

CITY OF SANTA FE

QUARTERLY FINANCIAL PERFORMANCE REPORT

As of September 30, 2019



CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT
TABLE OF CONTENTS

	<u>Page #</u>
I. REVENUE/EXPENDITURE PROJECTIONS	
A. Executive Summary	3
B. <u>Table 1</u> : All Funds – Operating Budget Summary and Projections	4
C. <u>Chart 1</u> : FY 2019-20 All Funds Projections.....	5
D. <u>Chart 2</u> : FY 2019-20 General Fund Projections.....	5
E. <u>Table 2</u> : General Fund – Budget Summary and Projections	6
F. Santa Fe Economic Sectors and Revenue Generation.....	7
G. Gross Receipts Tax (GRT).....	7
H. <u>Chart 3</u> : City of Santa Fe GRT by Industry Sector.....	7
I. <u>Table 3</u> : City of Santa Fe GRT Distribution	8
J. Property Tax	8
K. Franchise Fees	9
L. Lodger’s Tax	9
M. <u>Chart 4</u> : 2016-2020 Lodger’s Tax Revenue Comparison.....	10
II. INVESTMENT PORTFOLIO	
A. Executive Summary	11
B. <u>Chart 5</u> : Total Return Annualized	12
C. <u>Table 4</u> : Portfolio Changes by Quarter.....	12
D. <u>Chart 6</u> : Portfolio Composition by Security Type.....	13
E. <u>Chart 7</u> : Investment Income	13
F. <u>Chart 8</u> : Total Interest Income by Month.....	14
G. <u>Chart 9</u> : Change in Market Value by Month.....	14
H. <u>Chart 10</u> : Total Investment Income by Month	15
I. <u>Chart 11</u> : Cumulative Return	15
J. <u>Chart 12</u> : Portfolio by Security Type	16
K. <u>Chart 13</u> : Portfolio by Maturity.....	16
L. <u>Chart 14</u> : Money Market Funds	17
M. <u>Chart 15</u> : Securities by Issuers	17
N. <u>Chart 16</u> : Bank CDs	18
O. <u>Chart 17</u> : Duration at Quarter End	18
P. <u>Chart 18</u> : Weighted Average Maturity at Quarter End.....	19
Q. Investment Strategy	19
R. <u>Table 5</u> : Portfolio Holdings Report	20
S. <u>Table 6</u> : Collateral for Demand Deposits.....	20

I. 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 FY20 the City's revenue performance are expected to meet FY20 budgeted levels. Gross receipts tax distributions were substantially higher than anticipated. This increase is a result of amended returns. Additionally, State has initiated payments to municipalities for internet sales that were mandated in 2019 legislation, House Bill 6. Some 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 at budgeted levels. Overall revenues are trending above budgeted levels.

On the expenditures side, for the first quarter of FY2020 the projections are largely based on prior year expenditures in 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. As reflected in the table, year-to-date actual expenditures exceed actual revenues collected through the first quarter of FY2020 by close to \$10 million. This is consistent with trends that the City has experienced in prior fiscal years for the first quarter. Currently, expenditures are trending slightly below budgeted levels.

GENERAL FUND

Major revenue categories in the General Fund such as Property Tax, Ambulance Fees, GRT receipts, Planning & Land Use Fees and Miscellaneous Revenues are projected in line with budgeted levels, with overall revenue anticipated to exceed the FY20 budget.

Overall, General Fund expenditures are expected to be slightly below budgeted levels. As noted above, 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 2019-2020

ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

Table 1

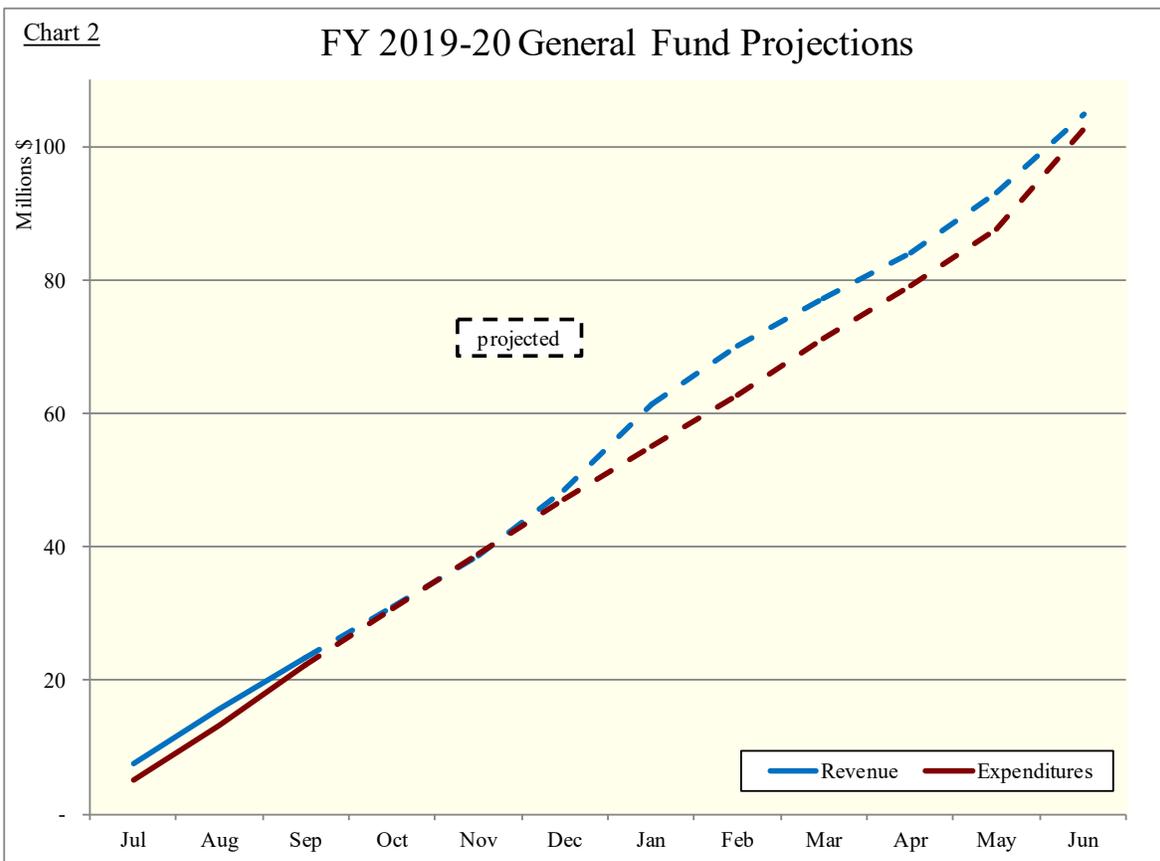
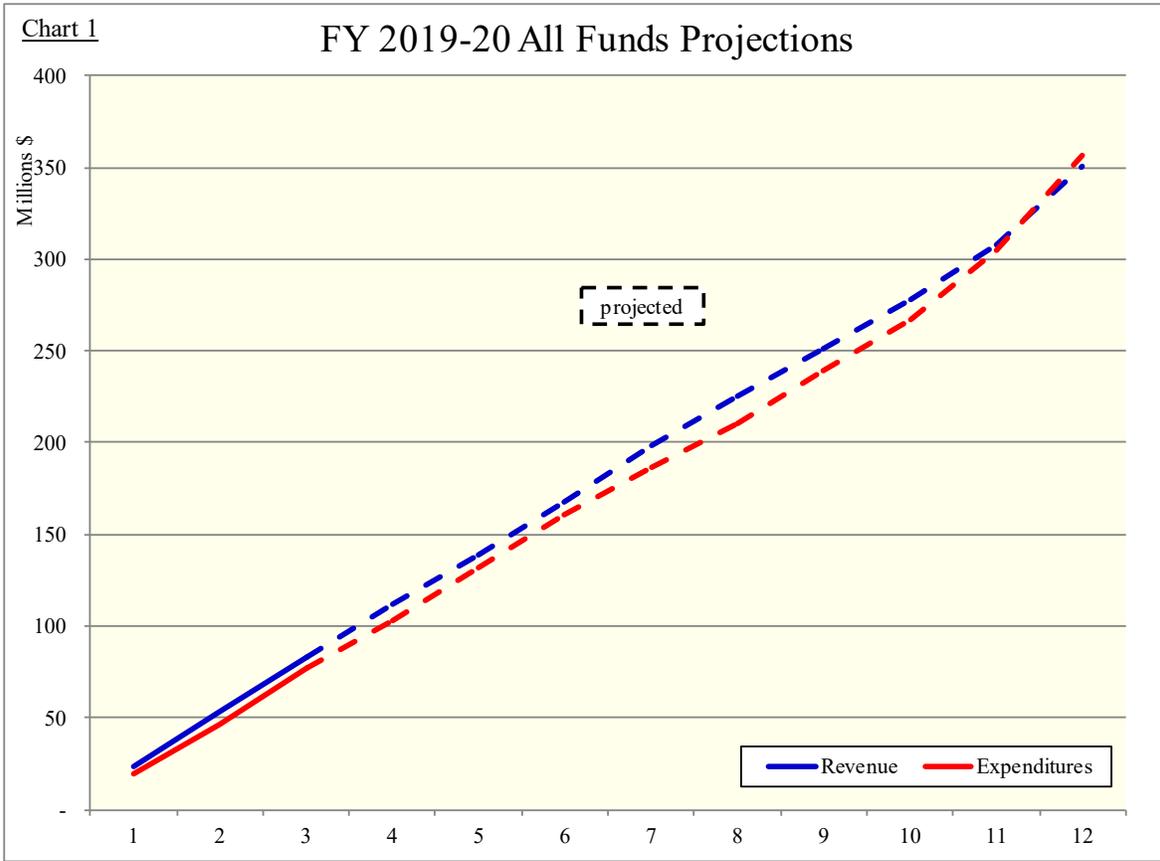
DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2019/2020				
	2018/2019 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	148,800,264	156,591,182	156,591,182	156,591,182	156,591,182	
<i>Revenues:</i>						
Gross Receipts Tax	110,878,967	112,104,293	112,104,293	34,940,298	112,104,293	0%
Property Tax	10,784,753	13,173,548	13,173,548	145,112	13,173,548	0%
Franchise Fees	4,845,849	5,312,033	5,312,033	361,835	5,312,033	0%
Lodgers' Tax	12,265,515	12,800,423	12,800,423	4,834,233	12,800,423	0%
Gasoline Tax	1,367,389	1,589,326	1,589,326	249,533	1,589,326	0%
Other Taxes	516,210	602,960	602,960	44,091	602,960	0%
Licenses & Permits	3,868,957	4,476,182	4,476,182	1,112,676	4,476,182	0%
Ambulance Fees	2,497,386	2,800,000	2,800,000	694,225	2,800,000	0%
Insurance Premiums/Deductibles	28,112,352	30,557,104	30,557,104	5,753,046	30,557,104	0%
Parking Fees	5,587,612	5,183,963	5,183,963	1,510,655	5,183,963	0%
Recreation Fees	3,233,988	3,518,518	3,518,518	419,344	3,518,518	0%
Solid Waste Fees	19,353,254	21,145,892	21,145,892	4,435,239	21,145,892	0%
Wastewater Fees	12,257,854	13,814,227	13,814,227	2,839,962	13,814,227	0%
Water Fees	29,744,437	40,063,377	40,437,264	9,222,787	40,437,264	0%
Other Fees/Services**	38,667,951	27,278,540	27,252,629	2,074,315	27,252,629	0%
Fines & Forfeitures	1,081,304	1,135,255	1,135,255	246,997	1,135,255	0%
Miscellaneous Revenues***	28,707,763	3,961,519	4,416,519	957,497	4,416,519	0%
Interest on Investments	108,443	2,799,043	2,799,043	26,844	2,799,043	0%
State Grants	3,329,808	5,237,179	5,262,178	936,891	5,262,178	0%
Federal Grants	2,652,508	4,196,940	4,504,092	90,347	4,504,092	0%
SF County/Other Grants	208,172	80,244	9,046,184	22,232	9,046,184	0%
Transfers In	63,119,430	65,523,152	67,108,131	-	67,108,131	0%
Subtotal - Revenues	383,189,902	377,353,718	389,039,764	70,918,161	389,039,764	0%
TOTAL RESOURCES	531,990,166	533,944,900	545,630,946	227,509,343	545,630,946	
<i>Expenditures:</i>						
Salaries	75,625,665	80,396,516	82,936,956	18,820,073	82,936,956	0%
Benefits	38,207,222	41,134,650	42,400,951	8,775,877	42,400,951	0%
Contractual Services	20,221,782	24,177,696	27,669,460	10,339,283	27,669,460	0%
Utilities	12,573,546	14,010,891	15,341,121	4,464,867	15,341,121	0%
Repairs & Maintenance	7,072,704	7,732,314	8,278,457	2,570,316	8,278,457	0%
Supplies	11,127,715	13,826,684	13,701,066	4,996,663	13,701,066	0%
Insurance	33,210,689	33,782,577	34,233,616	10,036,218	34,233,616	0%
Travel & Training	1,155,195	1,612,351	1,635,883	598,467	1,635,883	0%
Other Operating	37,572,854	36,679,358	37,347,830	4,442,752	37,347,830	0%
Capital Purchases	5,851,268	11,817,243	14,821,721	7,321,781	14,821,721	0%
Land & Building	6,165,558	1,414,415	8,320,582	4,299,034	8,320,582	0%
Debt Service-Principal	19,423,661	21,406,207	21,406,207	2,625,654	21,406,207	0%
Debt Service-Interest	11,387,506	10,833,140	10,833,140	746,552	10,833,140	0%
Transfers Out	95,803,619	67,523,152	70,178,131	-	70,178,131	0%
TOTAL EXPENDITURES	375,398,983	366,347,194	389,105,121	80,037,538	389,105,121	0%
ENDING BALANCE	156,591,182	167,597,706	156,525,825	147,471,805	156,525,825	

*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 2019-2020

GENERAL FUND SUMMARY & PROJECTIONS

Table 2

DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2019/2020				
	2018/2019 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	7,684,220	9,511,458	9,511,458	9,511,458	9,511,458	
<i>Revenues:</i>						
Gross Receipts Tax	65,312,138	70,382,213	70,382,213	22,037,131	70,382,213	0%
Property Tax	8,351,923	11,157,228	11,157,228	116,418	11,157,228	0%
Franchise Fees	4,831,197	5,292,033	5,292,033	361,835	5,292,033	0%
Other Taxes	451,466	531,116	531,116	44,091	531,116	0%
Licenses & Permits	3,830,105	4,430,688	4,430,688	1,111,041	4,430,688	0%
Ambulance Fees	2,497,386	2,800,000	2,800,000	694,225	2,800,000	0%
Planning/Land Use Fees	265,748	915,173	915,173	42,821	915,173	0%
Recreation Fees	357,953	415,037	415,037	90,543	415,037	0%
Reimbursed Expenditures**	4,793,972	5,522,170	5,522,170	6,194	5,522,170	0%
Other Fees/Services	269,063	536,832	536,832	23,121	536,832	0%
Fines & Forfeitures	220,332	273,314	273,314	2,169	273,314	0%
Miscellaneous Revenues	248,797	71,590	71,590	36,562	71,590	0%
Interest on Investments	-	80,964	80,964	-	80,964	0%
State/Other Grants	567,271	522,196	522,196	34,551	522,196	0%
Transfers In	1,070,509	1,979,908	1,979,908	-	1,979,908	0%
Subtotal - Revenues	93,067,861	104,910,462	104,910,462	24,600,704	104,910,462	0%
TOTAL RESOURCES	100,752,081	114,421,920	114,421,920	34,112,162	114,421,920	
<i>Expenditures:</i>						
Salaries	41,930,069	45,079,003	45,169,996	10,318,402	45,169,996	0%
Benefits	21,300,286	22,612,237	22,681,149	4,786,558	22,681,149	0%
Contractual Services	3,448,683	5,468,916	5,456,868	1,804,761	5,456,868	0%
Utilities	3,617,137	4,273,117	4,273,117	1,407,144	4,273,117	0%
Repairs & Maintenance	627,444	1,189,742	1,192,490	287,465	1,192,490	0%
Supplies	2,456,034	2,999,261	2,912,857	1,021,002	2,912,857	0%
Insurance	3,325,902	3,262,221	3,262,221	-	3,262,221	0%
Travel & Training	200,826	560,496	555,996	225,071	555,996	0%
Other Operating	8,823,475	9,119,715	9,159,790	192,399	9,159,790	0%
Capital Purchases	949,446	1,887,319	2,092,682	25,356	2,092,682	0%
Land & Building	60,760	118,410	118,410	78,244	118,410	0%
Transfers Out	4,500,562	5,712,392	5,712,392	-	5,712,392	0%
TOTAL EXPENDITURES	91,240,623	102,282,829	102,587,968	20,146,401	102,587,968	0%
ENDING BALANCE	9,511,458	12,139,091	11,833,952		11,833,952	
<i>State-Mandated Minimum</i>						
<i>General Fund Balance***</i>	7,691,363	8,047,536	8,047,536		8,047,536	
<i>Equivalent # Days of Operation</i>	38	46	45		45	

*Includes year-to-date actuals plus encumbrances

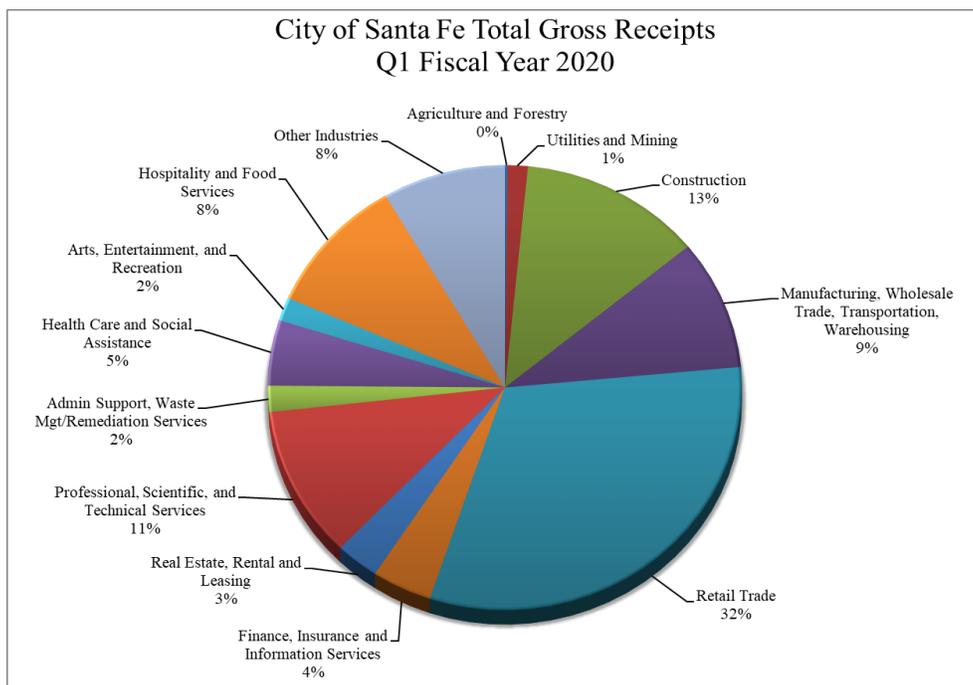
**Reimbursed Expenditures are mostly comprised of internal charges to various City Divisions for services provided by GF Departments such as Finance, ITT, & HR

***Minimum balance defined as 1/12 (1 month) budgeted annual General Fund expenditures excluding transfers

Santa Fe Economic Sectors and Revenue Generation

Gross receipts tax (GRT) is the primary source of revenue for the City of Santa Fe. As continued economic growth has occurred nationally since the economic crash and subsequent recession in 2008/2009, disposable income and tourism have recovered as well. Retail trade, construction and professional, scientific and technical services are the largest sources of revenue generation. Strong retail sectors, steady construction activity and professional services provide over 50 percent of the gross receipts revenue to the City. The gross receipts activity reported in the first quarter of the fiscal year, climbing the peak of the summer tourist season, typically presents an annual cyclical uptick in consumer activities in the hospitality and tourism economic sectors. Total gross receipts generated by business sectors in the City limits were particularly high in the first quarter of FY2020, reported at \$1.58 billion, up approximately 15.7 percent from \$1.36 billion reported for the first quarter of FY2019.

Chart 3



(Source: NM Taxation & Revenue Dept.)

Gross Receipts Tax

Steady and consistent growth has been observed in the historical distributions of receipts from the State of New Mexico Department of Taxation and Revenue (TRD). The following overview covers the GRT revenue for the first quarter of fiscal year 2020, inclusive of July through September 2019 distributions from TRD. The gross receipts tax distribution, or the amount of actual revenue collected by the State and distributed to the City, was particularly strong in nearly all of the sectors, including retail trade, finance, insurance and information services, construction, professional, scientific and technical services and arts, entertainment and recreation sectors. The first quarter of FY2020 GRT distribution to the City of approximately \$34.9 million represents an increase of 7.7 percent from the first quarter of FY2019 at \$32.4 million. An inquiry placed with the Taxation and Revenue Department regarding this increase has revealed that a few large taxpayers in the commercial food sector amended nearly 36 months of food deductions on prior month returns, resulting in substantial additional one-time revenue during the first quarter.

Table 3

City of Santa Fe Gross Receipts Tax Distribution 1st Quarter FY20	
Dedication	1st Quarter Distribution
General Fund - Local GRT	8,490,788
General Fund - State-Shared GRT*	13,546,343
Economic Development	141,294
Children & Youth	454,290
Human Services	310,591
Transit / Quality of Life	5,661,657
Railyard	701,452
Parks / GCCC	701,452
Police	701,452
Capital Improvements (1/2%)	2,828,131
Environmental Services	701,452
Wastewater Management	701,397
TOTAL	34,940,298
<i>*includes internet sales tax</i>	

(Source: City of Santa Fe Finance Dept.)

The month of September during the first quarter also presented the implementation of the distribution of internet sales tax which went into effect July 1, 2019 through the guidance of House Bill 6 (HB6) which was approved during the 2019 legislative session. In an attempt to establish a process for collecting tax revenue for online internet sales, HB6 instructs TRD to initiate collections and subsequent distributions to the municipalities. HB6 created a distribution in the amount of \$1.25 million per month to municipalities. The estimated amount distributed to each municipality is based upon the 2010 decennial population census. For the next 24 months, the City will receive an estimated monthly internet sales distribution of \$62,367.96. In year 2021, TRD will evaluate the actual internet sales revenue generated, calculate balances due to the municipalities and provide adjusting distributions, put into place accurate percentages for distribution, and bring the revenue in line with legislation.

Property Tax

Property Tax is comprised of revenue associated from new construction, maintenance and market value for commercial and residential properties within the City of Santa Fe. Typically, property tax revenue is generated by 20.6 percent commercial and 79.4 percent residential properties. Changes in property valuation may occur when ownership transitions to a new owner, improvements to the property are made, damage occurs due to disaster or calamity, or the property is reassessed to market value.

According to the Santa Fe County Assessor's Office, the timeline for property valuation and tax payments is as follows:

January 1st: Property Tax status subject to valuation determined.

February 28th: Property Tax exemption filing deadline.

April 1st: Notice of property value mailed to property owners.

April 30th: Protest petition filing deadline.

September 1st: Deadline for Department of Finance to set tax rates.

November 1st: Tax bills mailed to property owners.

Recently, the Assessor's Office announced that, given the bonds submitted to voters for approval at general elections in November 2019, additional mill rates may affect some property taxes assessed on approximately 11,642 tax accounts in certain school districts. As a result, the tax bills for those areas would be mailed out by November 24th, as opposed to the November 1st date indicated above. A slight delay in collections may be observed in the resulting revenue received over the second half of FY2020.

Property tax revenue is budgeted for \$13.2 million in FY2020 due to continued strength in home sales at elevated levels and increased collections and remittance efforts by taxpayers, the County and the State. Due to the delay in collections, the Finance Department will report on any variance in property tax collections during upcoming periods.

Franchise Fees

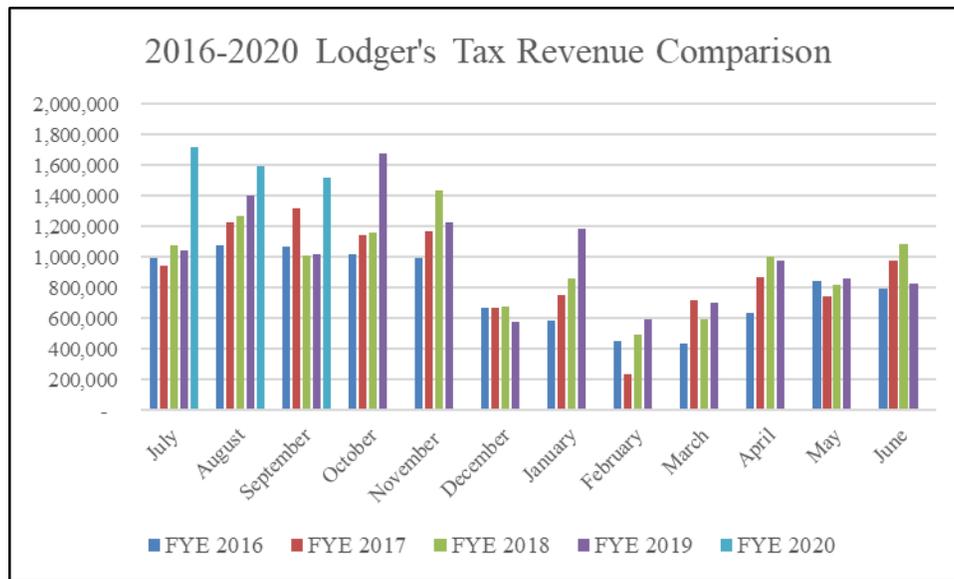
Franchise fees are collected for services provided within the City. Typically, franchise fees are collected from electric services, natural gas, cable, telecom and telephone service providers. Franchise fees have also observed an upswing over the fiscal years 2016-2018. Prior to this period, franchise fees were steady, averaging \$2.7 million annually. This recent movement may be attributed in large part to a broadened subscriber base for internet and cell phone services as well as renegotiated State and municipality rates. Overall, franchise fees are projected to increase given various economic indicators including wage growth, population inflow, increased levels of connectivity, housing developments, business expansion and infrastructure improvements. Franchise Fee receipts for the first quarter of FY2020 totaled \$361,835, a substantial increase over the \$51,323 received in the first quarter of FY2019.

Lodger's Tax

Lodgers Tax collections are generated from hotels, motels and short-term rentals within the City of Santa Fe. Lodger's tax is remitted for revenue generated from lodging at a taxable premise within the City limits. Five percent (5%) of the lodger's tax is an imposed occupancy tax and two percent (2%) is a convention center fee, for a total of seven percent (7%) of gross taxable rent paid to vendors. The lodger's tax, guided by 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...”. Lodger’s tax has seen a steady climb, averaging 7.5 percent each year, since the inception of the program. The increased interest of rental owners pursuing opportunities to fill vacant rental units and the rise of online rental reservation platforms have supported the surge in accessible lodging throughout the City. This movement may be observed in the increase of lodger’s tax revenue in FY16 onward. City revenues received from lodger’s tax totaled \$11.5 million in FY18 and \$12.3 million in FY19. Lodgers Tax receipts for the first quarter of FY2020 totaled \$4.8 million, approximately \$1.25 million more than the same period last year. Continued marketing efforts to promote the City to national and international travelers as well as a healthy economy have buoyed the inflow of visitors to Santa Fe as a destination.

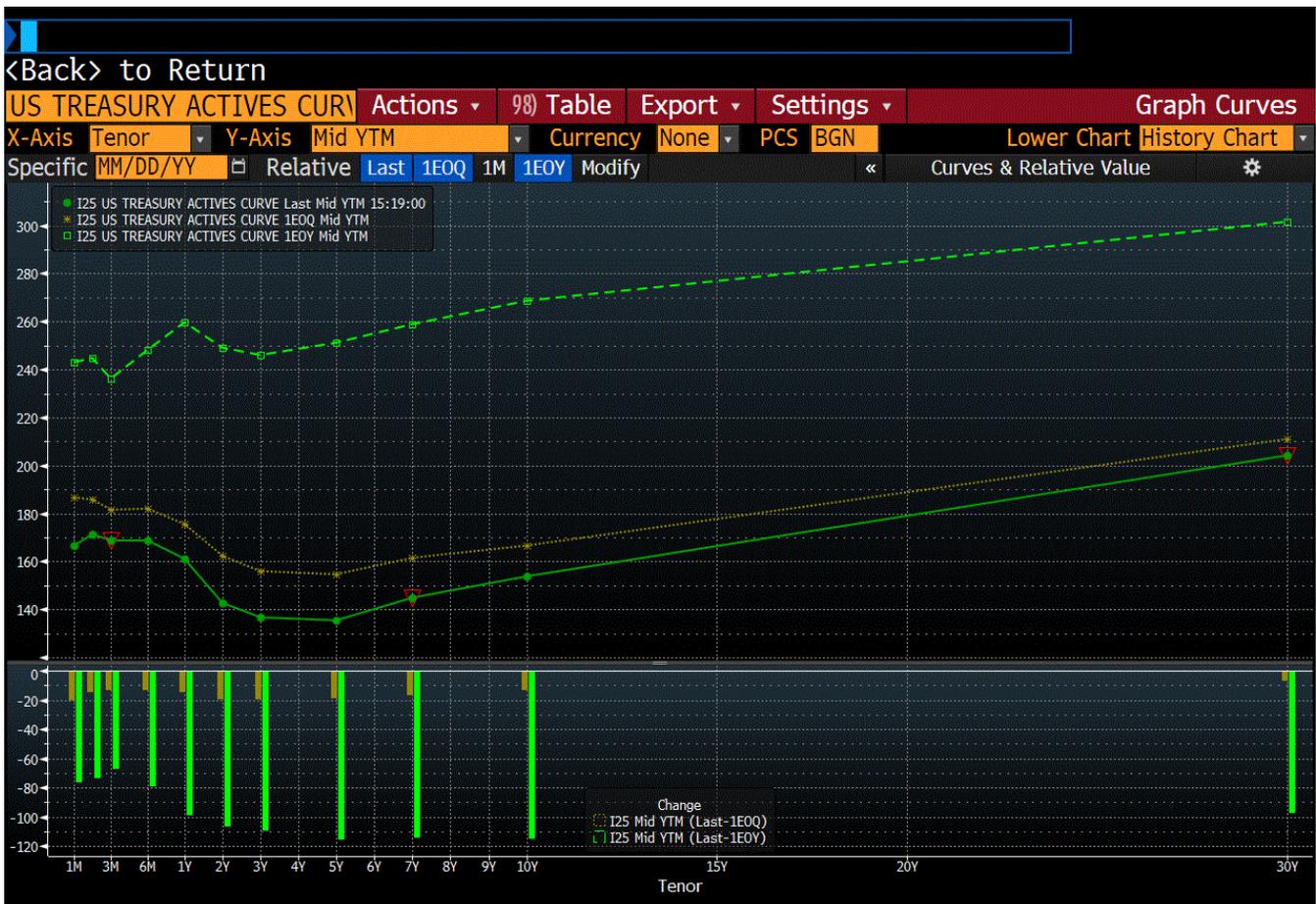
Chart 4



(Source: City of Santa Fe Finance Dept.)

II. CITY OF SANTA FE INVESTMENT PORTFOLIO AS OF SEPTEMBER 30, 2019

The City's investment portfolio continued to have an annual yield in excess of a two percent for the first quarter of FY2020, even though the Federal Reserve has lowered interest rates twice in the City's first quarter and again in October. On July 31 and September 18, 2019 the Federal Reserve lowered the Fed Funds Rate from 2.50 percent to 2.0 percent, and did so a third time in October, as many expected. After a couple of years of raising rates, the Federal Reserve abruptly changed direction in the Spring of 2019, from a strong tightening mode where the market was expecting three rate increases in 2019, to one where the Federal Reserve has cut rates three times. Many economists cite the global trade tensions, Europe's lack of economic growth and a decline in China's GDP as the primary reasons for this change. Inflation continues to be lower than the Federal Reserve's target of two percent and US manufacturing data has taken a downturn in the past couple of months. Employment, retail sales and housing continue to be strong in spite of the apparent manufacturing slowdown. The following chart depicts three US Treasury Yield Curves: December 31, 2018, March 31, 2019 and October 8, 2019.



As for the City's investment portfolio, staff is allowing the securities to mature and roll off into the money market funds, currently yielding about two percent, but the yield will decline as the Federal Reserve cuts interest rates. Looking at the chart above, the inversion in short-term interest rates is a problem, and this is the reason staff is not re-investing farther out on the curve. Investors indicate that short-term interest rates will fall much farther than their current level, and staff does not think the market has it right. Short-term interest rates would have to fall well below one percent in the next year and remain there for a couple years for the market to be correct.

Chart 5

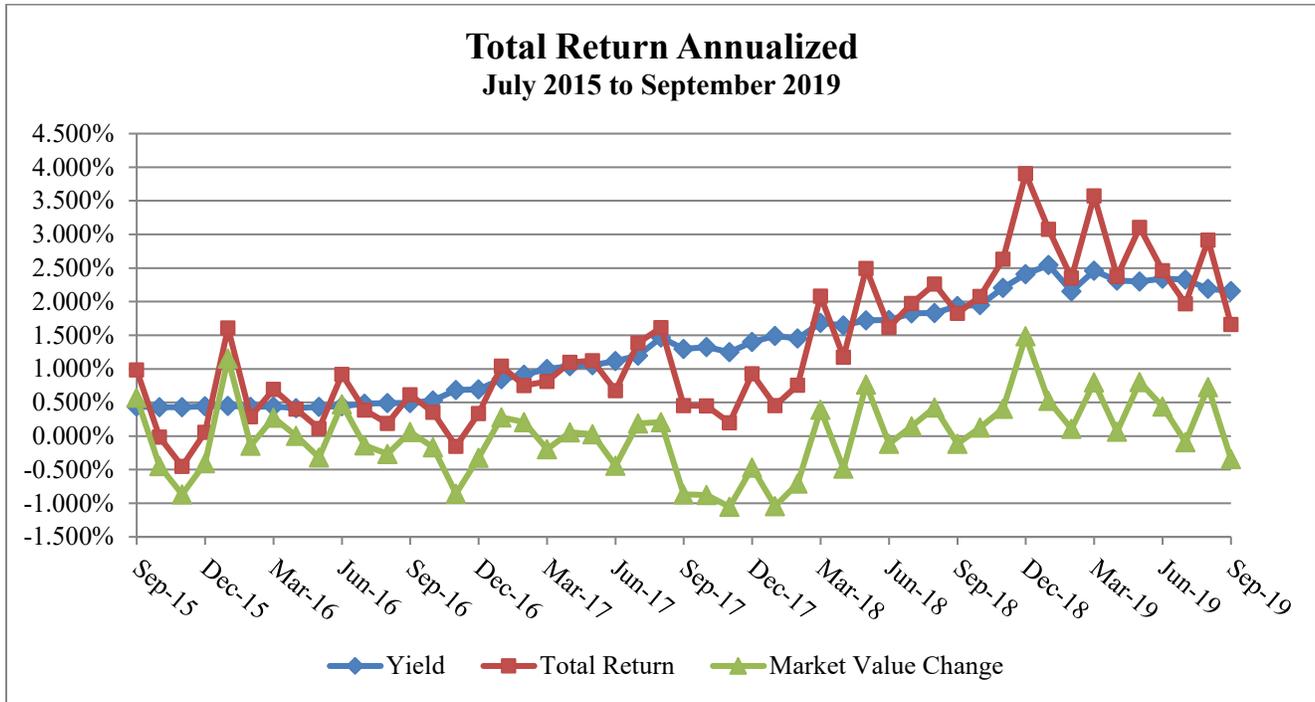


Chart 5 depicts the investment portfolio’s monthly total return on an annualized basis and the two components that make up total return: yield and change in market value.

Table 4 summarizes what changed in the portfolio by quarter. Interest income is a function of higher yields and more funds invested.

Table 4

	Q1	Q2	Q3	Q4	YTD
Interest Income	1,399,033				1,399,033
Realized Gain/Loss	(87,175)				(87,175)
Change in Market Value	61,144				61,144
Fees	(1,675)				(1,675)
Transfers (Net)	-				-
Ending Balance Market	252,627,440				252,627,440

In Chart 6, the allocation to Money Market Funds increased due to maturities in bonds. The high balance in Money Market Funds currently serves the City well with the inverted yield curve; however, if the Federal Reserve continues to cut interest rates, the yield on those investments will decline in step with the rate cuts. With the inversion of the yield curve, the Federal Reserve would have to cut rates at least two more times before the yield on the money market funds would be equal or less than the two-year US Treasury.

Chart 7 depicts the two major components of investment income, interest and change in market value. As interest rates were rising, interest income grew commensurately and change in market value was usually a small negative. As interest rates declined, interest income continued its upward trend due to the positioning of the portfolio by staff, and the change in market value became a positive contributor to income as the duration of the portfolio declined. As the portfolio’s duration declines (money market fund balance increases), interest rate risk declines, and change in market value swings decreases. The City’s only municipal bond matured in the past quarter and staff does not anticipate any further investments in municipal bonds, especially tax-exempt bonds.

Chart 6

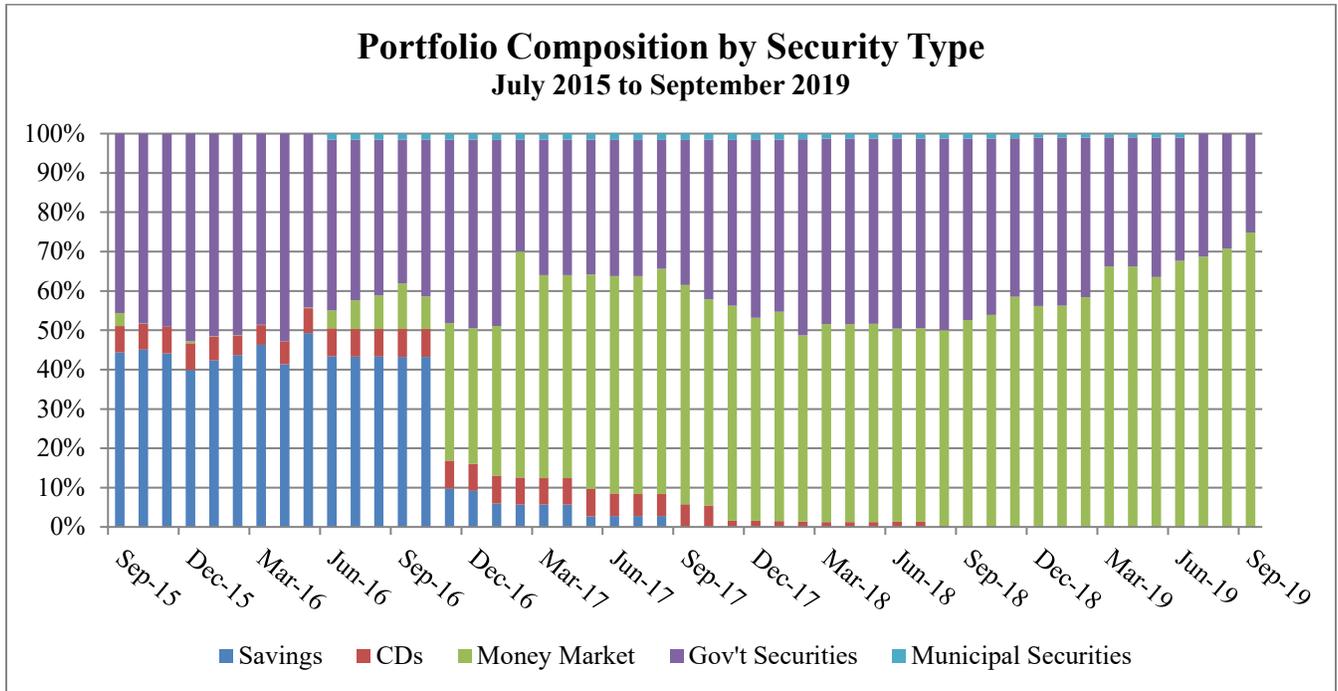
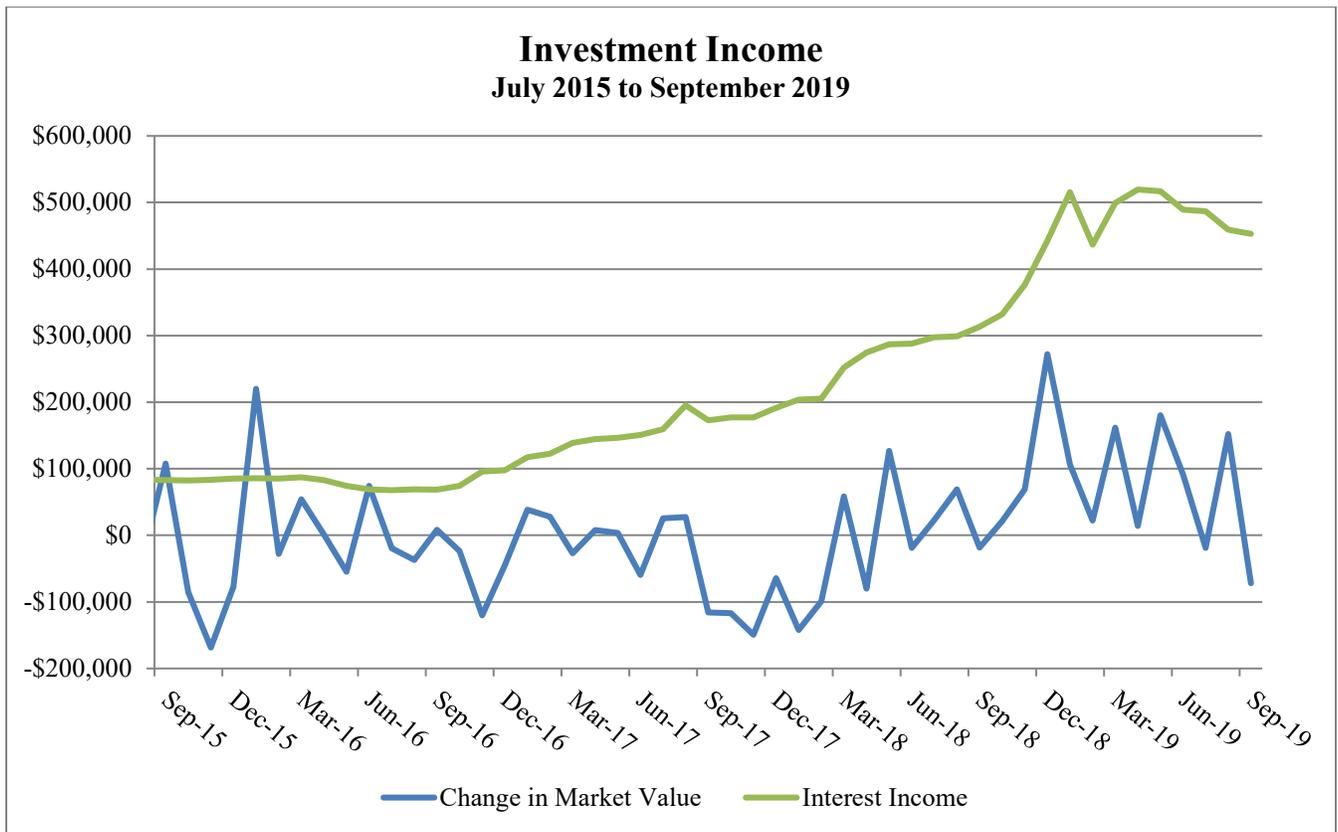


Chart 7



The City’s interest income averaged \$466,000 in the first quarter of FY2020, totaling \$1,399,033. There were no cash-flows in or out of the portfolio in the first quarter.

Chart 8

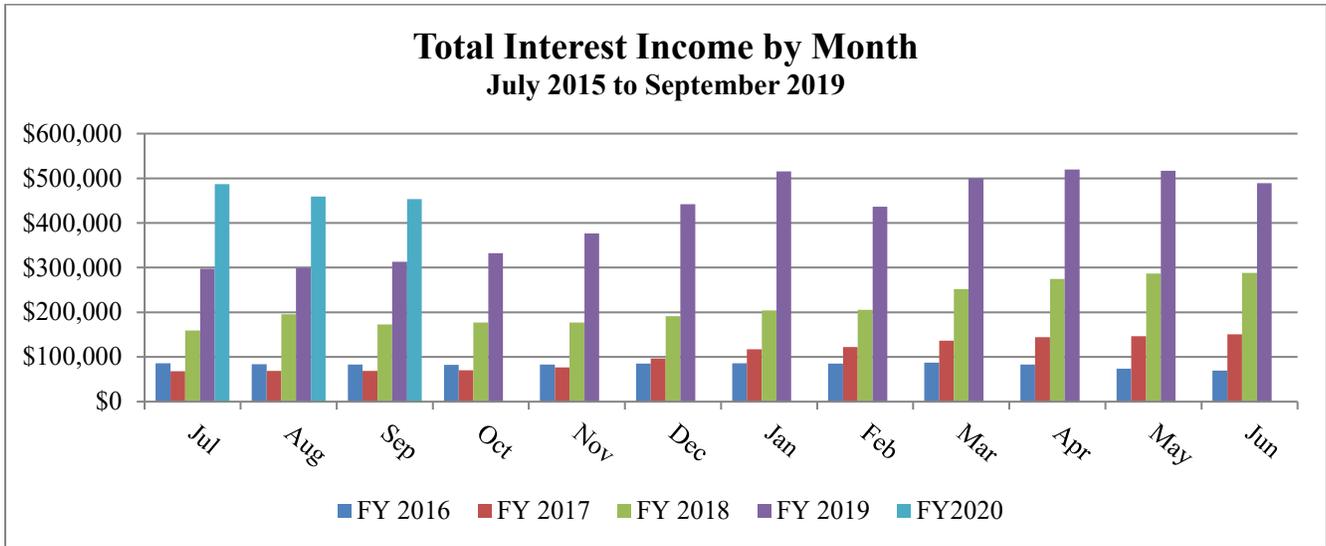


Chart 9

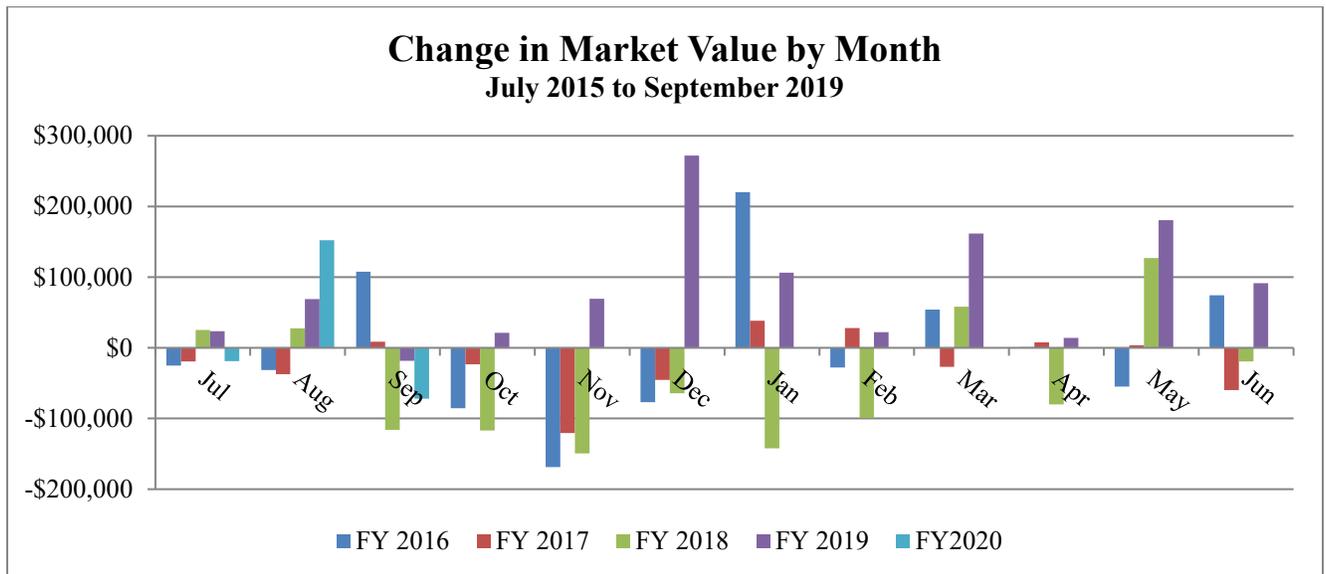
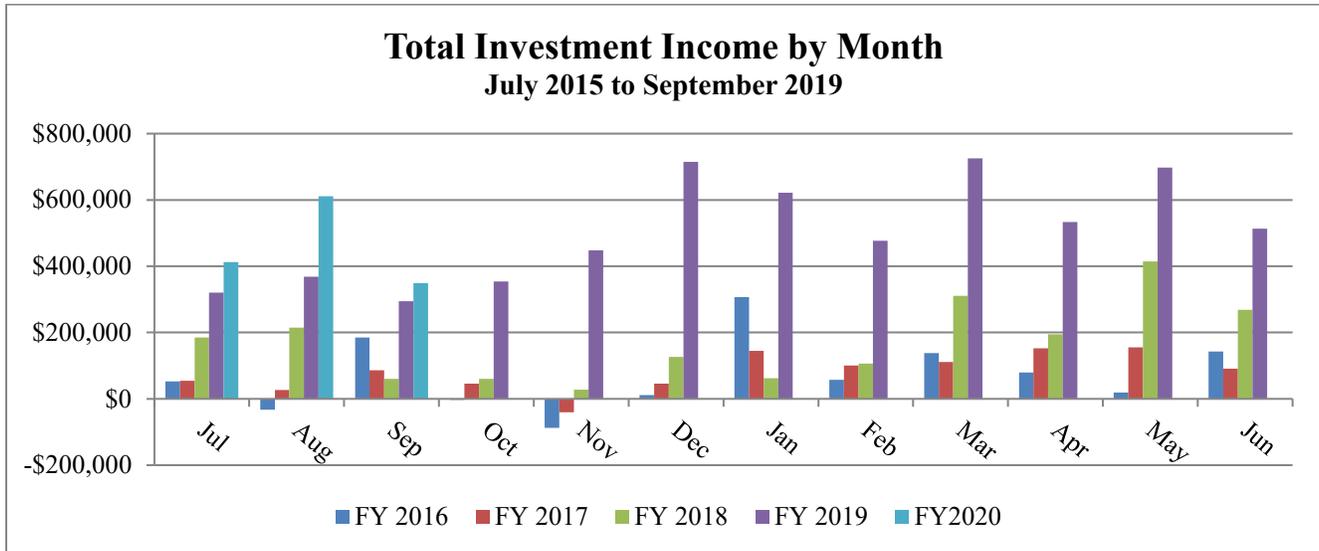


Chart 10



Total Investment Income, Chart 10, is the combination of Charts 8 and 9, interest income and changes in market value (both realized and unrealized). The three Federal Reserve interest rate cuts will reduce the City’s interest income by over \$150,000 per month, and each additional cut will reduce monthly interest income by \$55,000, given the current balance in the portfolio.

Chart 11

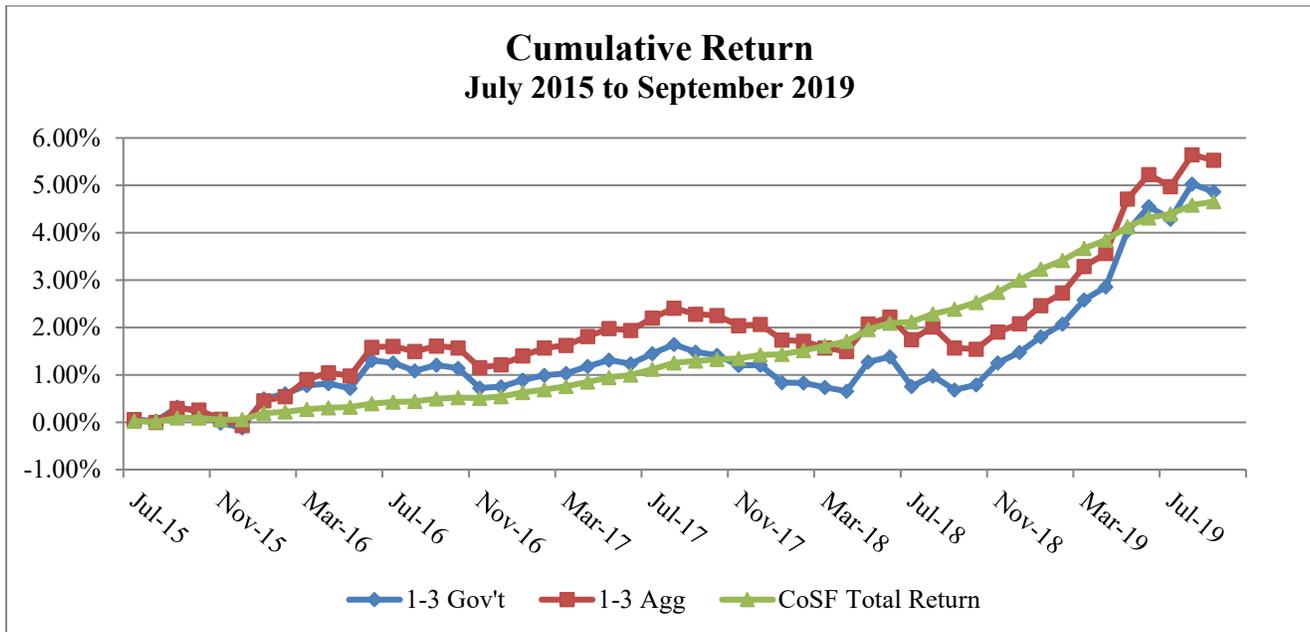
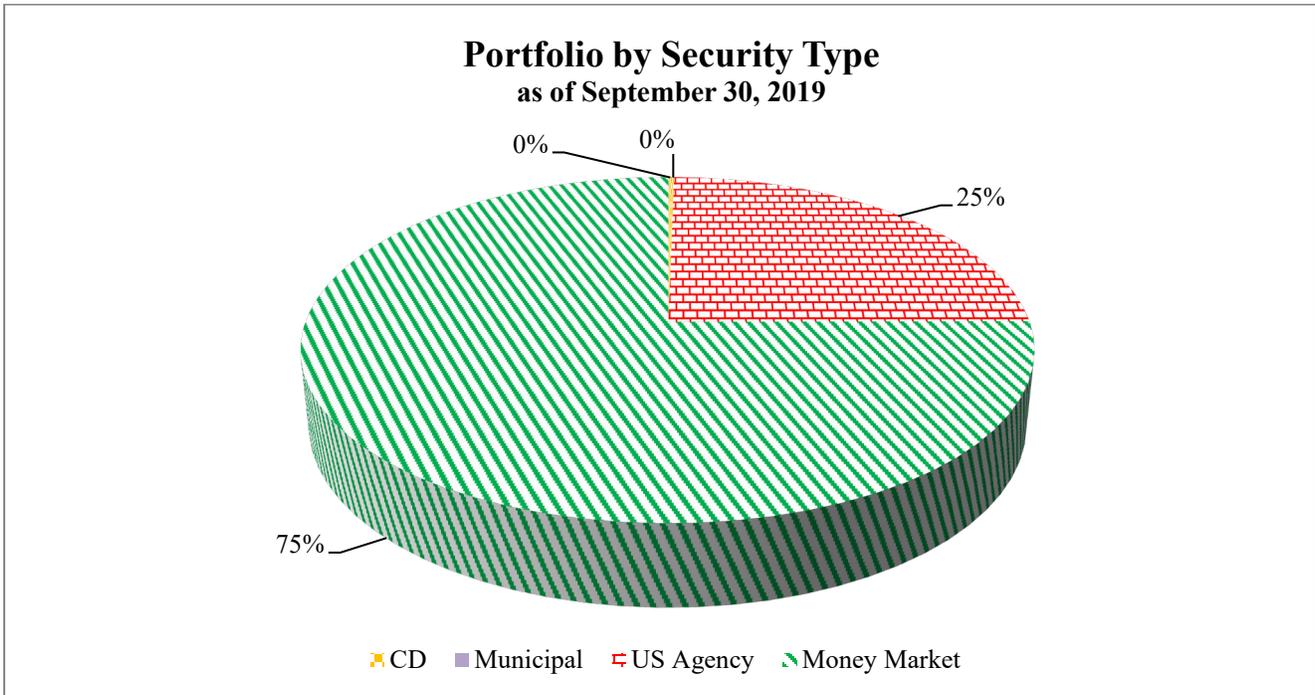


Chart 11 compares the City’s investment returns to standard industry benchmarks for short-term investment portfolios: The Bloomberg 1-3 year Government and the Bloomberg 1-3 year Aggregate that includes investment grade securities including Corporate, Mortgage and other Asset Backed Securities. Both benchmarks out-performed the City’s portfolio the past two quarters because their durations are substantially longer than the City’s portfolio, and interest rates dropped dramatically. When interest rates rise in the future, the City portfolio will outperform the two benchmarks. The City’s portfolio is positioned to capture yield and minimize capital risk.

Chart 12



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

Chart 13

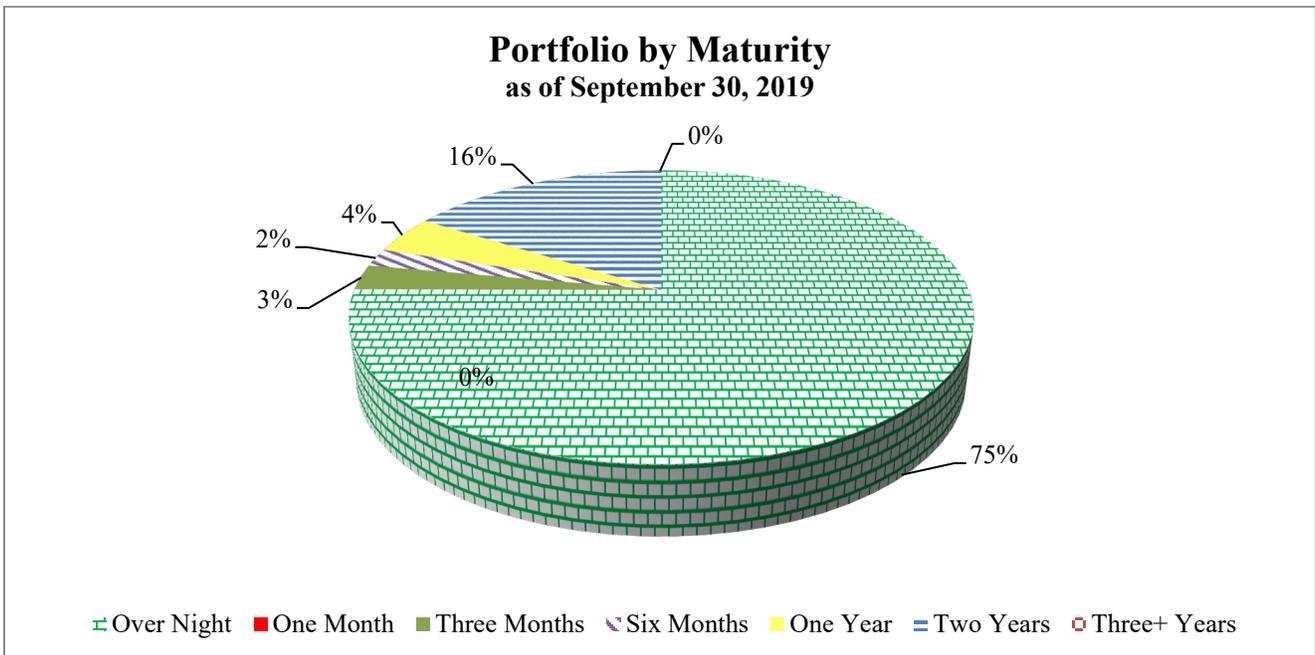
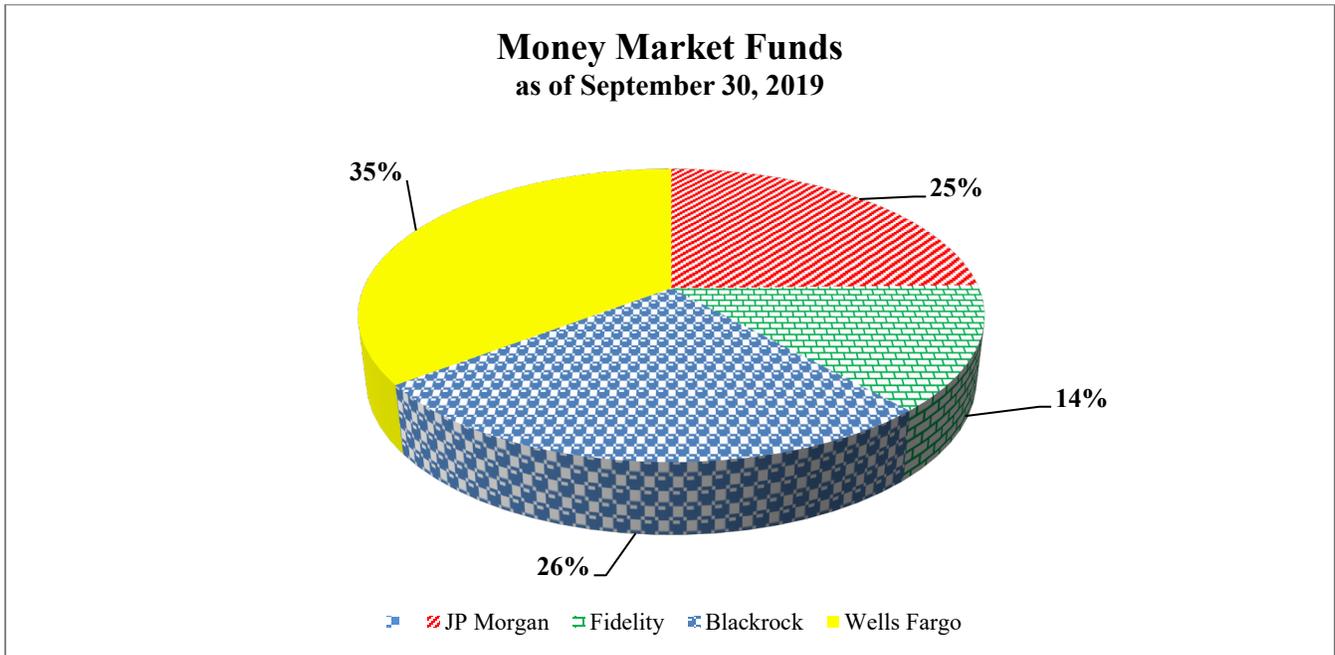


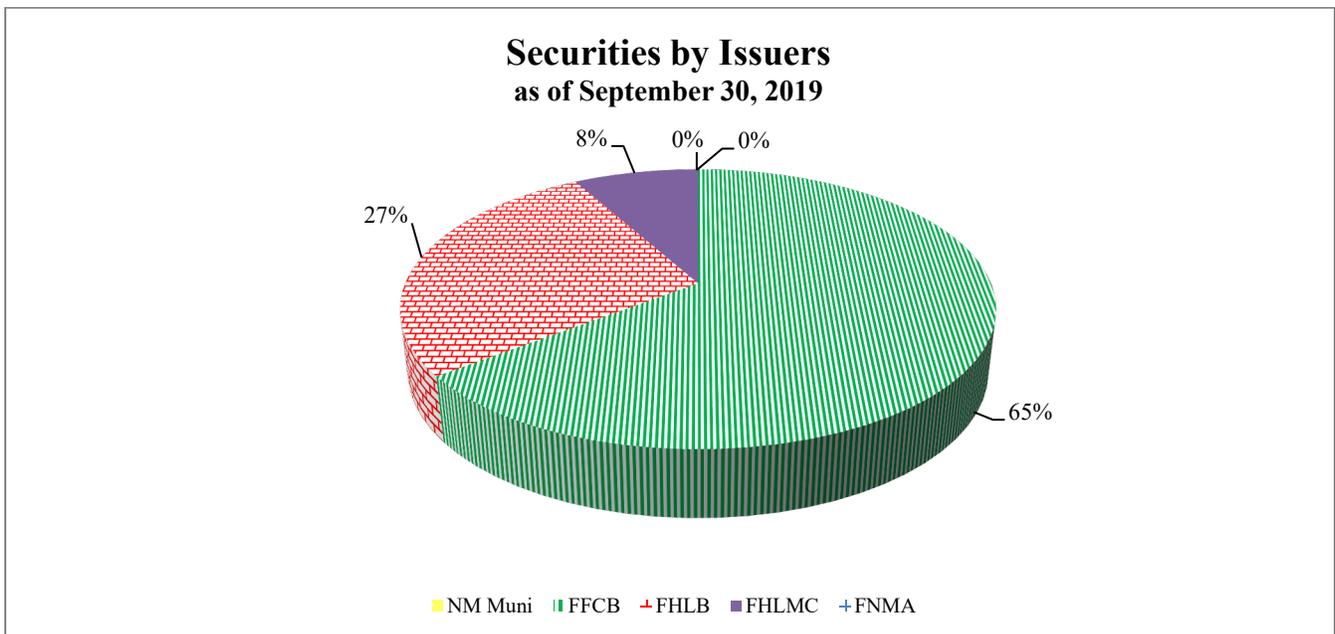
Chart 13 really demonstrates how much the City has invested in very short-term securities. The overnight slice of the pie is all Money Market Funds.

Chart 14



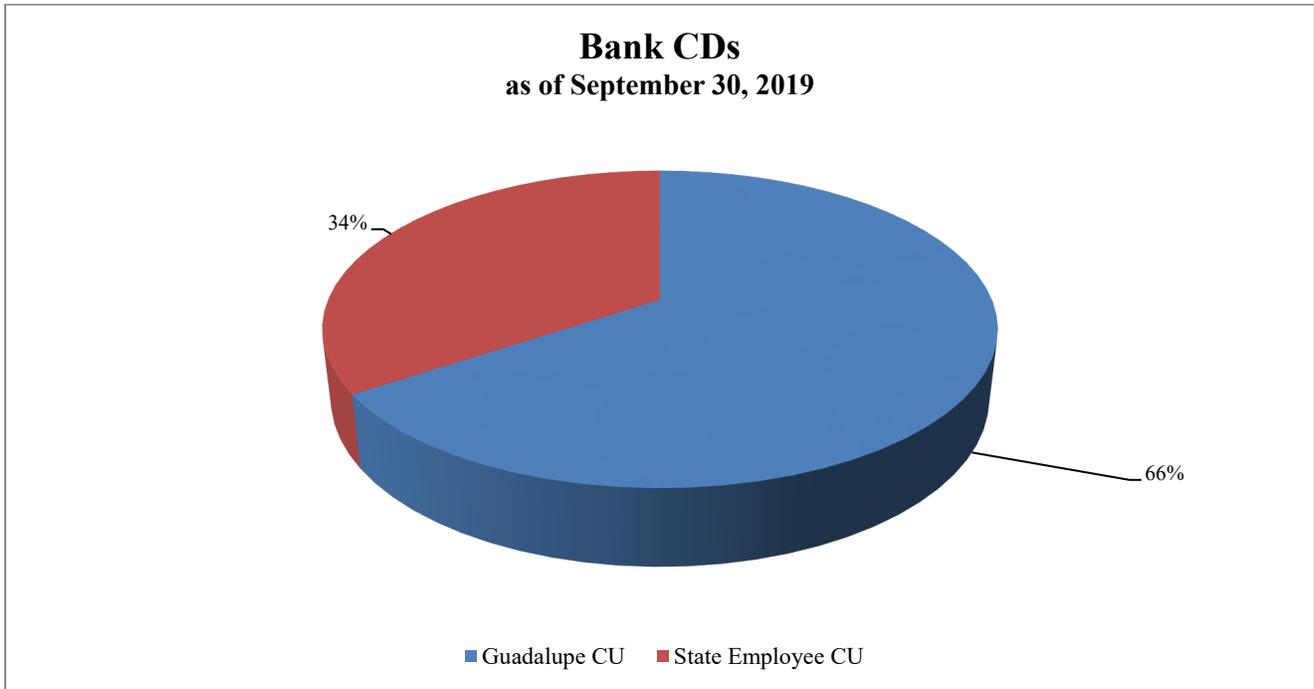
The JP Morgan, Fidelity and Blackrock money market funds are Prime Funds, which invest in Commercial Paper, Yankee CDs, Corporate Notes, and Mortgage products as well as US Treasury and Agency securities. Wells Fargo Government Money Market fund invests only in US Government and US Government Agency securities. Staff will be moving funds from the Wells Fargo Government fund and allocating to the Prime funds or purchasing floating rate US Agency notes.

Chart 15



Staff has not purchased a new security since November 2018. As securities mature, proceeds are deposited into Money Market funds.

Chart 16



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

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

Chart 17

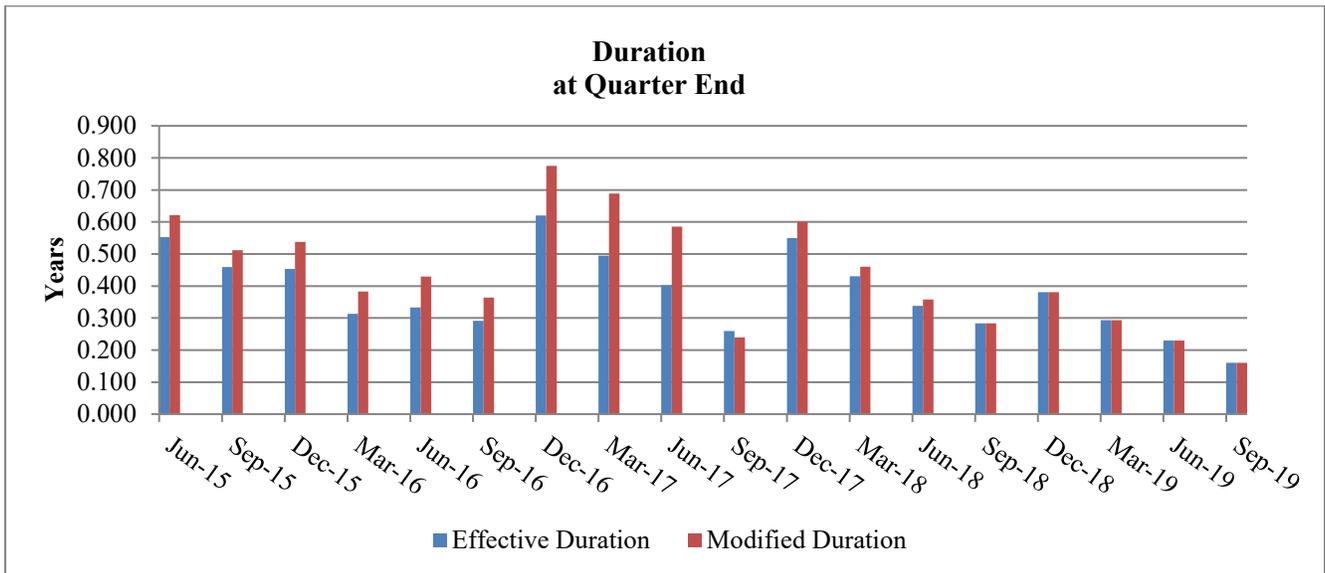
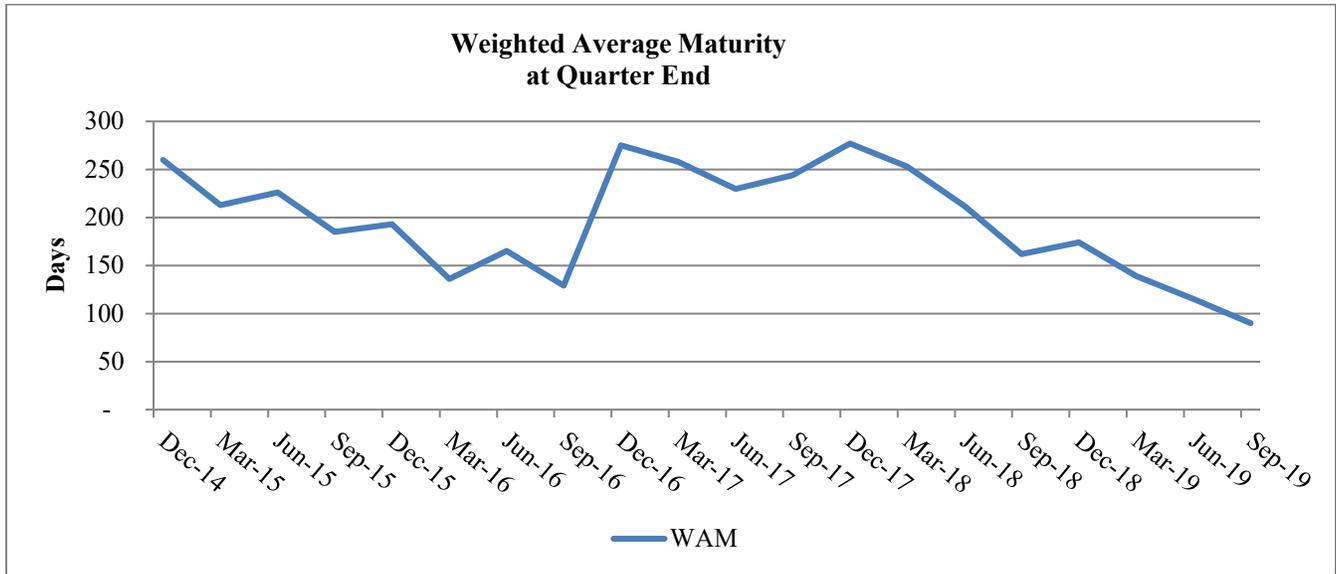


Chart 18



Investment Strategy

The inverted yield curve is the primary issue affecting investment strategy. To move out the yield curve will immediately and significantly cut investment income. What does the inverted curve tell investors? The two year US Treasury is currently yielding 1.6 percent and money market funds are yielding 2.0 percent; that tells investors that the market (all investors) believes that the Federal Reserve will cut short-term interest over the next two years to a point where the two-year average will equal 1.6 percent. So if short-term interest rates held steady for one year at 2.0 percent, the second year would only yield 1.2 percent, implying 75 basis points of additional Federal Reserve rate cuts. Even with significant geopolitical and economic activity such as trade negotiations, BREXIT, US Presidential and Congressional elections, and impeachment hearings, the US economy has remained stubbornly strong in face of a global economic slowdown. Many investors are pointing to the negative yields in Europe that are forcing European investors to buy US Treasuries. The US yield curve has a substantial inversion in short-term securities, but at least investors are earning some income. Negative yields means investors are paying the German government to hold their money.

Staff does not recommend extending the duration of the portfolio at current interest rates. Staff recommends purchasing securities with lower yields than the money market funds are currently paying. However, staff is evaluating purchasing fixed rate securities with maturities less than one year and floating rate securities.

FINANCIAL PERFORMANCE REPORT: FIRST QUARTER FY 2019-2020

Table 5

City of Santa Fe Portfolio Holdings Report As of September 30, 2019								
Issuer	Par Value	Market Value	Book Value	Coupon	YTM	Maturity Date	Modified Effective	
							Duration	Duration
Guadalupe CU	490,000	490,000	490,000	2.62%	2.62%	08/01/2020	0.548	0.548
State Employee CU	256,556	256,556	256,556	2.43%	2.43%	07/21/2019	1.546	1.546
Total CDs	746,556	746,556	746,556		2.55%		0.891	0.891
Blackrock Prime Inst #24	49,806,398	49,806,647	49,806,398		2.04%		-	-
JP Morgan Prime MM Fund #3605	46,803,032	46,803,125	46,803,032		2.03%		-	-
Fidelity Prime MM Port #2014	26,077,945	26,078,023	26,077,945		1.98%		-	-
Wells Fargo Bank MM	62,406,790	62,406,790	62,406,790		1.84%		-	-
Wells Fargo Bank Restricted	4,773,148	4,773,148	4,773,148		1.95%		-	-
Total Money Market	189,867,313	189,867,734	189,867,313		1.96%		-	-
Federal Home Loan Bank	5,000,000	4,989,100	5,003,550	1.63%	1.60%	09/11/2020	1.415	1.415
Federal Home Loan Bank	5,000,000	4,994,100	4,953,800	1.13%	1.44%	11/29/2019	0.650	0.650
Federal Home Loan Bank	2,000,000	1,998,640	1,995,780	1.38%	1.45%	11/15/2019	0.611	0.611
Farmer Mac	5,000,000	5,004,350	5,017,750	2.21%	2.21%	02/03/2021	0.250	0.250
Federal Home Loan Bank	5,000,000	5,047,350	4,989,550	2.88%	1.44%	08/20/2019	0.386	0.386
Federal Farm Credit Bank	10,000,000	9,989,100	10,000,000	2.04%	2.99%	09/11/2020	1.406	1.406
Federal Farm Credit Bank	10,000,000	10,107,600	9,990,365	2.75%	1.34%	06/14/2019	0.202	0.202
Federal Farm Credit Bank	5,000,000	5,001,900	5,000,000	2.60%	1.36%	06/14/2019	0.202	0.202
Federal Farm Credit Bank	10,000,000	10,108,600	9,986,200	2.80%	1.53%	09/13/2019	0.452	0.452
Federal Home Loan Mtg Corp	5,000,000	5,040,450	4,980,550	2.38%	1.52%	09/13/2019	0.452	0.452
Total Federal Government	62,000,000	62,281,190	61,917,545	22%	1.76%	438381.00	0.621	0.621
Total Portfolio	252,613,869	252,895,479	252,531,413		1.91%	438,381.00	0.156	0.156

Table 6

City of Santa Fe Collateral for Demand Deposits As of September 30, 2019				
Wells Fargo Bank, NA				
Security	CUSIP	Maturity	Par Value	Market Value
FMAC FEPC 4.0%	3131Y8JX4	12/01/2048	2,210,425	1,841,553
FMAC FGPC 4.0%	3132Y3B52	10/01/2048	1,241,359	1,163,465
FNMA FNMS 3.5%	3140FE2L7	03/01/2047	26,611,686	22,109,884
FNMA FNMS 3.5%	3140GUQS9	07/01/2047	2,141,000	1,822,385
FNMA FNMS 4.0%	3140JPLY9	05/01/2049	15,342,158	15,062,387
FNMA FNMS 3.5%	3140JRAY7	04/01/2049	2,577,958	2,513,867
Total Wells Fargo Bank, NA			50,124,586	44,513,541
Total Collateral			50,124,586	44,513,541