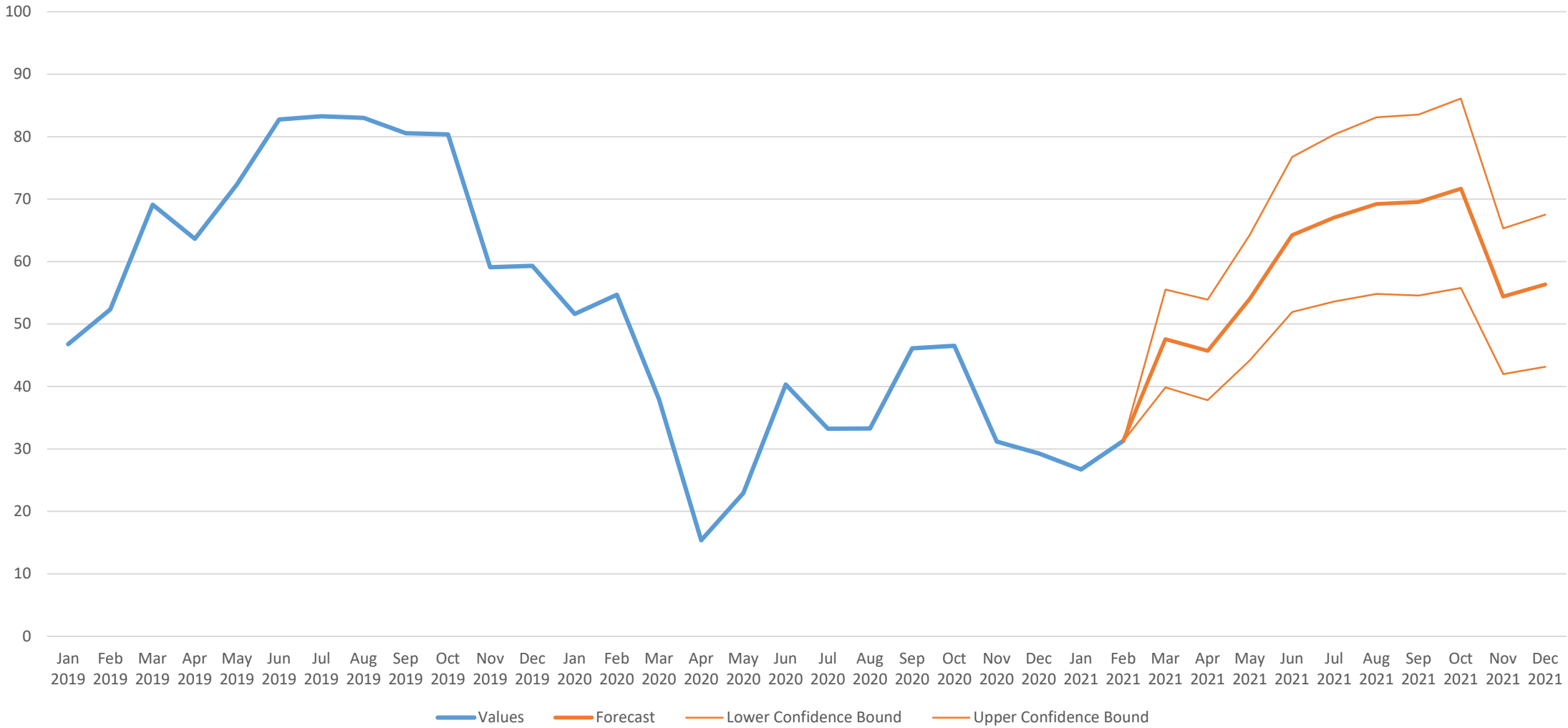
Seated Diners (2020-2021) where 2019=100





The State of the Hotel Industry

Occupancy % and Forecast, 2020-2021 (STR Data, Santa Fe)

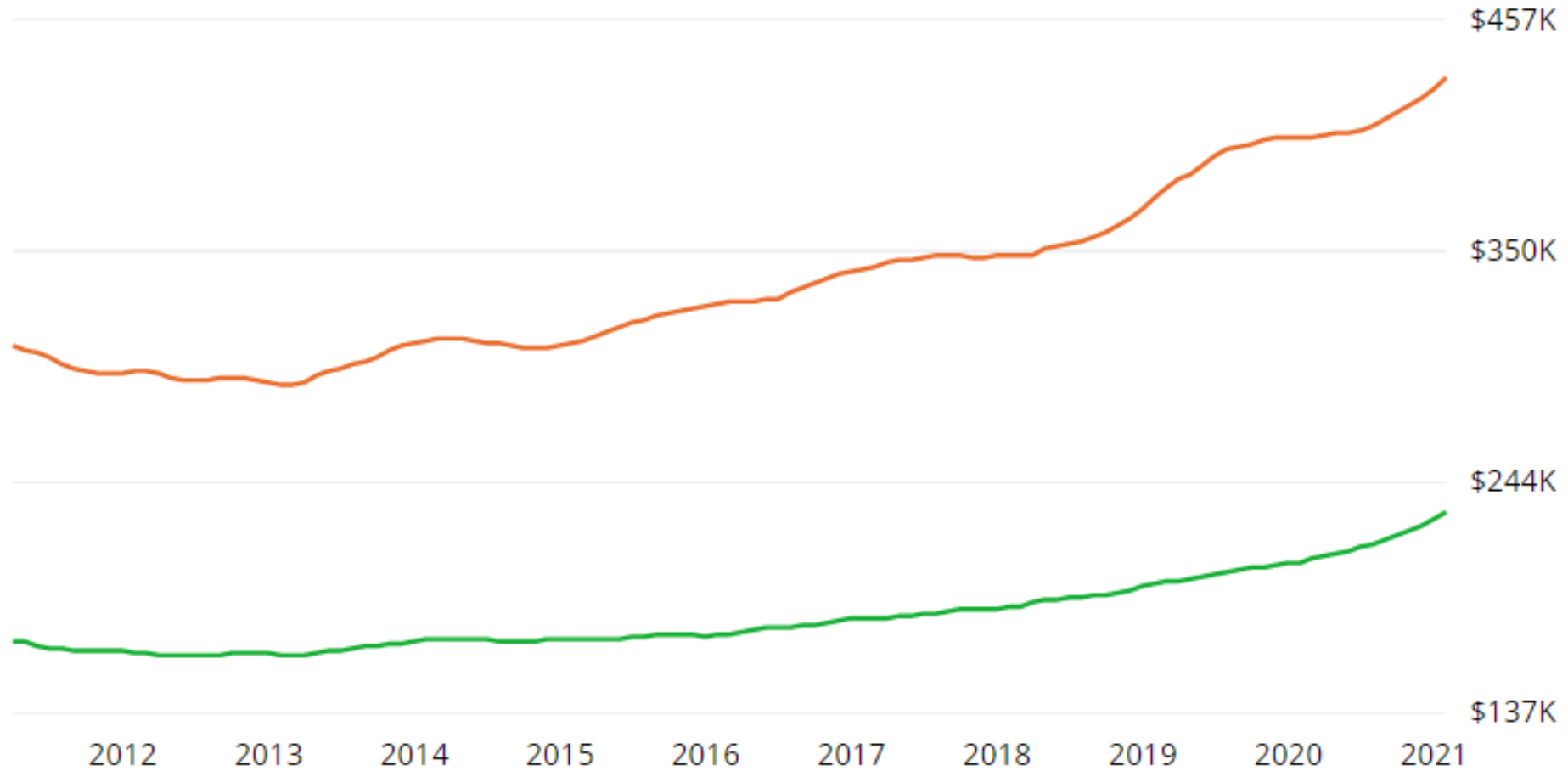


Residential Real Estate Dynamics for Santa Fe, NM

Zillow Home Value Index



Jan 2021 — New Mexico \$229K — Santa Fe \$430K





Santa Fe Economic Overview

Revenue Outlook

- The Santa Fe Economy is in a strong position for continued recovery.
 - GRT and Lodgers' Tax revenues will be bolstered by recovering economic conditions, increased travel, and pent-up consumption from historically high savings rates.
 - A robust property market, powered by low interest rates and a growing population, will allow steady growth in property tax revenue.
 - The risk of moderate inflation (3%) due to economic 'overheating' is more probable than another recession.
- Worst-Case Scenario Analysis
 - An appreciably more dangerous virus variant could force additional closures, in which GRT and Lodgers' Tax are most vulnerable. On the opposite end, higher-than-anticipated inflation generally increases both revenues and expenditures for municipalities, and represents a more complex risk.



FY21 Revenue Update

FY21 Revenue Update

Equally important is understanding the revenue base and distribution timing for the City's Budget.



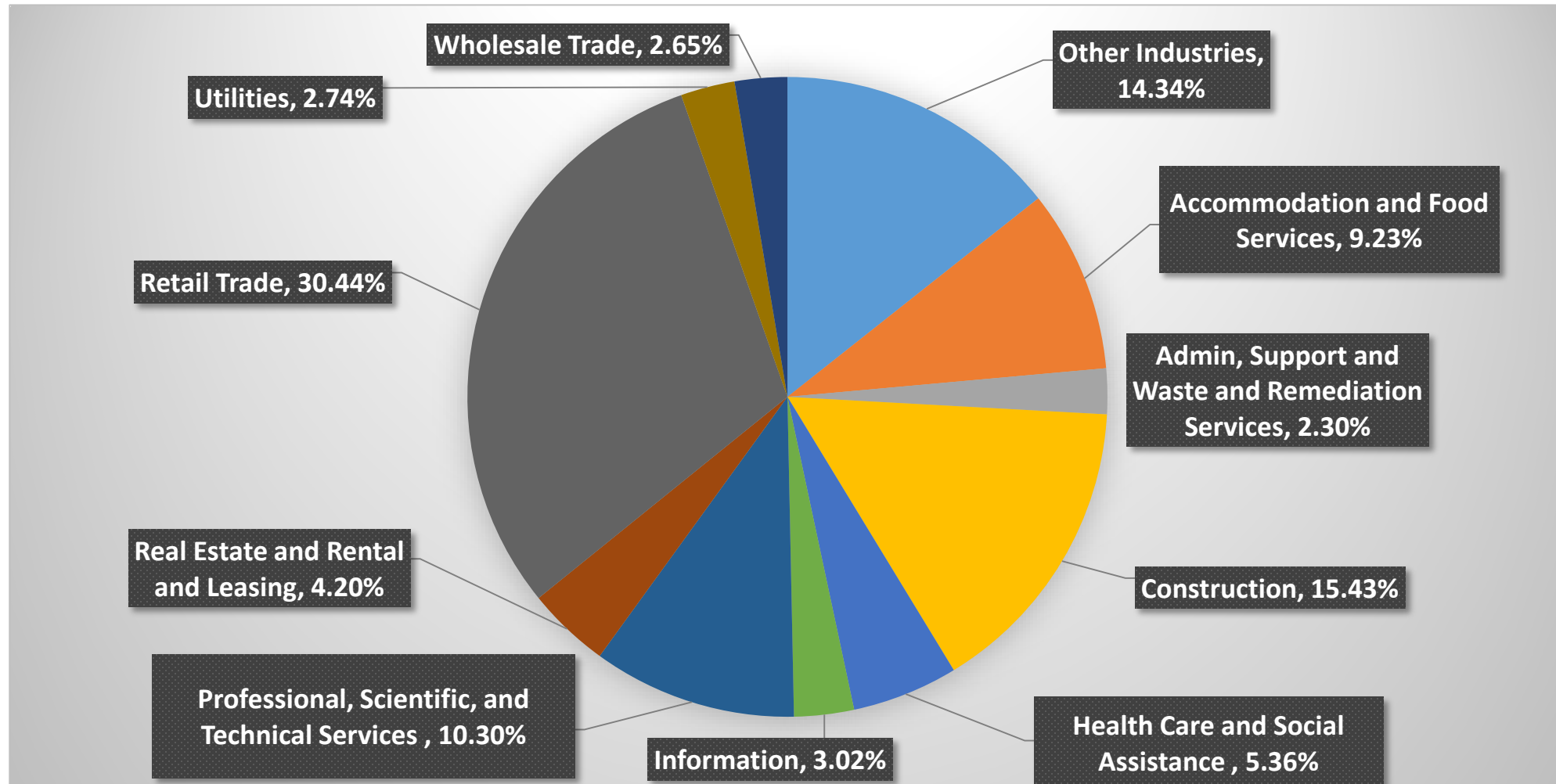
- Gross Receipts Tax revenue is the single largest source of revenue for the City of Santa Fe and has proven to be extremely volatile source of revenue during the previous economic recessions.
- GRT alone makes up close to 30% of all City revenue.
- Cities in New Mexico face a two-month lag between Gross Receipt Tax (GRT) collection and disbursement. GRT earned in March 2020 was distributed by the Taxation and Revenue Department to the City two months later, in May 2020.
- The largest single fund for the City is the General Fund. A substantial majority, or just under 70%, of the City's General Fund revenue is generated from GRT.



FY21 Revenue Update

Total Taxable Gross Receipts by Industry Sector, December 2020

- Construction at 15% of total Taxable Gross Receipts has been a strong performer as other sectors have posted declines throughout the last year

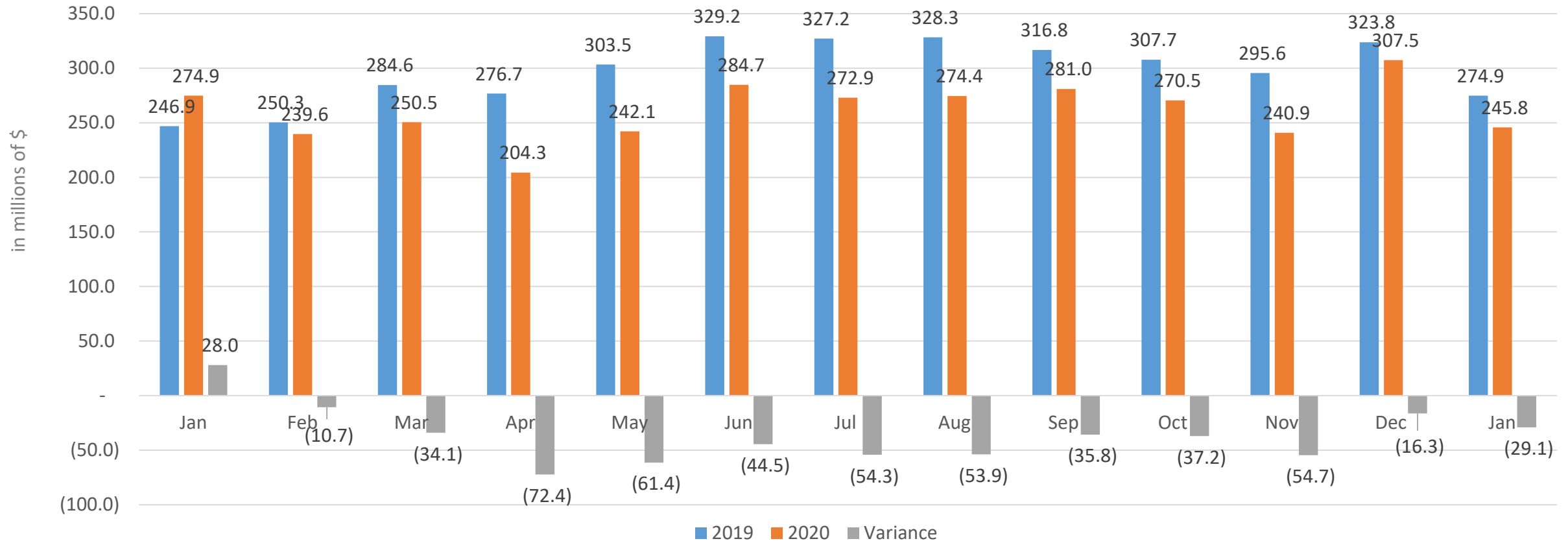




FY21 Revenue Update

Taxable Gross Receipts, July – December FY20 to FY21 Comparison

- A decrease in taxable gross receipts equates to lost revenue to Santa Fe businesses as well as lost City GRT revenue.
- The taxable gross receipts in Santa Fe decreased \$504 million, or 14%, when comparing the period of February 2020 – January 2021 data to February 2019 – January 2020.

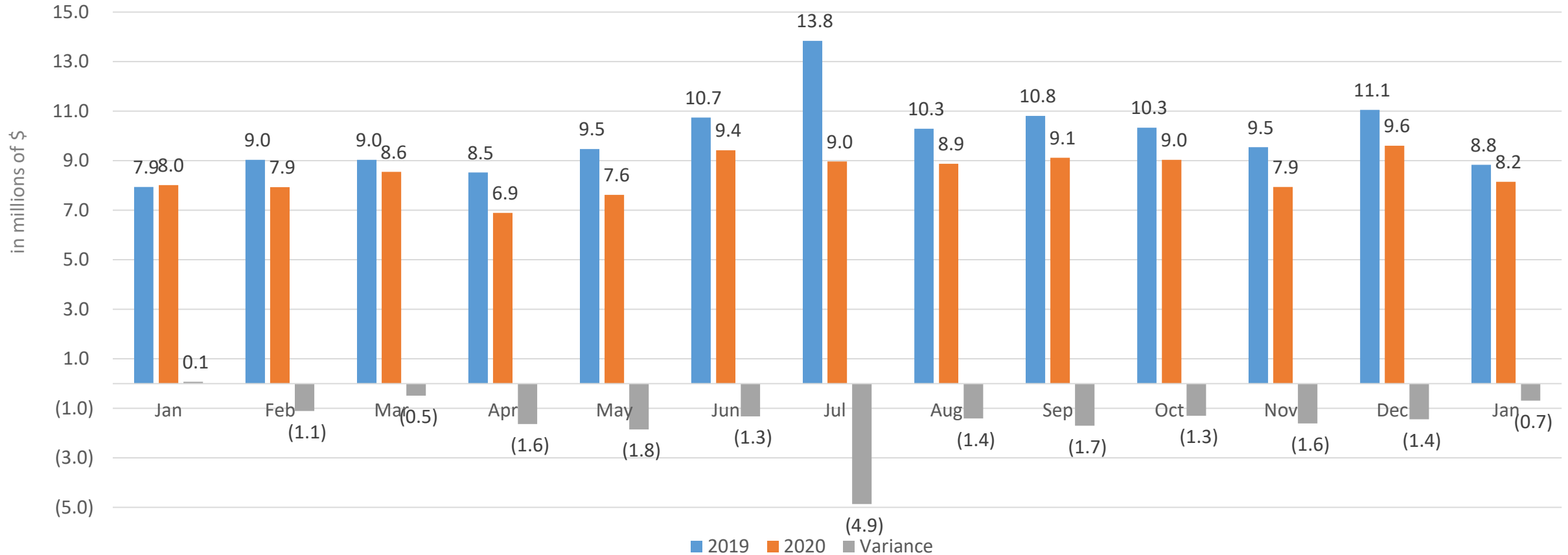




FY21 Revenue Update

Gross Receipts Tax Distribution, July – December FY20 to FY21 Comparison

- Gross Receipts Tax revenue generated in FY21 July 2020 - December 2020 decreased \$12.3M or 19%, when compared to the same period in July 2019 - December 2019.
- Year to date, the City has received 58.9% of total GRT budget of \$90.7 million, exceeding the original revenue projections. Revised GRT revenue estimates are likely to reach \$97M in FY21

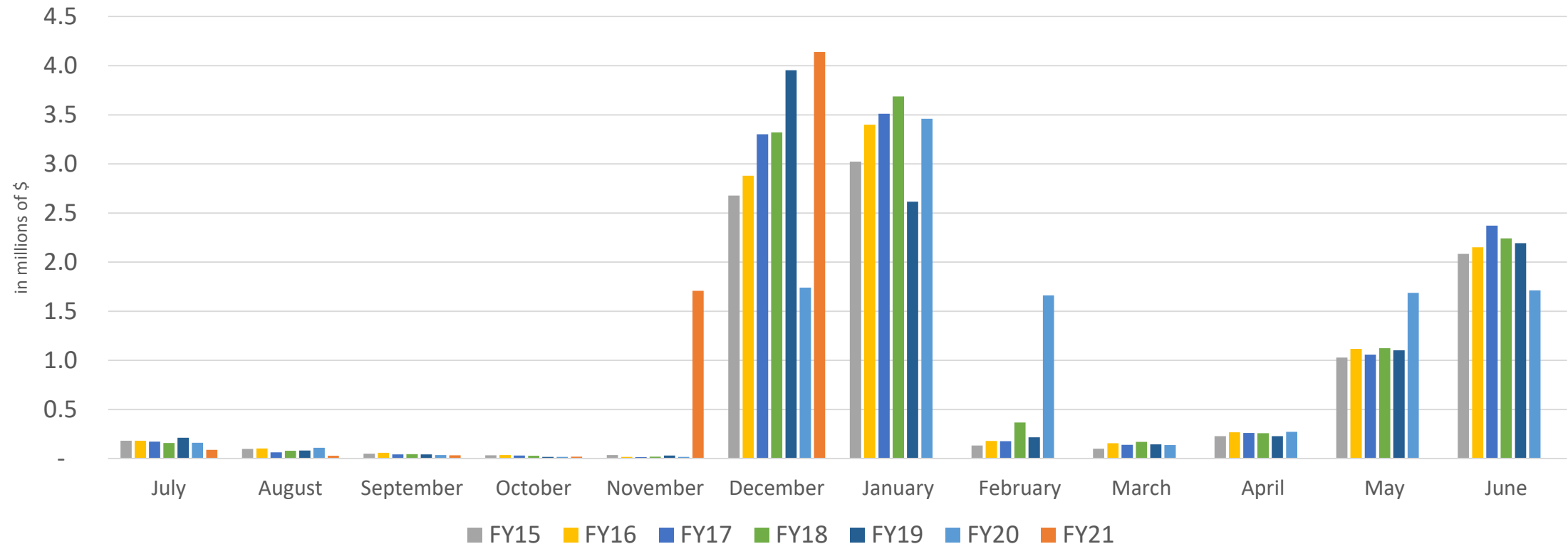




FY21 Revenue Update

Property Tax Receipts by Month

- 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.
- July to December, the City received \$6M or 50% of the total Property Tax budget of \$12 million, Property Tax revenue may not reach the budgeted levels in FY21

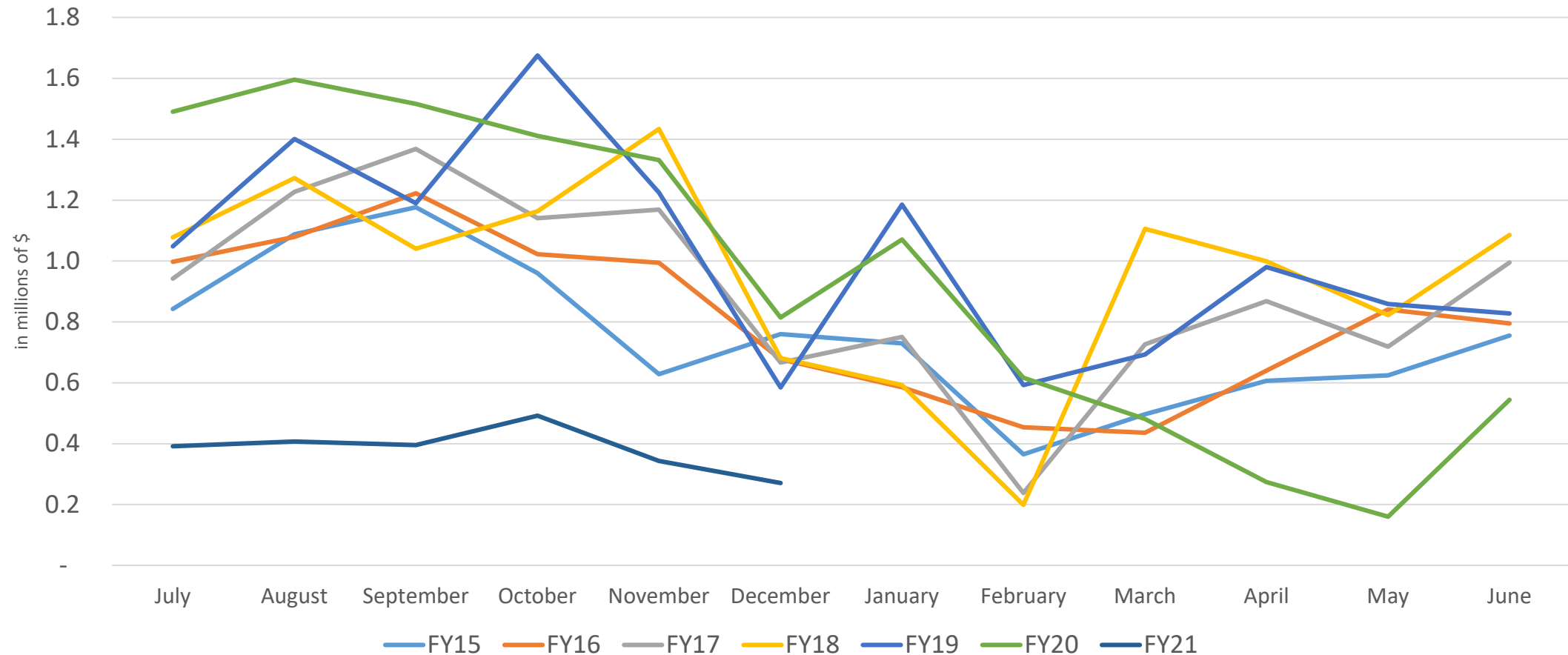




FY21 Revenue Update

Lodgers Tax Receipts by Month

- FY20 saw a decline of eight percent in Lodgers Tax Collection while FY21 Lodgers Tax revenue is coming in at 30 percent of FY20 levels.
- July to December, the City received \$2.3M or 36% of the total Lodgers budget of \$6.4 million
- Given these trends, Lodgers Tax revenue may not reach the budgeted levels in FY21





Next Steps

March

- **FY21 Revised Revenue Estimates**
- **FY21 Budget Adjustments**

April

- **FY22 Budget Development**
- **FY21 Budget Adjustments**

May

- **FY22 Budget Submitted to DFA**
- **FY21 Budget Adjustments**

Santa Fe Update

Featured Points



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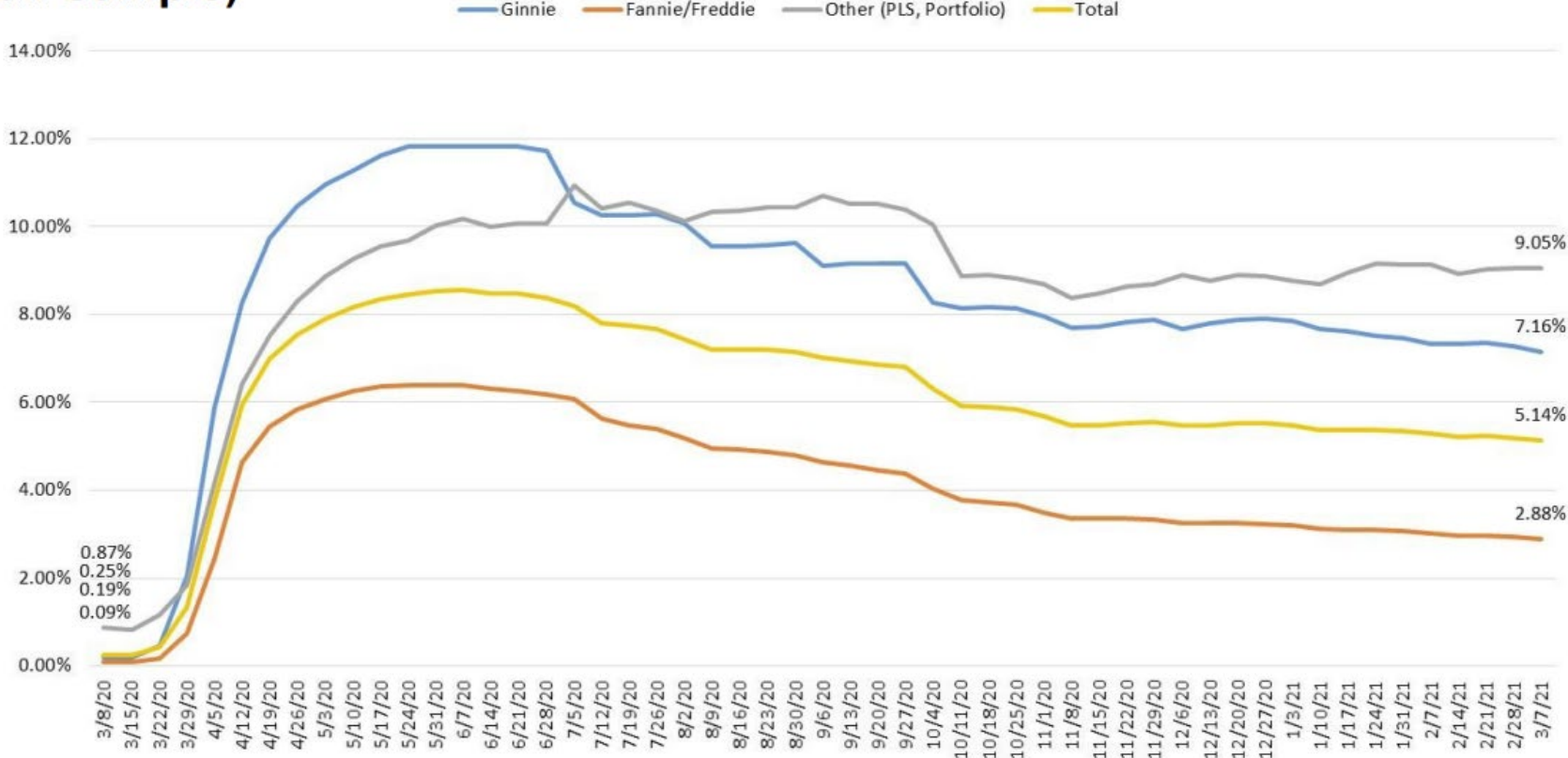


Appendix



Appendix 1

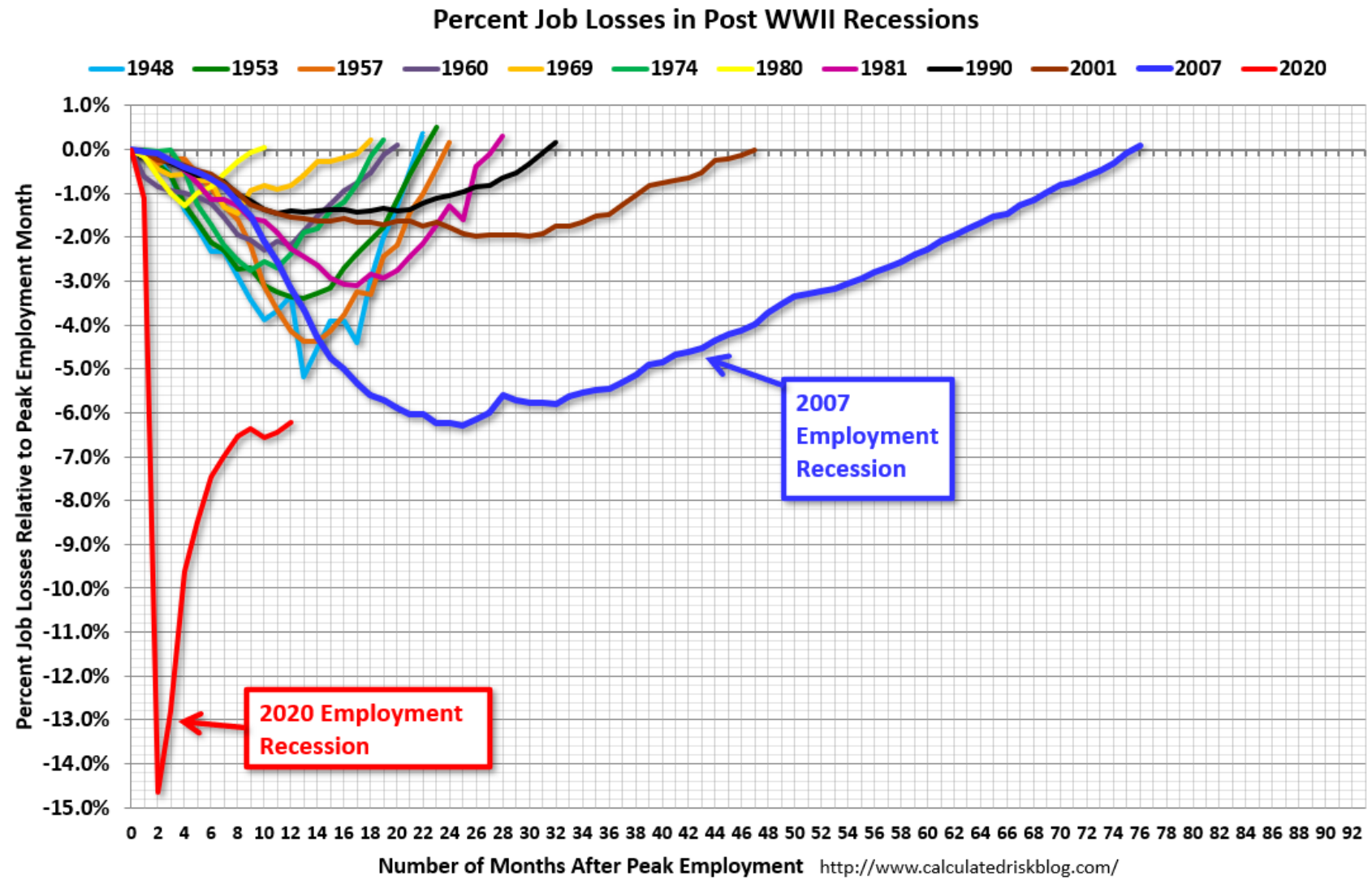
% of Servicing Portfolio Volume in Forbearance by Investor Type over Time (Full Sample)



Source: MBA's Weekly Forbearance and Call Volume Survey, as of 3/7/21
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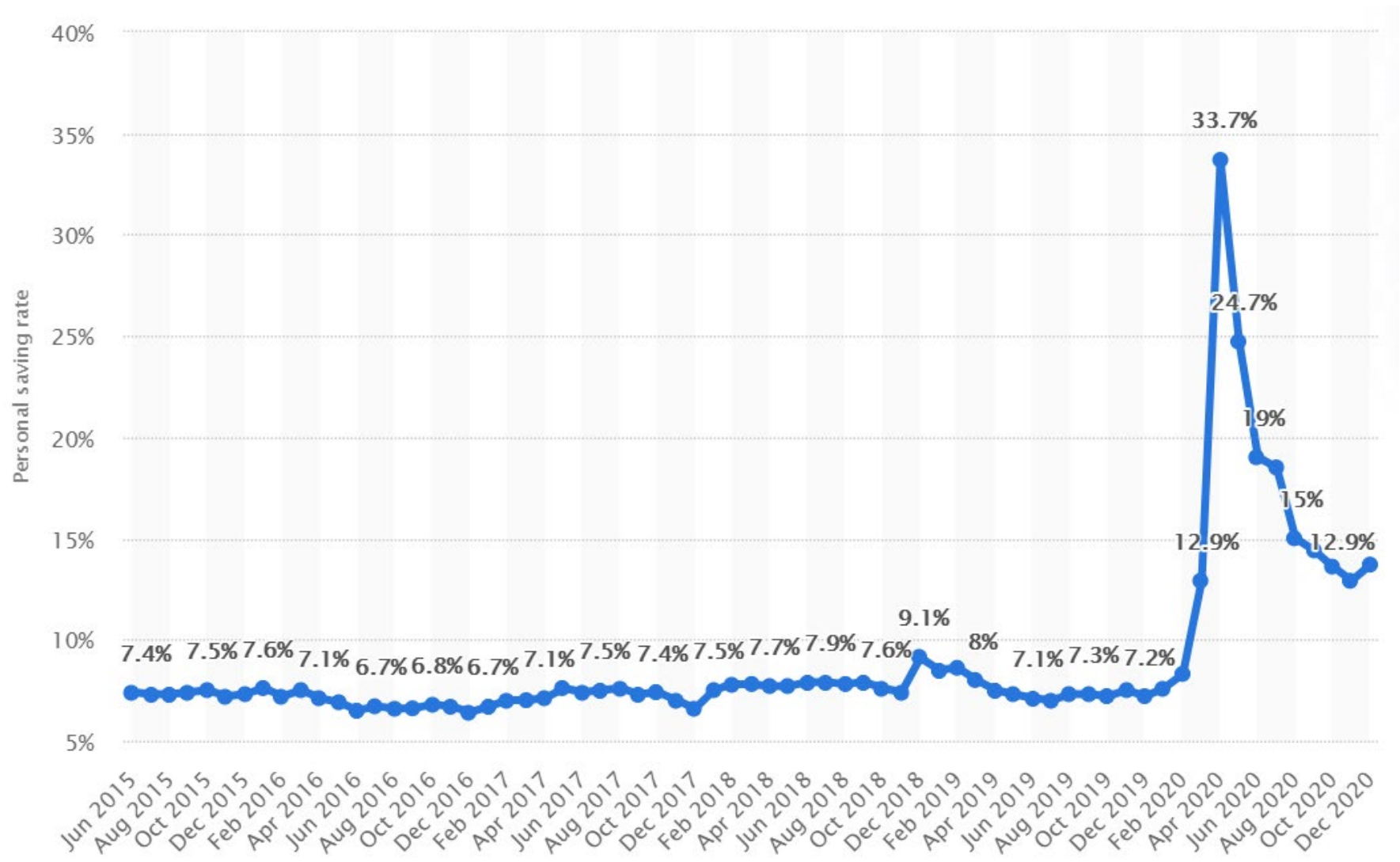


Appendix 2



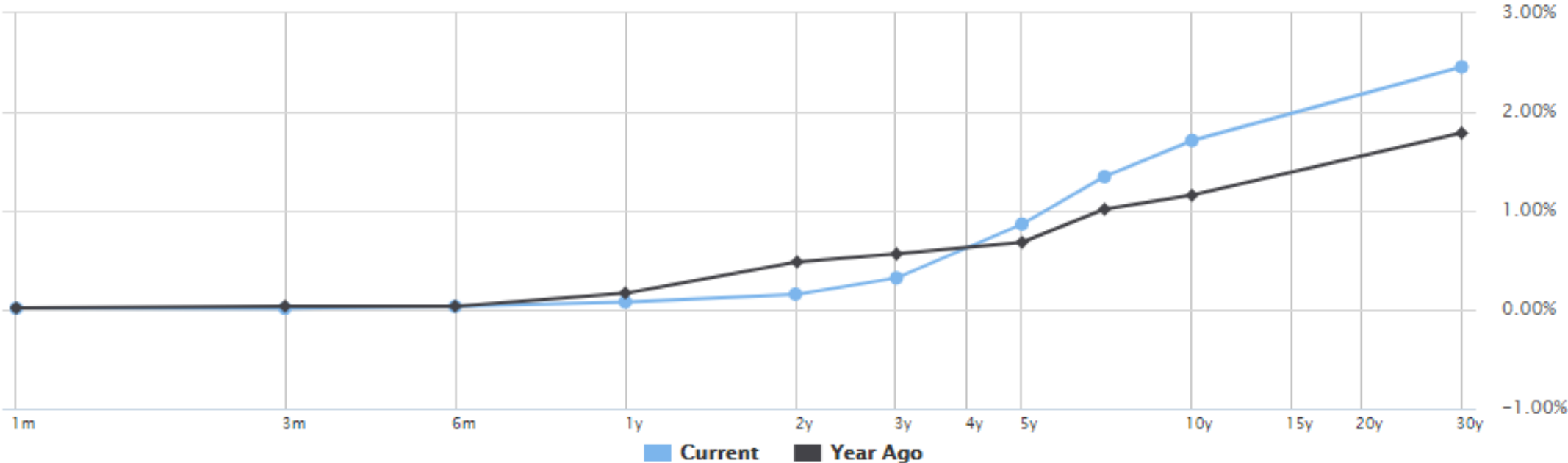


Appendix 3



Appendix 4

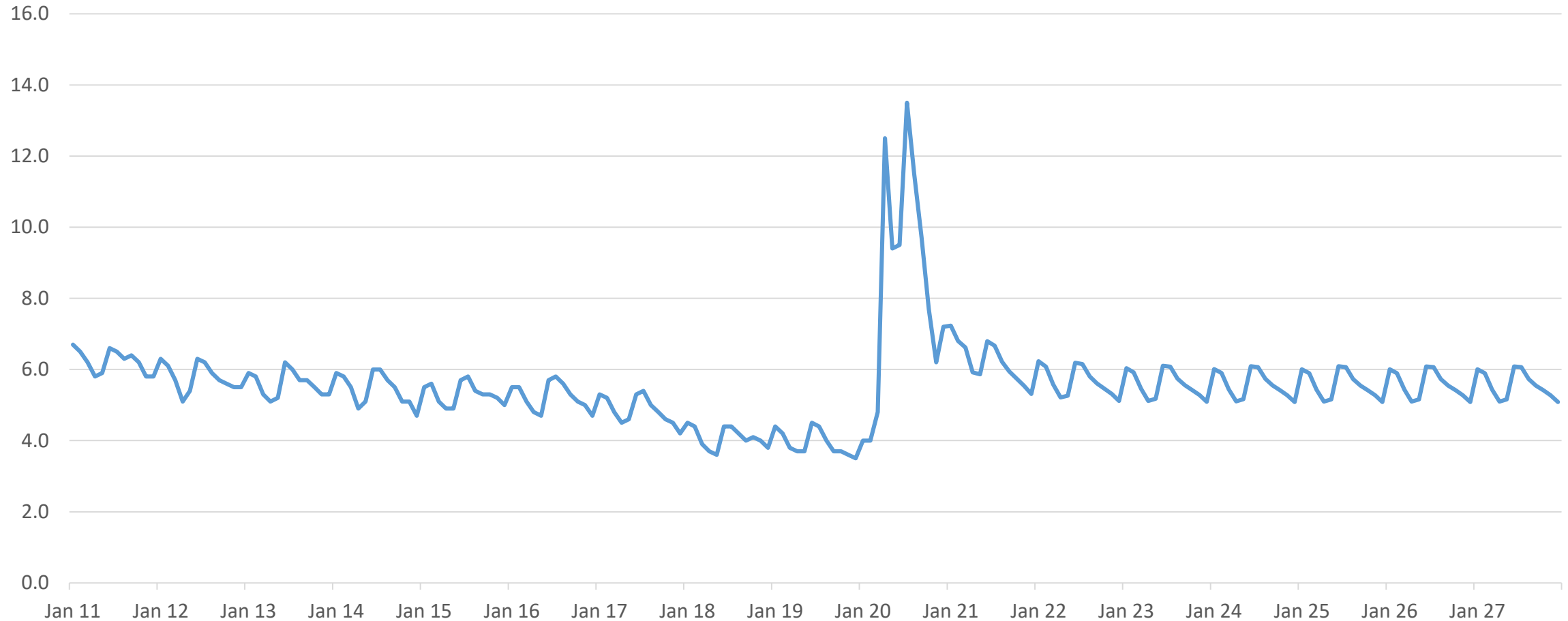
Yield Curve



Appendix 5



Unemployment Dynamics for Santa Fe, 2011-2021 Modified ARIMA model





Santa Fe FY 2021 Revenues

Major Revenue Sources

- The FY21 total revenue estimate of \$282.9M was a decline from the \$307.1 in actual revenues in FY20, but the revenue mixture remained broadly similar.

