

CITY OF SANTA FE

QUARTERLY FINANCIAL PERFORMANCE REPORT

As of March 31, 2021



CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT
TABLE OF CONTENTS

	<u>Page #</u>
I. EXECUTIVE SUMMARY	
A. Executive Summary	3
B. <u>Table 1</u> : All Funds –Operating Budget Summary and Projections	4
C. <u>Chart 1</u> : FY 2020-21 All Funds Projections.....	5
D. <u>Chart 2</u> : FY 2020-21 General Fund Projections.....	5
E. <u>Table 2</u> : General Fund Summary and Projections.....	6
 II. REVENUE UPDATE	
A. Gross Receipts Tax Update	7
B. <u>Chart 3</u> : Total Taxable Gross Receipts by Industry Sector, March 2021	7
C. <u>Chart 4</u> : Taxable Gross Receipts	7
D. <u>Chart 5</u> : Taxable Gross Receipts by Industry Weight	8
E. <u>Chart 6</u> : Gross Receipts Tax Distributions, FY19, FY20, FY21 Actuals.....	8
F. <u>Chart 7</u> : GRT Distribution in the Month Earned.....	9
G. Property Tax Update	10
H. <u>Table 3</u> : Property Tax Distribution - Monthly Comparison	10
I. Lodgers’ Tax Update.....	11
J. <u>Table 4</u> : Lodgers’ Tax Distribution - Monthly Comparison	11
 III. INVESTMENT UPDATE	
A. <u>Chart 8</u> : Total Investment Income by Month, July 2015 to March 2021	12
B. <u>Chart 9</u> : United States Treasury Yield Curve Comparison	12
C. <u>Chart 10</u> : Portfolio Composition by Security Type, July 2015 to March 2021.....	13
D. Investment Strategy	13
E. <u>Table 6</u> : Portfolio Holdings Report as of March 31, 2021	14

I. EXECUTIVE SUMMARY

This report is a summary of financial results for the City through the third quarter of the fiscal year. It provides summarized information on how the City's financial sources (revenues) and uses (expenditures) have performed to date by department and major categories. Significant financial developments and budget variances are highlighted and explained. The report also includes a projection of revenues and expenditures to the end of the fiscal year based on year-to-date activity and historical trends.

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

HIGHLIGHTS

Due to the economic impact of the ongoing pandemic, the City's FY21 revenue estimates assumed a decrease in revenue over the previous fiscal years. The pandemic caused wide-ranging effects on the local and regional economy which has led to a significant reduction in revenue performance for FY21 as compared to previous fiscal years. The impact of COVID-19 was initially severe for Santa Fe businesses that posted a loss of \$500 million from February 2020 to January 2021 in taxable gross receipts. This situation has particularly affected the City's Gross Receipts Tax (GRT) revenue. Because the GRT represents the largest single source of the City's revenues, this downturn has significantly impacted the City's overall revenue estimates. As of the end of the third quarter, overall revenues appear to be trending a bit above the fiscal year's reduced expectations. This trend is led by GRT revenue, which is expected to come in above budget estimates, although other major revenue sources such as fines & forfeitures, parking and recreation fees, and insurance premiums are trending well below budget estimates. Overall, revenues are currently estimated to come in above budgeted levels. The City has made significant reductions to expenditures as well as other adjustments to the FY21 budget from FY20 levels to meet the challenges posed by the pandemic's economic impacts and resulting downward trends in revenue performance. As of the end of the third quarter, expenditures are trending below budgeted levels.

GENERAL FUND

As is the case with the City's overall budget, the revenue outlook for the General Fund has been considerably impacted by the economic downturn as a result of the Coronavirus pandemic. The FY21 General Fund budget reflects these changes. However, GRT revenues are currently trending above budgeted levels. Because GRT receipts represent the largest share by far of General Fund revenues, this trend leaves the overall General Fund revenue estimate above budget, despite the projected under-performance in some other revenue categories such as Property Tax and Fees & Services. In keeping with the trend seen in previous years, General Fund expenditures are expected to end the fiscal year below budgeted levels. This trend is largely due to projected under-expenditures in personnel costs, contractual services and supplies expenses.

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.

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

ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

Table 1

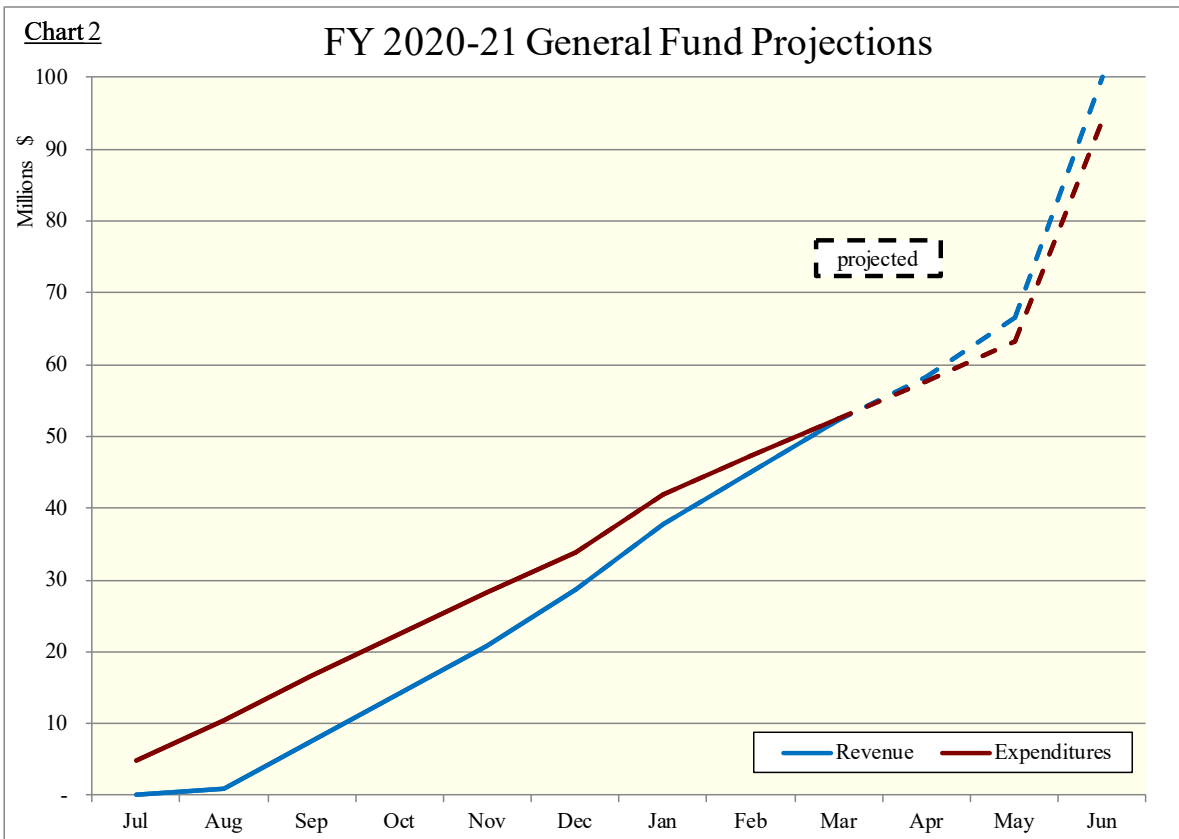
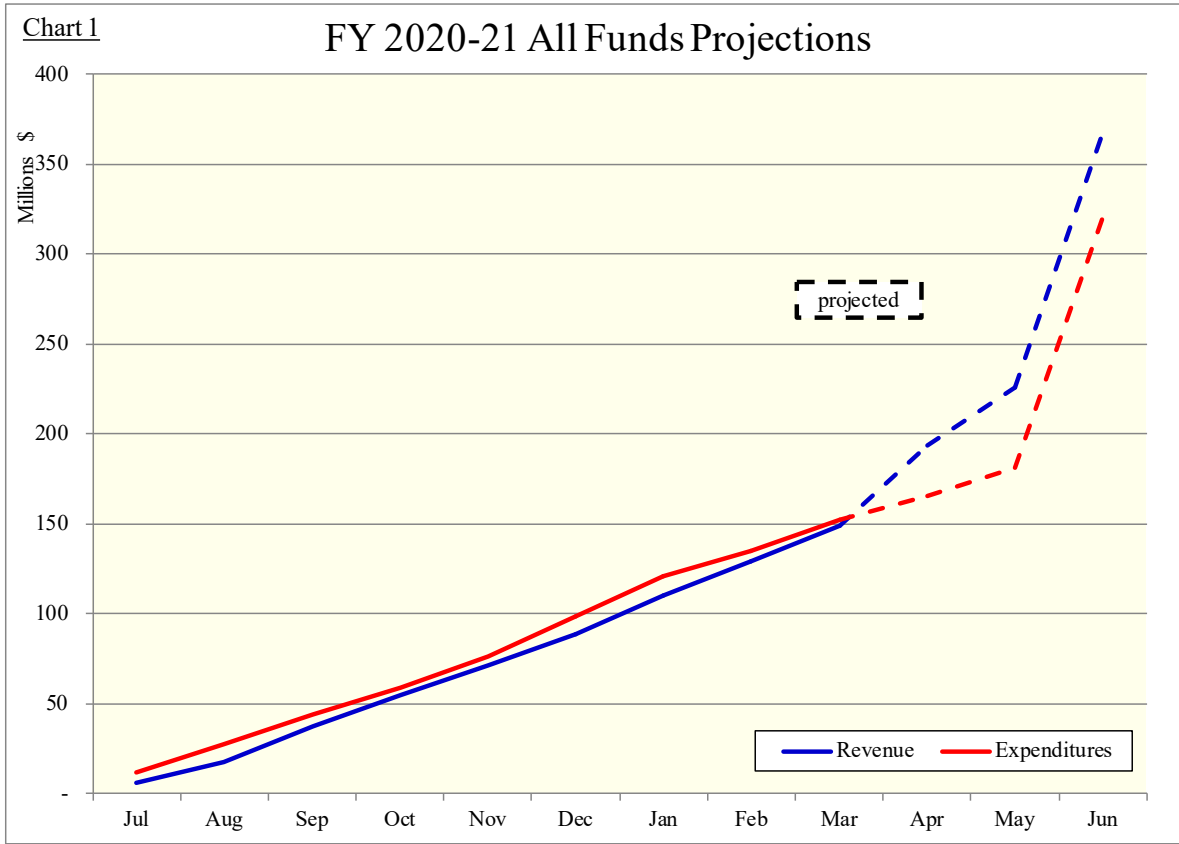
DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2020/2021				
	2019/2020 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	199,157,424	212,274,620	212,274,620	212,274,620	212,274,620	
<i>Revenues:</i>						
Gross Receipts Tax	115,129,601	90,858,566	92,676,215	61,706,016	103,033,996	11%
Property Tax	10,850,664	11,989,105	11,989,105	6,923,770	10,541,257	-12%
Franchise Fees	5,074,062	4,566,228	4,566,228	2,505,434	4,251,790	-7%
Lodgers' Tax	9,947,568	6,400,212	6,400,212	2,833,965	4,992,017	-22%
Gasoline Tax	1,333,045	1,064,848	1,064,848	816,789	1,229,448	15%
Other Taxes	477,671	429,895	429,895	229,750	396,233	-8%
Licenses & Permits	4,495,818	3,327,604	3,327,604	2,409,212	3,687,208	11%
Ambulance Fees	4,645,196	2,520,000	2,520,000	3,424,620	5,250,165	108%
Insurance Premiums/Deductibles	27,636,852	30,330,607	30,330,607	15,220,822	20,361,034	-33%
Parking Fees	3,702,079	3,732,204	3,732,204	268,059	382,425	-90%
Recreation Fees	1,963,134	2,184,240	2,184,240	25,750	40,615	-98%
Solid Waste Fees	20,026,107	19,563,859	19,563,859	12,382,297	17,860,111	-9%
Wastewater Fees	13,586,183	11,742,094	11,742,094	7,293,482	11,078,518	-6%
Water Fees	38,747,552	34,443,433	34,443,433	18,766,731	29,951,850	-13%
Other Fees/Services**	34,914,616	20,754,177	20,804,747	10,431,604	30,802,428	48%
Fines & Forfeitures	922,796	795,260	795,260	47,582	99,630	-87%
Miscellaneous Revenues***	9,031,080	2,999,296	3,182,320	924,178	37,983,763	1094%
Interest on Investments	122,852	202,249	202,249	3,772	202,249	0%
State Grants	3,552,664	4,653,120	20,147,526	1,613,367	20,147,526	0%
Federal Grants	1,821,045	6,000,809	8,682,190	390,230	8,682,190	0%
SF County/Other Grants	4,811,564	8,709,051	8,763,270	43,301	8,763,270	0%
Transfers In	55,563,785	42,782,848	47,137,563	328,338	47,137,563	0%
Subtotal - Revenues	368,355,934	310,049,705	334,685,669	148,589,069	366,875,288	10%
TOTAL RESOURCES	567,513,358	522,324,325	546,960,289	360,863,689	579,149,908	
<i>Expenditures:</i>						
Salaries	77,017,313	76,059,763	84,963,314	53,702,081	71,838,825	-15%
Benefits	36,529,082	40,963,629	42,375,332	26,330,100	35,288,602	-17%
Contractual Services	22,348,673	24,762,923	39,368,623	28,342,130	33,560,902	-15%
Utilities	12,261,234	12,789,155	12,853,943	10,534,232	15,103,832	18%
Repairs & Maintenance	6,566,225	6,513,767	7,797,529	5,985,699	7,204,746	-8%
Supplies	11,293,181	11,128,459	13,581,643	8,902,314	11,667,501	-14%
Insurance	34,978,336	34,383,869	34,383,357	21,744,871	24,882,413	-28%
Travel & Training	600,722	565,722	713,854	269,562	433,811	-39%
Other Operating	58,748,609	30,106,341	31,763,233	8,386,332	30,017,981	-5%
Capital Purchases	7,335,732	3,600,918	7,866,154	5,813,655	7,079,539	-10%
Land & Building	892,557	508,383	2,736,987	2,055,678	2,463,288	-10%
Debt Service-Principal	14,807,542	21,261,908	21,261,908	138,920	21,261,908	0%
Debt Service-Interest	10,525,005	10,223,908	10,223,908	10,541	10,223,908	0%
Transfers Out	61,334,526	44,030,119	48,980,203	435,853	48,980,203	0%
TOTAL EXPENDITURES	355,238,737	316,898,864	358,869,988	172,651,969	320,007,460	-11%
ENDING BALANCE	212,274,620	205,425,461	188,090,301	188,211,720	259,142,448	

*Includes year-to-date actuals plus encumbrances as of March 31, 2021; excludes CIP funds

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

***Miscellaneous Revenues are primarily comprised of Bond Proceeds. This category also includes: Bond Premiums; Sales Revenue; Reimbursements; Refunds; Advertising Income; Insurance Recoveries; Rental Income; and other miscellaneous revenues

PROJECTIONS ANALYSIS



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

GENERAL FUND SUMMARY & PROJECTIONS

Table 2

DESCRIPTION	FISCAL YEAR	FISCAL YEAR 2020/2021				
	2019/2020 ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	15,613,533	23,728,880	23,728,880	23,728,880	23,728,880	
<i>Revenues :</i>						
Gross Receipts Tax	72,676,481	57,480,900	59,298,549	39,133,761	65,321,080	10%
Property Tax	8,732,173	10,041,506	10,041,506	5,874,192	8,904,971	-11%
Franchise Fees	5,032,537	4,498,228	4,498,228	2,505,434	4,251,790	-5%
Other Taxes	477,671	376,012	376,012	229,750	339,895	-10%
Licenses & Permits	4,450,618	3,264,161	3,264,161	2,409,112	3,710,257	14%
Ambulance Fees	4,645,196	2,520,000	2,520,000	3,424,620	5,250,165	108%
Planning/Land Use Fees	235,688	684,469	684,469	211,414	354,779	-48%
Recreation Fees	180,209	166,383	166,383	24,723	57,325	-66%
Reimbursed Expenditures**	3,543,355	4,952,007	4,952,007	2,314	4,952,007	0%
Other Fees/Services	114,791	373,281	373,281	53,985	104,927	-72%
Fines & Forfeitures	217,013	191,320	191,320	40,405	67,646	-65%
Miscellaneous Revenues	12,621	49,802	109,103	(1,658,890)	(1,609,405)	-1575%
Interest on Investments	-	8,096	8,096	-	8,096	0%
State/Other Grants	74,055	611,555	611,555	42,808	611,555	0%
Transfers In	2,334,946	7,543,688	7,678,688	-	7,678,688	0%
Subtotal - Revenues	102,727,355	92,761,408	94,773,358	52,293,627	100,003,778	6%
TOTAL RESOURCES	118,340,888	116,490,288	118,502,238	76,022,507	123,732,658	
<i>Expenditures :</i>						
Salaries	42,249,089	42,416,186	42,047,717	29,945,947	39,834,408	-5%
Benefits	19,742,445	22,360,177	22,329,427	14,361,072	19,202,629	-14%
Contractual Services	4,984,137	5,486,893	6,254,527	3,229,151	3,845,199	-39%
Utilities	3,939,821	3,771,462	3,770,462	3,387,523	5,014,234	33%
Repairs & Maintenance	762,913	732,962	758,006	638,758	760,464	0%
Supplies	2,834,226	2,047,723	2,190,738	1,671,600	1,853,789	-15%
Insurance	3,108,959	3,362,537	3,362,537	-	3,362,537	0%
Travel & Training	149,424	69,170	66,314	18,381	31,707	-52%
Other Operating	6,930,328	6,818,860	7,711,109	517,866	7,372,373	-4%
Capital Purchases	1,760,273	101,500	384,070	374,996	404,292	5%
Land & Building	207,296	7,718	7,718	5,500	7,480	-3%
Transfers Out	7,943,095	5,438,296	12,272,876	25,918	12,272,876	0%
TOTAL EXPENDITURES	94,612,007	92,613,484	101,155,501	54,176,714	93,961,989	-7%
ENDING BALANCE	23,728,880	23,876,804	17,346,737	21,845,794	29,770,669	
<i>City Council-Mandated Minimum General Fund Balance***</i>	<i>8,666,891</i>	<i>8,717,519</i>	<i>8,888,263</i>		<i>8,888,263</i>	
<i>Equivalent # Days of Operation</i>	<i>100</i>	<i>100</i>	<i>71</i>		<i>133</i>	

*Includes year-to-date actuals plus encumbrances as of March 31, 2021

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

***Minimum balance defined as 1/10 (10%) budgeted annual General Fund expenditures excluding transfers

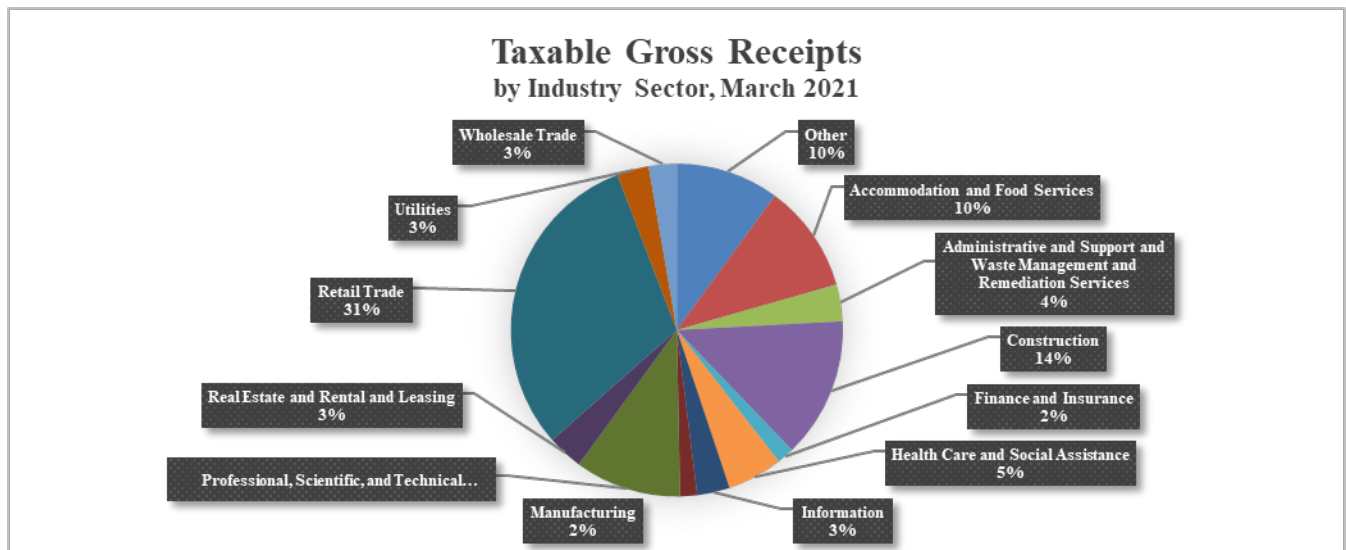
II. REVENUE UPDATE

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 (TRD) reports the monthly tax receipts collection activity data.

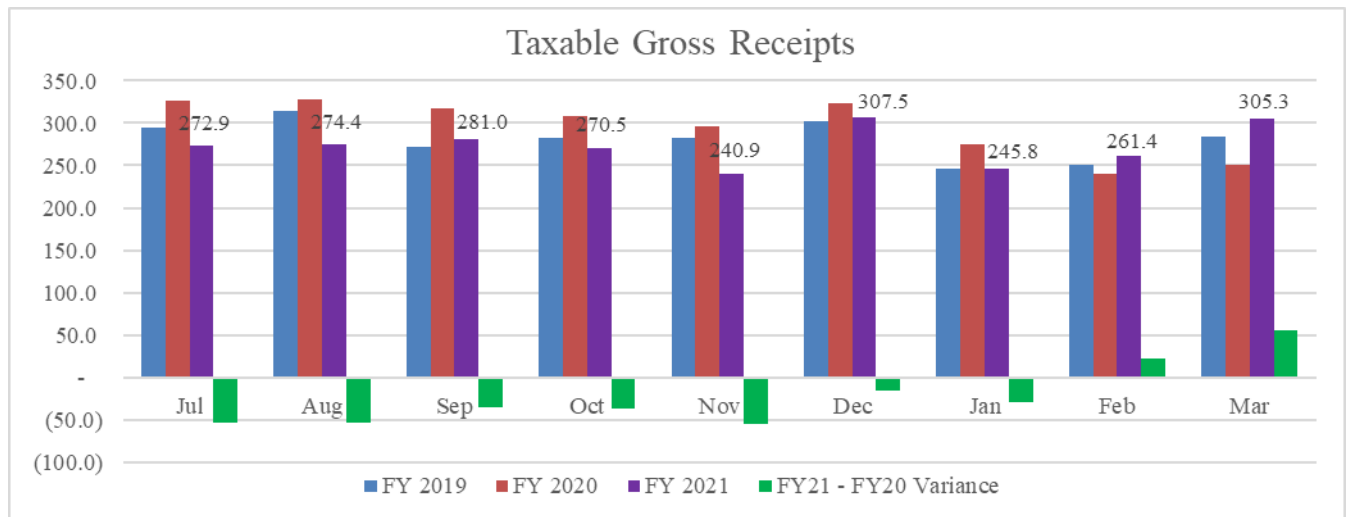
The data below represents the economic activity in March 2021, and the distribution is made to the City by the New Mexico Tax and Revenue Department in May 2021. Total taxable gross receipts activity (sales volume in Santa Fe) in March 2021 was up \$54.8 million or 21.9 percent over March 2020, and 7.3 percent over March 2019. Receipts received in March 2021 were particularly strong in the Retail, Real Estate & Leasing, and the Arts, Entertainment and Recreation sectors. Professional and Scientific/Technical Services, Management and Information were the only industries with negative year-over-year growth.

Chart 3



(Source: NM Taxation & Revenue Dept.)

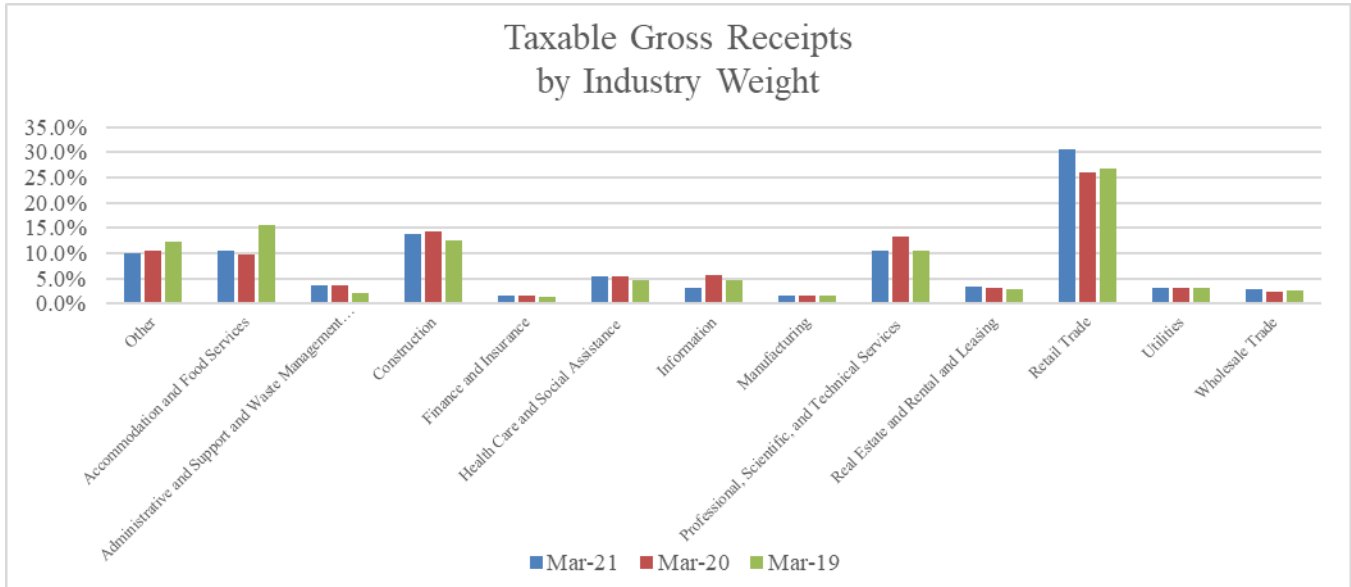
Chart 4



(Source: NM Taxation & Revenue Dept.)

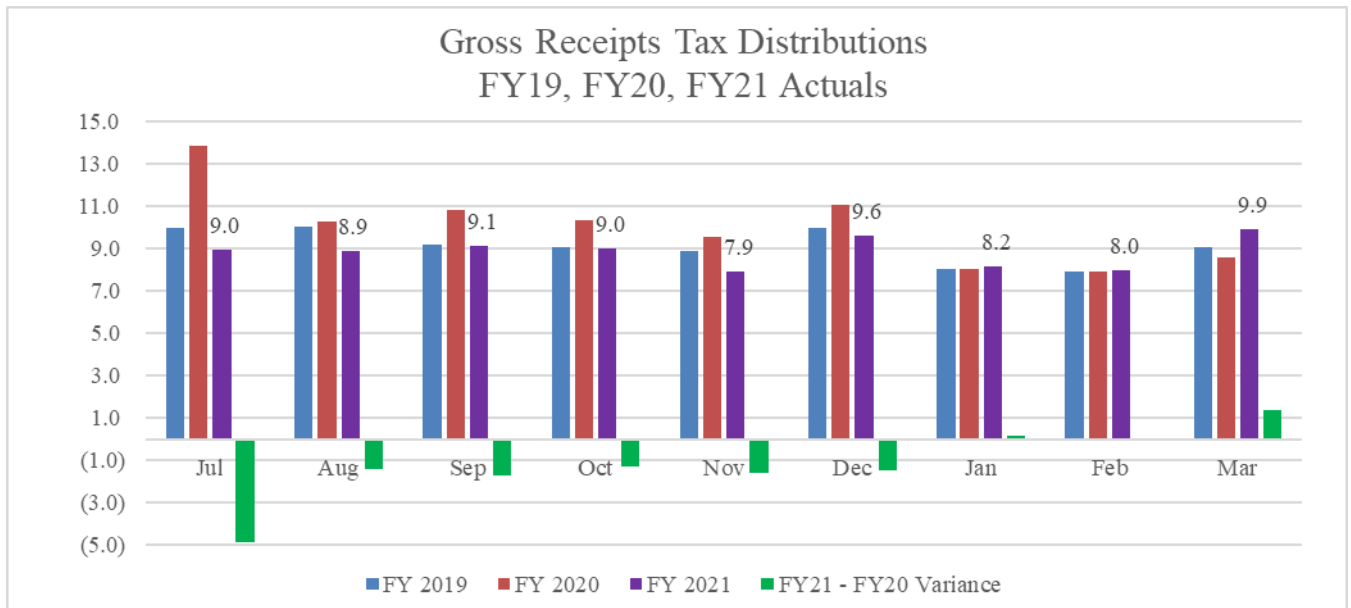
The following chart compares how much each industry contributes to the total taxable gross receipts over the past three years. Retail Trade is the largest contributor to taxable gross receipts, followed by the Construction, Accommodation & Food Service, and Professional and Scientific/Technical Services sectors.

Chart 5



(Source: NM Taxation & Revenue Dept.)

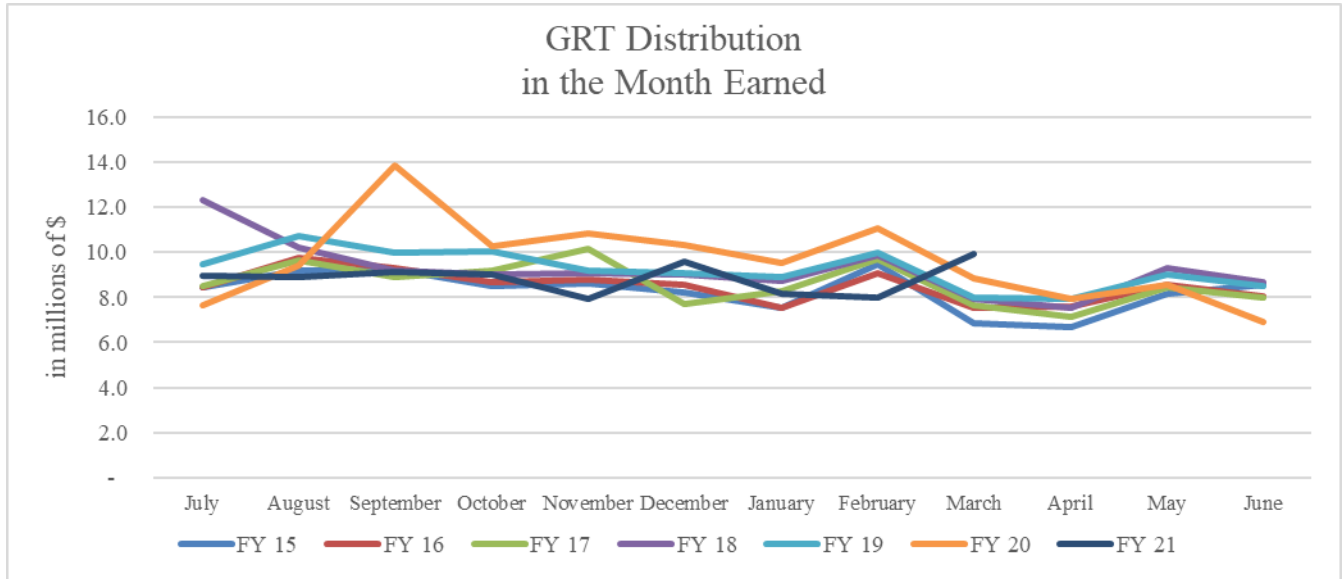
Chart 6



(Source: NM Taxation & Revenue Dept.)

It should be noted that in July 2019 the City received \$3.7 million in a one-time payment from TRD due to a filing error by a class of taxpayers. Year to date, the City has received \$79.6 million, or 87.8 percent, in GRT with three months left in the fiscal year.

Chart 7



(Source: NM Taxation & Revenue Dept.)

Property Tax

Property Tax consists of 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 to the property happens due to disaster or calamity, or the property is reassessed to market value.

As the table below illustrates, historically the principal disbursements of Property Tax receipts from the County to the City occur in December and January, and the secondary disbursements occur in May and June. The County extended the due date for Property Tax payments until January 10th, per a change dictated in HB407. It is realistic to expect that homeowners who have unexpectedly lost income during the pandemic may not be able to pay property taxes, which would impact the secondary distribution of property taxes to the City in May and June.

Table 3

**City of Santa Fe
Property Tax Distribution - Monthly Comparison**

Month	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY21
July	181,172.84	181,172.84	172,568.99	158,252.40	212,697.13	161,528.64	89,304.00
August	98,098.38	102,725.51	63,995.91	79,867.79	81,281.38	110,346.23	28,086.00
September	48,696.79	57,992.94	42,455.03	44,247.12	42,773.87	34,766.25	67,877.24
October	32,960.87	36,101.53	30,150.24	28,885.16	17,268.26	17,653.61	18,451.00
November	35,445.97	17,579.06	15,352.62	19,189.52	29,697.74	17,828.39	1,708,122.95
December	2,677,926.12	2,878,550.59	3,302,302.08	3,320,524.42	3,954,096.90	1,740,341.04	4,139,155.63
January	3,023,204.14	3,398,503.45	3,510,709.48	3,686,706.25	2,614,809.13	3,459,982.23	700,857.97
February	131,817.38	178,763.53	175,879.59	367,028.26	216,804.87	1,661,069.65	171,914.77
March	99,795.70	155,936.80	140,224.24	170,669.80	143,742.35	137,125.74	218,482.28
April	226,883.06	266,164.07	260,778.54	257,874.41	227,313.89	272,546.18	
May	1,027,691.83	1,115,151.87	1,058,610.40	1,122,336.03	1,101,607.09	1,686,092.36	
June	2,083,801.06	2,151,653.58	2,370,470.78	2,240,642.17	2,193,829.16	1,544,454.01	
Totals	9,667,494.14	10,540,295.77	11,143,497.90	11,496,223.33	10,835,921.77	10,843,734.33	7,142,251.84

Lodgers’ Tax

Lodgers’ tax collections are generated from hotels, motels and short-term rentals within the City of Santa Fe. Lodgers’ tax is remitted for revenue generated from lodging at a taxable premise within the City limits.

Lodgers’ tax has seen a steady climb, averaging eight percent growth over the last 5 years. However, FY20 saw a decline of eight percent, and the first few months of FY21 are coming in at 30 percent of FY20 levels. The New Mexico Legislature has amended the State Lodgers’ tax code recently and the City is in the process of amending their code to accommodate those changes. Primary modifications to State Statute address two exemptions: the three-room exemption, which the Legislature eliminated, and the exemption for non-permanent residence rentals exceeding 30 days. Proposed changes to the City Code are being developed and will be presented to the Governing Body in the near future. Lodgers’ tax collections have exceed forecasts in the first half of this fiscal year. Projections indicated that only 25 percent of FY19 levels would be generated; estimates for the second half of the fiscal year are for 75 percent of FY19 levels to be generated.

Lodgers’ tax is not recovering to the same extent that gross receipts have recovered for the accommodation and food service industry. In the coming months, the new Lodgers’ Tax Administrator will be hired, and staff will review lodgers’ tax filings and payments against previous years.

Table 4

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

Month	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
July	842,891.67	997,792.10	941,920.00	1,078,010	1,048,015	1,240,740	23,931
August	1,087,565.45	1,079,597.76	1,227,105.44	1,272,253	1,400,668	1,468,833	391,580
September	1,176,556.86	1,222,266.74	1,368,371.50	1,040,098	1,189,742	1,589,619	407,336
October	960,500.37	1,022,426.87	1,140,638.23	1,163,774	1,675,466	1,302,014	403,827
November	628,151.97	994,713.98	1,168,681.30	1,433,342	1,224,889	1,336,926	492,280
December	759,911.79	677,649.80	666,376.07	681,448	584,388	814,187	363,491
January	729,747.58	585,149.55	750,601.19	592,630	1,185,232	1,071,043	271,213
February	365,403.28	453,824.14	237,906.02	199,416	592,367	615,993	191,006
March	496,764.40	436,269.58	726,119.03	1,105,901	692,646	461,249	378,936
April	606,863.54	640,043.93	867,925.31	998,849	980,496	273,786	
May	624,590.18	841,342.90	718,793.06	822,564	858,851	160,471	
June	754,933.19	795,041.07	995,027.04	1,085,668	827,742	187,915	
Totals	9,033,880.28	9,746,118.42	10,809,464.19	11,473,952.76	12,260,501.31	10,522,775.68	2,923,598.54

III. INVESTMENT UPDATE

Interest rates remain near zero percent for the third quarter and expectations are that they will remain near zero for a few more years. In the most recent Federal Reserve policy briefing, seven Federal Reserve Governors stated that they believed that the first rate increase will occur at the end of 2022 and the remaining members stated it would be 2023 before the first rate increase. The Federal Reserve Chair has repeatedly stated that the Open Market Committee is willing to let inflation exceed their target rate of two percent to decrease the unemployment rate. Short-term interest rates will not increase until the Federal Reserve changes its interest rate policy.

Chart 8

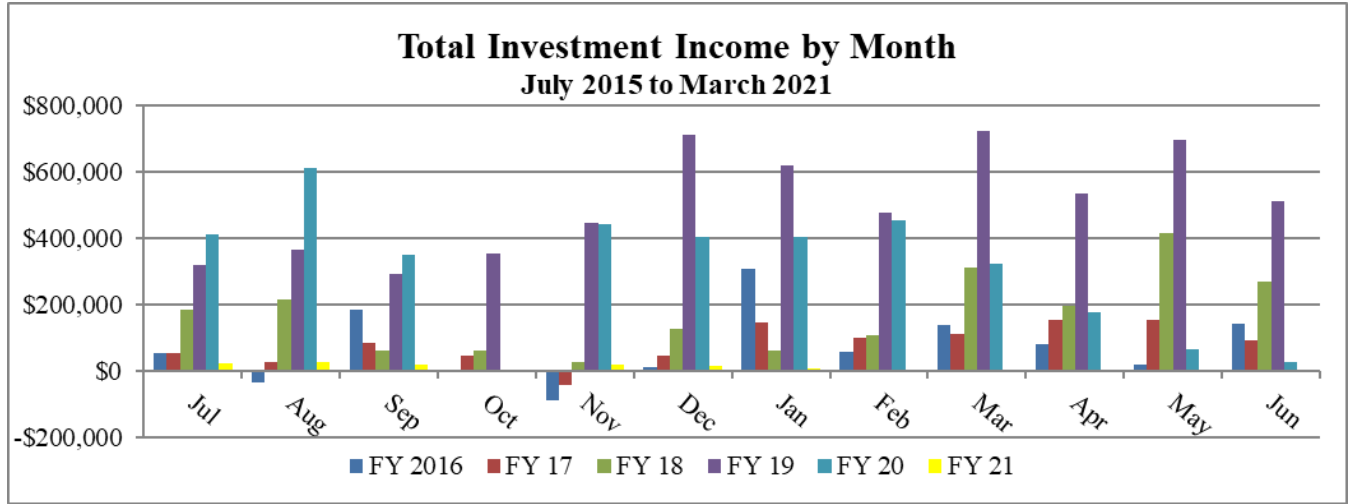


Chart 8 above shows monthly investment income by fiscal year. Several months in FY19, the portfolio earned over \$700,000. In contrast in March 2021, the portfolio earned \$3,030.

Chart 9

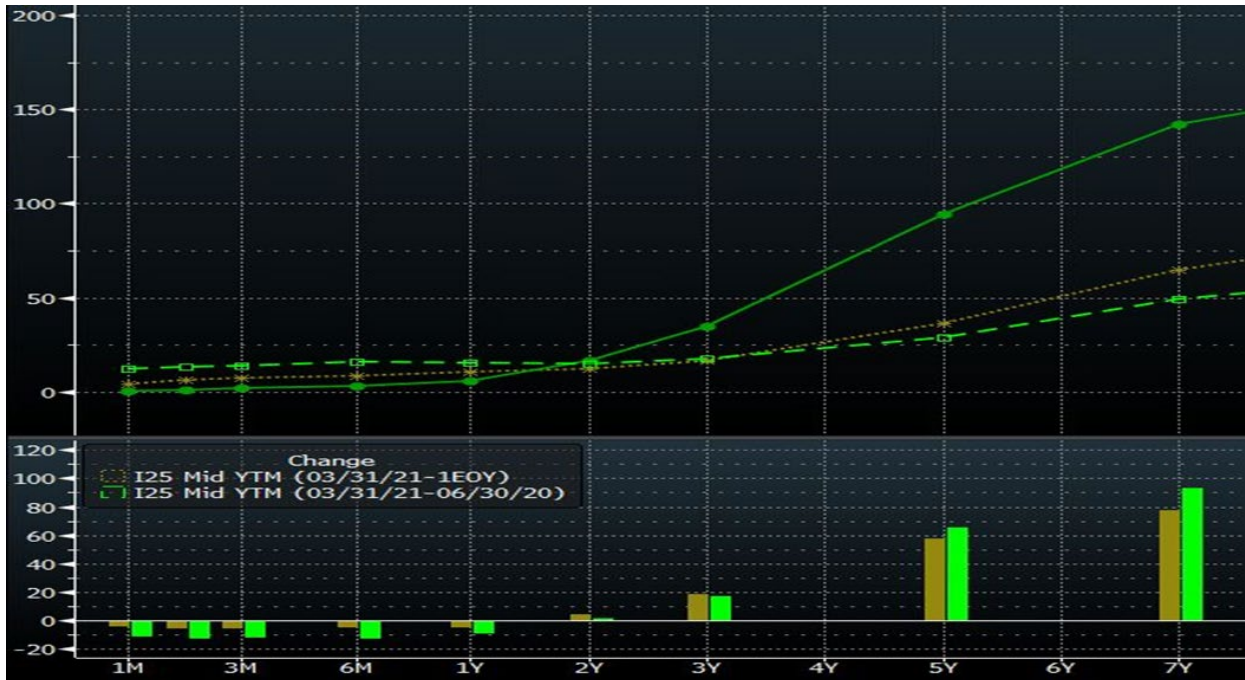
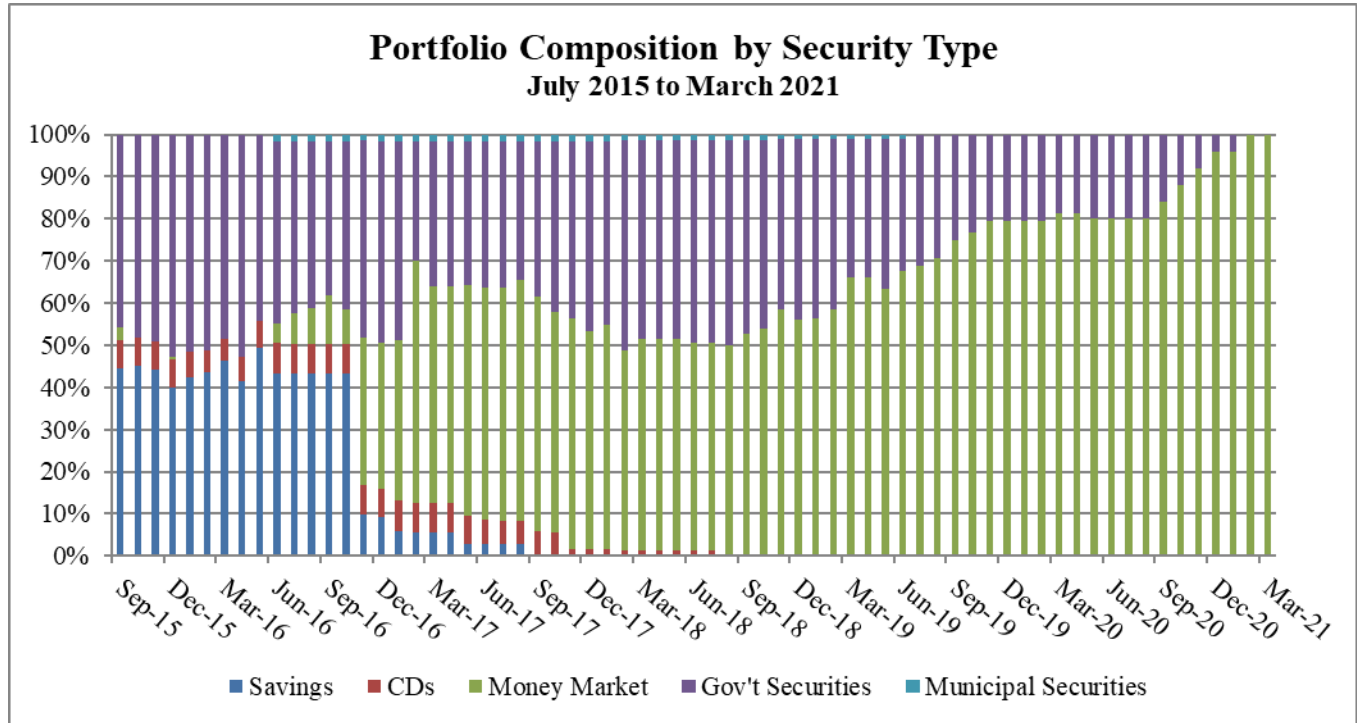


Chart 9 shows the first seven years of the US Treasury curve on three dates: June 30, 2020, December 31, 2020 and March 31, 2021. As previously stated, the Federal Reserve controls short-term interest rates, but market participants have significantly more influence farther out on the yield curve. In the past 15 months, nothing has happened from the front-end out to the two-year maturity. Recently, the March 31, 2021 line shows interest rates increasing from the three-year maturity to the seven-year maturity.

This is not the investment environment to take interest rate risk, as the yield curve is incredibly flat and expectations are that interest rates are headed higher. The time frame for this increase is the main unknown factor.

Chart 10



Given the investment climate, the entire investment portfolio is in money market funds in an effort to avoid market losses; therefore, the investment portfolio does not generate much revenue.

Investment Strategy

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

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

Table 6

City of Santa Fe						
Portfolio Holdings Report						
As of March 31, 2021						
<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>
Guadalupe CU	262,114	262,114	262,114	0.75%	0.75%	8/1/2021
SECU Library	268,910	268,910	268,910	2.43%	2.43%	4/25/2021
SECU City	<u>257,951</u>	<u>257,951</u>	<u>257,951</u>	<u>2.43%</u>	<u>2.43%</u>	7/21/2021
Total CDs	788,975	788,975	788,975		1.87%	
Blackrock Prime Inst #24	25,360,686	25,362,054	25,362,054		0.10%	
JP Morgan Prime MM Fund #3605	22,329,695	22,333,361	22,333,361		0.07%	
Fidelity Prime MM Port #2014	94	94	94		0.07%	
Wells Fargo Bank MM	205,048,715	205,048,715	205,048,716		0.05%	
Wells Fargo Bank Restricted	<u>4,832,041</u>	<u>4,832,981</u>	<u>4,832,981</u>		<u>0.08%</u>	
Total Money Market	257,571,231	257,577,205	257,577,206		0.07%	
Total Portfolio	<u>258,360,206</u>	<u>258,366,180</u>	<u>258,366,182</u>		<u>0.06%</u>	