

**CITY OF SANTA FE**  
**QUARTERLY FINANCIAL PERFORMANCE REPORT**

As of December 31, 2016



**Presented to the Finance Committee**

**February 13, 2017**

# CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT

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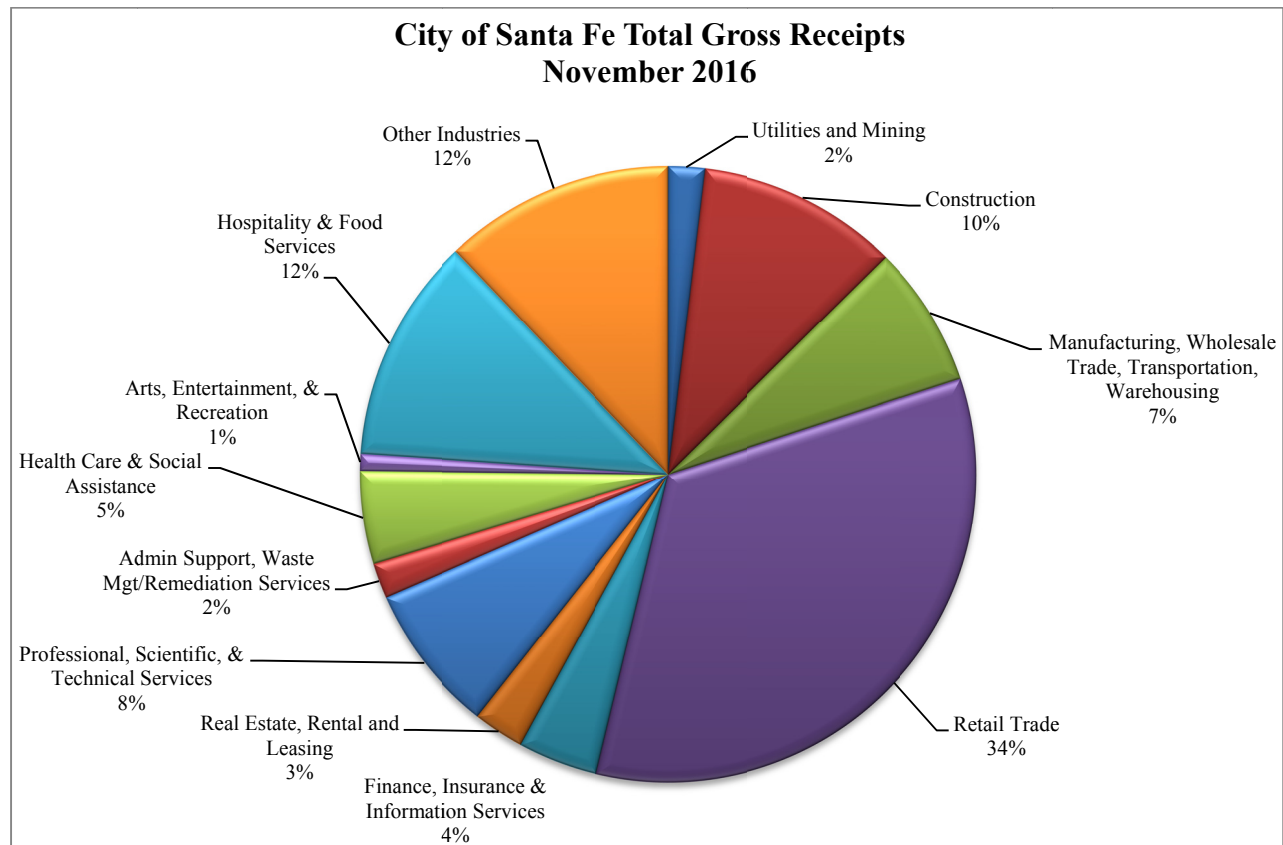
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## **I. CITY OF SANTA FE – QUARTERLY REVENUE UPDATE**

### City of Santa Fe Gross Receipts & Lodgers' Tax Update through December 2016

The following provides a summary of the Gross Receipts Tax (GRT) for the City of Santa Fe. The New Mexico Taxation and Revenue Department (TRD) reports the monthly tax receipts collection activity data. The following overview covers the GRT activity for the month of November 2016, reported in January 2017.

Chart 1



Data Source: NM Taxation & Revenue Dept.

November total gross receipts activity was \$391 million, an increase of 15.54 percent across all sectors over the previous November at \$338 million. The year-over-year increase may be attributed to strong growth observed in the hospitality and food services sector increased nearly 50 percent, the healthcare and social assistance sector grew by 15 percent while the construction sector expanded by 36 percent. Weakness was reported in the utilities and mining sector, down 12 percent and the agriculture and forestry sector declining 10 percent.

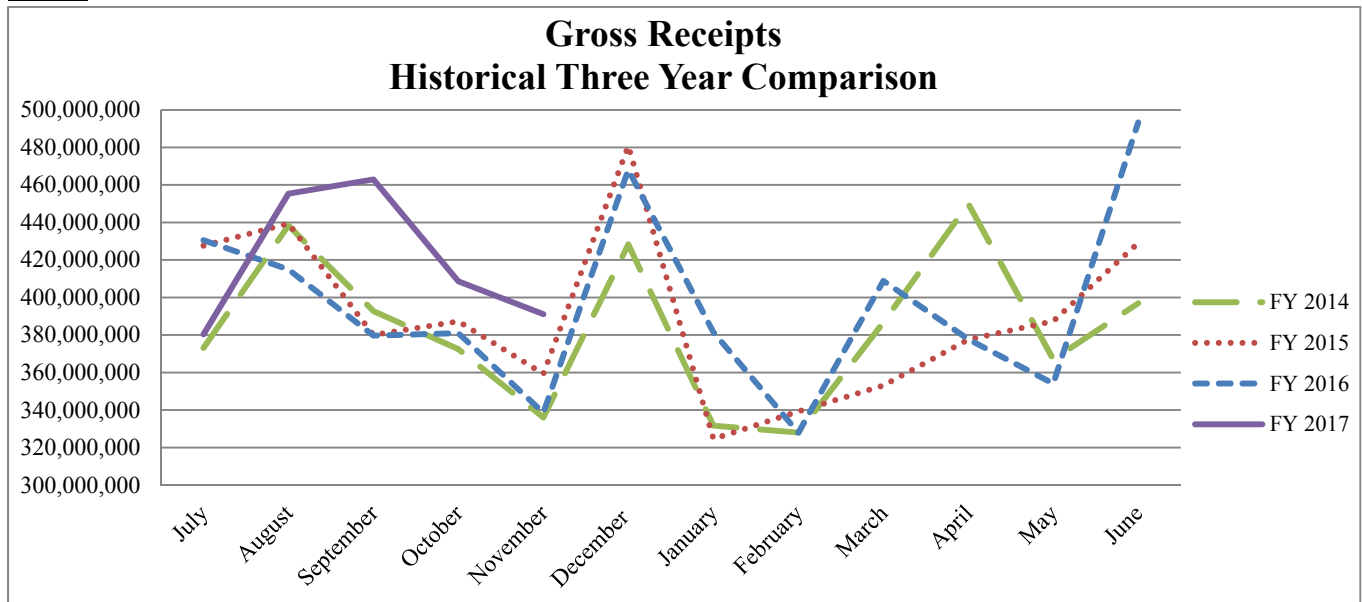
Gross receipts revenue reported for September and October were heavily impacted by a reporting error which occurred during TRD's Gentax software upgrade. This error resulted in exceptionally high distributions in October and November. TRD corrected the error in the system and calculated overpayment in distributions resulting in withholding the excess amount from the December distribution. For further detail, please refer to the letter dated December 16, 2016 from TRD, attached at the end of this report.

Table 1

<b>City of Santa Fe GRT Distribution Variance by Industry Sector FY 2017 vs. FY 2016 Cumulative FYTD</b>				
<b>Category</b>	<b>January FY17</b>	<b>January FY16</b>	<b>\$ Variance</b>	<b>% Variance</b>
Agriculture, Forestry, Hunting, Fishing	96,822	91,728	5,094	6%
Mining	3,121	10,298	(7,177)	-70%
Utilities	1,282,239	1,426,118	(143,879)	-10%
Construction	5,490,130	4,967,795	522,335	11%
Manufacturing	992,102	994,997	(2,895)	0%
Wholesale	1,174,979	1,106,702	68,277	6%
Retail	17,090,825	16,569,903	520,922	3%
Transportation & Warehousing	233,277	145,315	87,962	61%
Information and Cultural Industries	2,275,647	2,231,285	44,362	2%
Finance & Insurance	754,126	698,739	55,387	8%
Real Estate, Rental & Leasing	1,634,251	1,671,135	(36,884)	-2%
Professional, Scientific, Technical	5,118,864	4,760,806	358,058	8%
Management of Companies	74,261	78,641	(4,380)	-6%
Admin & Support, Waste Mgt.	647,860	571,174	76,686	13%
Educational Services	488,688	433,119	55,569	13%
Health Care and Social Assistance	3,076,506	2,966,129	110,377	4%
Arts, Entertainment & Recreation	548,871	405,293	143,578	35%
Accommodation & Food	8,955,671	8,447,451	508,220	6%
Other Services	5,204,101	5,713,466	(509,365)	-9%
Public Administration	75,088	122	74,966	100%
Unclassified	895,997	492,729	403,268	82%
State Reimb-Food/Med Tax**	5,060,048	6,468,897	(1,408,849)	-22%
Muni. Equivalent Distribution	176,933	241,941	(65,008)	-27%
<b>Total Distribution</b>	<b>61,350,407</b>	<b>60,493,783</b>	<b>856,624</b>	<b>1.42%</b>

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

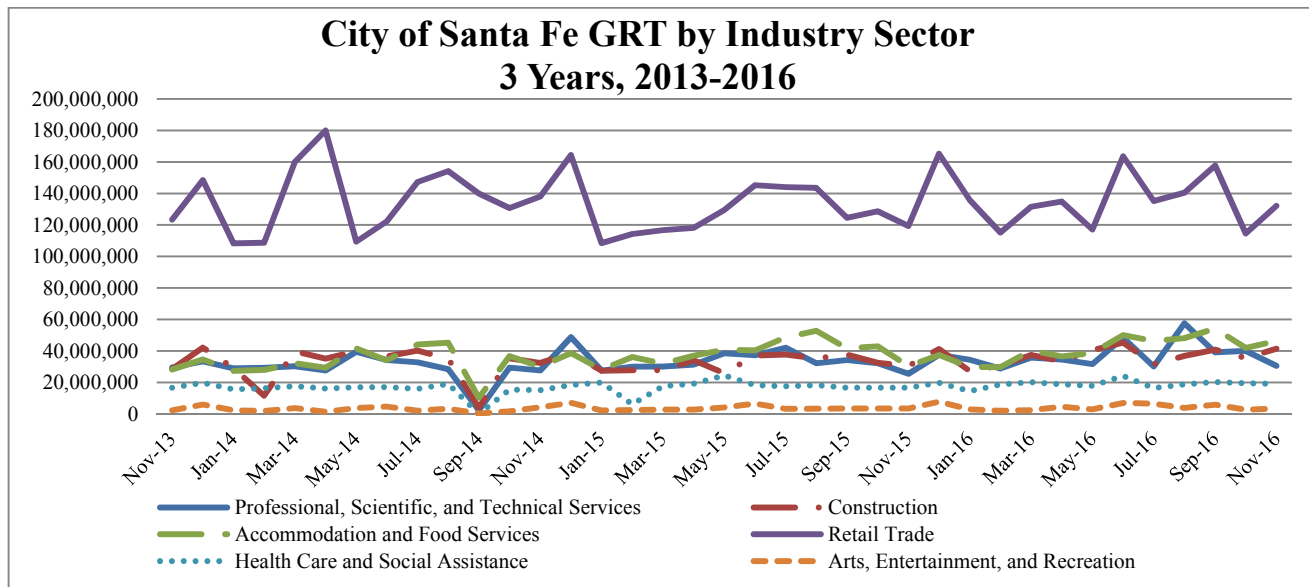
Chart 2



Data Source: NM Taxation & Revenue Dept.

Strength in gross receipts observed in June 2016 reporting data has been explained by TRD as an increase in the processing and accounting of filers' payments at the department. Typically a seasonal boost in retail activity contributes to an increase during the summer months.

Chart 3

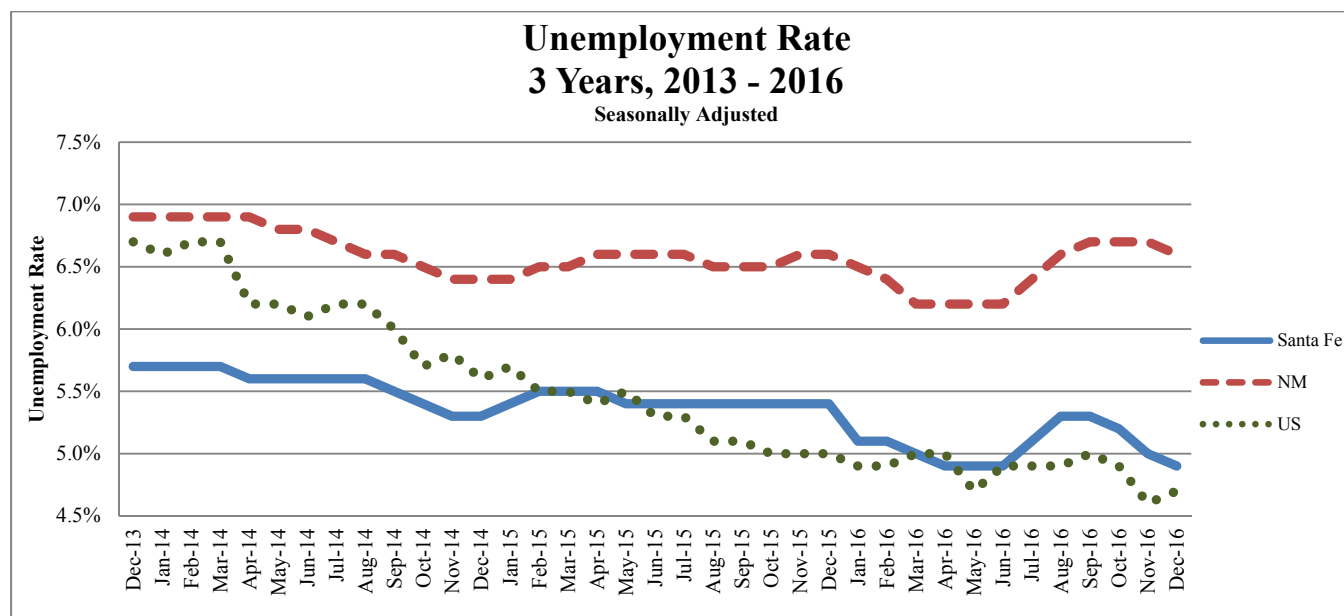


Data Source: NM Taxation & Revenue Dept.

Employment is a strong indicator for the health of an economy. The Santa Fe MSA (metropolitan statistical area) is reporting some growth in certain sectors, yet remains behind historical levels achieved during 2006-2007. At the end of the second quarter, Santa Fe employment decreased by 200 jobs or 0.3 percent. The private sector contracted by 300 jobs, or 0.6 percent while the local government sector partially offset losses with a gain of 100 jobs, or 0.6 percent. Nearly all of the posted job losses were in the service providing industries.

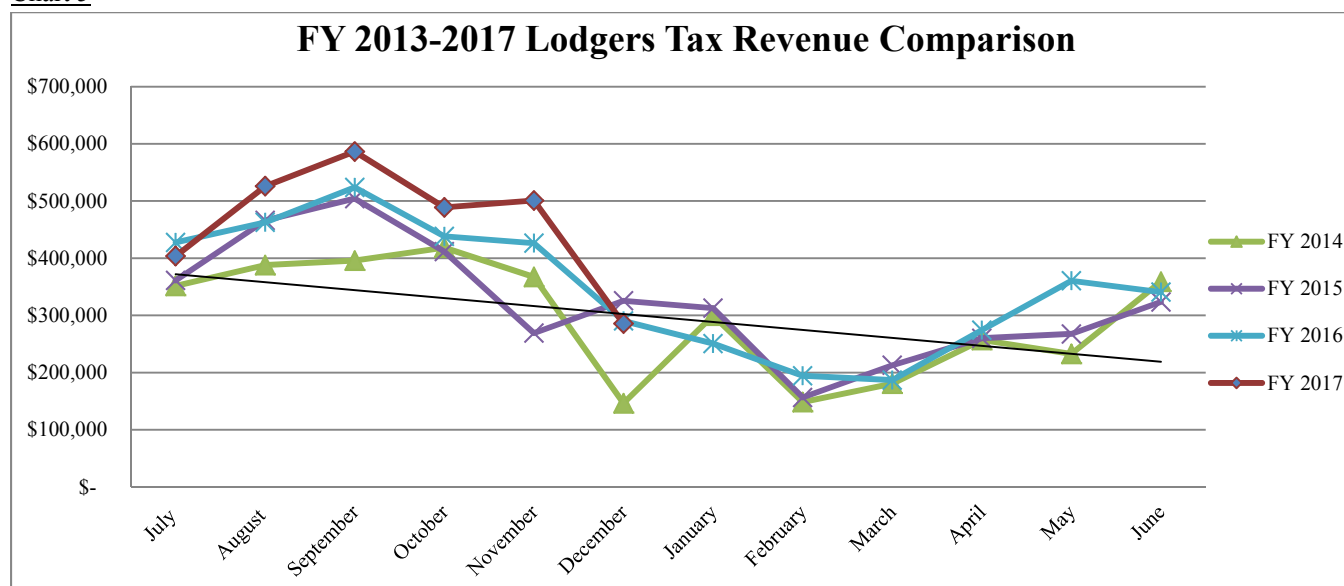
Unemployment levels within the Santa Fe MSA have been relatively flat during the first half of the 2016 fiscal year, hovering around 5.2 percent and dropping down in the second half. This was comparable with the national level of approximately 5 percent. The first quarter of fiscal year 2017 presented a steady increase in unemployment claims, climbing from 4.9 percent to 5.4 percent and settling at 5.2 percent for October. The second quarter of the fiscal year presented a steady decline in unemployment from 5.2 percent down to 4.9 percent. This decline may be indicative of seasonal holiday employment activity picking up during the quarter. Broader New Mexico unemployment levels during the same quarter averaged 6.7 percent, driven in part by losses in petroleum industry related jobs as well as a slowdown in warehousing and manufacturing across the state.

Chart 4



Data Source: NM Dept. Workforce Solutions

Chart 5



Data Source: City of Santa Fe Finance Department



**Susana Martinez**  
Governor

**John Monforte**  
Acting Cabinet Secretary

**DIVISIONS**

**Office of the Secretary**  
(505) 827-0341  
**Administrative Services**  
(505) 827-0369  
**Audit and Compliance**  
(505) 827-0900  
**Motor Vehicle**  
(505) 827-2296  
**Property Tax**  
(505) 827-0870  
**Revenue Processing**  
(505) 827-0800  
**Tax Fraud Investigation**  
(505) 827-0354

December 16, 2016

Dear Local Government Official:

We are writing to inform you of an error pertaining to your city's Gross Receipts Tax (GRT) distributions for October and November 2016. Your monthly distributions in October and November were higher than expected due to an error that resulted from a system upgrade (TRD corrected the error on November 23, 2016). As a result, your December distribution was adjusted downward to correct the distributions from October and November. Due to the marginal, limited effect on your October and November distributions, the correction in the December distribution does not qualify for relief under HB 581, § 7-1-6.15 NMSA. A more detailed discussion of the effected distributions follow.

Background on the Distributions.

Your city's GRT October 2016 (September revenue) distribution was \$9,173,977.81 and has been adjusted downward by \$59,425.94 to reflect the correct distribution of \$9,114,551.87. Your city's gross GRT November 2016 (October revenue) distribution was \$10,135,771.34 and has been adjusted downward by \$951,390.26 to reflect the correct distribution of \$9,184,381.08. A brief description of what caused the distribution error is discussed below. The adjusted amounts for October and November given above only reflect tax amounts and do not include administrative fees, and therefore, there may be a small discrepancy with the RP 500.

Your city's distribution in October (September revenue), November (October revenue) and December (November revenue) 2016 were impacted by a software upgrade to GenTax, the tax system of record for New Mexico. The Taxation and Revenue Department (TRD) upgraded from GenTax Version 9 to GenTax Version 10 (V10) on October 10, 2016, one day before the October revenue close. Updating to the new version lead to an accounting error for numerous transactions. Taxpayer transactions that occurred between October 10 and November 23 were effected. Because only one day of transactions for the October distribution were effected, no significant discrepancies were found on the October reports that TRD reviews. Because transactions for the entire November distribution were effected, however, discrepancies were discovered in the wake of the November distribution on November 14th. A correction was implemented into the GenTax system on November 23. This fix adjusted the December



distributions to account for the discrepancies in the October and November distributions. The data fix was thoroughly tested to ensure that the distributions are correct.

Eligibility for Relief under Section 7-1-6.15

As mentioned above, due to the marginal changes to the October and November distributions, your December distribution does not trigger relief under HB 581. Under HB-581, two predicate requirements must be satisfied before a municipality or county is entitled to relief. First, the returns processed for the current month's distribution must result in the amounts reported for all tax periods prior to the current month going negative. This would happen, for example, if taxpayers amended returns to claim additional deductions or received refunds based on over-reporting for prior tax periods.

Second, the dollar amount (absolute value) of the negative amount from the prior periods has to exceed the greater of: (a) \$100 or (b) 20% over your average distribution. Under statute, your average distribution is an annual average, not a monthly average. § 7-1-6.15(J)(3). If, for example, your local government received distributions of \$10,000 each month, the average distribution is \$120,000 and relief would not be triggered unless the negative amount from the prior periods exceeded \$24,000.

Both of these conditions must be satisfied in order for a city or county to receive relief. And HB 581 neither places notification requirements on TRD nor authorizes TRD to provide relief when these conditions are not satisfied.

When these two predicate requirements for relief are satisfied, HB 581 provides very specific forms of relief. First, any negative amounts from prior periods that are older than three calendar years prior to the current calendar year are not recoverable by TRD. § 7-1-6.15(B)(1). Second, TRD then evaluates the remaining negative amounts, once the unrecoverable amounts are eliminated.

If the dollar value (absolute value) of the remaining negative prior period amount does not exceed the greater of \$100 or 20% of the city's average distribution, the remaining negative amount is used to offset the current month's distribution. § 7-1-6.15(B)(1) & (2). If, in contrast, the remaining negative amount exceeds the greater of \$100 or 20% of the average distribution, TRD is required to notify the city, allow the city 90 days to enter a payment agreement, and may recover the negative amounts from the [city or county]. § 7-16.15(3)(2) & (E). However, TRD may not recover any negative amounts that exceed 50% of the city's average distribution. § 7-1-6.15(E)(2)(a). Additionally, the TRD Secretary may waive portions of the amount TRD may recover with State Board of Finance approval. § 7-1-6.15(E)(2)(b).

As an example, assume a local government's average distribution is \$120,000. During the current month, taxpayers amend returns covering periods up to 50 months in arrears. These amended returns result in the prior periods going negative in the amount of \$80,000, with \$10,000 of that negative amount relating to periods that are 48 to 50 months old. In this situation, relief under HB 581 is triggered because \$80,000 exceeds \$24,000 (20% of the average distribution). \$10,000 of the amount is immediately eliminated and TRD cannot recover it because it is more than 48 months old. The remaining prior period negative amount is \$70,000. TRD would be required to notify the city and allow



90-days for repayment plan to be entered. However, TRD could only recover \$60,000 of the remaining \$70,000 negative balance because the additional \$10,000 exceeds 50% of the average distribution.

Santa Fe is not entitled to relief under HB 581 with respect to your December 2016 distribution. The second predicate requirement for relief was not satisfied because the dollar amount (absolute value) of your negative total for the prior periods was only 0.5% of your average distribution, as indicated in the table below.

Current month distribution:	7,687,584.49
Annual Average Distribution:	100,789,311.86
20% Threshold:	20,157,862.37
Current period distribution:	8,181,029.76
Prior Period Distribution:	(493,445.27)
Prior Period % of annual average:	0.5%
Distribution month: December 2016. Revenue reporting month: November 2016. Business activity month: October 2016.	

If you have further questions or concerns regarding these amounts, please contact Elisa Walker-Moran by mail at Tax Analysis, Research, and Statistics, Taxation and Revenue Department, P.O. Box 630, Santa Fe, NM 87504-0630; by telephone at (505) 476-3039; or via email at [Elisa.Walker-Moran@state.nm.us](mailto:Elisa.Walker-Moran@state.nm.us).

Sincerely,



John Monforte  
Acting Cabinet Secretary

## **II. CITY OF SANTA FE – REVENUE/EXPENDITURE PROJECTIONS**

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 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**

The City's overall revenue forecast continues to be strong for this fiscal year, with Gross Receipts Tax (GRT) showing a healthy growth over the previous fiscal year (year-to-date GRT receipts are up 3.5% over the same period in the previous fiscal year, when adjusted for accruals); citywide GRT receipts are projected to end the fiscal year at 6% above budgeted levels. While some revenue sources like Franchise Tax and Fines are performing below budgeted expectations, other sources such as Lodgers' Tax, Gas Tax and Wastewater Fees are performing more strongly than expected. One notable change from the previous quarterly report is that Interest Earnings are projected to come in much stronger than previously projected, due to changes in the City's Investment Policy. Overall revenues are projected to come in at 6% above budget.

On the expenditures side, the projections are largely based on past usage history in more 'discretionary' accounts such as contractual services and supplies; as in past years, these categories tend to come in a bit more under budget in most instances than do other categories such as salaries and benefits. Expenditures are trending much as they were in the first quarter, with the overall expenditures forecast ending up much the same as in the previous quarter's report. As for personnel services costs, at mid-year the City still appears to be meeting the increased vacancy savings goals incorporated into the FY 2016/17 Budget. As a whole, expenditures are projected to come in at 7% below budget.

### **GENERAL FUND**

Although many revenue categories in the General Fund such as Franchise Tax, Fines and Miscellaneous Revenues are trending below their budget targets, because GRT is by far the largest General Fund revenue source, positive GRT performance over the first six months of the fiscal year has left the overall General Fund revenue forecast an even more positive one than in the previous quarter's report, with total General Fund revenue projected to exceed budget by 3% (up from 2% in the previous forecast). On the expenditure side, as noted above, the City has tightened its personnel services budget for FY 2016/17, and as a result salaries and benefits are trending closer to budget targets than in previous years, when a significant portion of the personnel budget was left unspent due to an underestimation of employee vacancy savings trends. As a result, Departments such as Police and Fire whose salaries and benefits represent a greater share of their total budget are projected to end the fiscal year closer to their budget targets than those whose share is relatively smaller, such as HR and ITT. Overall, General Fund expenditures are projected to end the fiscal year at 5% below budget, a slightly lower budget-to-actual variance than that projected in the previous quarterly report (7%).

In conclusion, the City's mid-year financial forecast continues to be a positive one. However, the fiscal year is still only halfway transpired, and positive or negative trends may yet 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: SECOND QUARTER FY 2016-2017

## ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

DESCRIPTION	FISCAL YEAR 2015/2016 ACTUAL	FISCAL YEAR 2016/2017				
		APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
<b>BEGINNING BALANCE</b>	<b>141,719,995</b>	<b>124,973,340</b>	<b>124,973,340</b>	<b>124,973,340</b>	<b>124,973,340</b>	
<i>Revenues :</i>						
Gross Receipts Tax	101,173,715	98,690,364	98,690,364	54,105,612	104,399,587	6%
Property Tax	10,531,692	9,761,061	9,761,061	3,454,256	10,836,454	11%
Franchise Tax	3,669,517	4,625,575	4,625,575	371,602	3,474,479	-25%
Lodgers' Tax	9,743,758	10,000,000	10,000,000	6,513,093	10,694,355	7%
Gasoline Tax	1,276,598	1,445,000	1,445,000	832,564	1,582,326	10%
Other Taxes	469,285	490,110	490,110	178,523	476,401	-3%
Licenses & Permits	2,792,742	3,932,931	4,213,413	1,400,320	4,364,635	4%
Ambulance Fees	3,684,148	1,641,543	1,641,543	1,071,607	2,460,749	50%
Insurance Premiums/Deductibles	28,274,746	27,556,262	27,555,861	14,021,190	27,376,701	-1%
Parking Fees	3,992,840	5,203,113	5,203,113	2,519,202	4,837,550	-7%
Recreation Fees	3,316,566	3,313,194	3,313,194	1,505,053	3,388,231	2%
Solid Waste Fees	18,440,996	18,614,394	18,614,394	9,938,624	20,964,437	13%
Wastewater Fees	12,406,403	11,629,038	11,629,038	6,328,392	14,074,815	21%
Water Fees	35,528,446	34,314,486	34,451,332	17,090,826	37,281,887	8%
Other Fees/Services**	29,072,746	20,260,387	21,355,910	8,789,896	21,143,566	-1%
Fines & Forfeitures	1,361,274	1,292,003	1,292,003	515,953	1,099,477	-15%
Miscellaneous Revenues***	49,218,968	7,481,070	7,821,706	10,367,961	14,666,643	88%
Interest on Investments	865,539	602,288	599,913	8,815	899,913	50%
State Grants	4,261,889	3,294,549	3,809,410	2,471,141	3,809,410	0%
Federal Grants	5,009,046	5,130,404	5,703,734	550,100	5,703,734	0%
SF County/Other Grants	136,777	6,978,525	8,010,382	3,245	8,010,382	0%
Transfers In	138,525,160	50,895,938	52,029,017	34,460,347	52,029,017	0%
<b>Subtotal - Revenues</b>	<b>463,752,851</b>	<b>327,152,235</b>	<b>332,256,073</b>	<b>176,498,321</b>	<b>353,574,748</b>	<b>6%</b>
<b>TOTAL RESOURCES</b>	<b>605,472,846</b>	<b>452,125,575</b>	<b>457,229,413</b>	<b>301,471,661</b>	<b>478,548,088</b>	
<i>Expenditures :</i>						
Salaries	73,255,533	69,600,480	72,313,925	33,438,769	69,649,563	-4%
Benefits	38,036,704	39,601,561	40,807,026	18,181,192	37,944,110	-7%
Contractual Services	26,024,477	23,910,760	26,668,847	18,464,019	22,171,640	-17%
Utilities	11,986,640	12,112,968	13,626,939	10,637,732	11,822,979	-13%
Repairs & Maintenance	5,021,616	5,870,522	6,537,481	3,445,671	4,857,108	-26%
Supplies	8,829,188	10,695,841	11,150,655	6,183,409	8,941,623	-20%
Insurance	28,558,239	32,052,116	32,238,768	16,625,682	29,840,010	-7%
Other Operating	20,961,988	24,732,805	27,326,076	10,318,377	22,196,531	-19%
Capital Purchases	9,257,529	6,302,704	9,272,277	7,257,502	9,272,277	0%
Land & Building	4,709,567	826,419	1,823,163	891,851	1,823,163	0%
Debt Service-Principal	104,545,860	19,105,177	19,105,177	9,695,000	19,105,177	0%
Debt Service-Interest	15,970,114	13,739,866	13,739,866	5,658,344	13,739,866	0%
Transfers Out	133,342,050	51,650,370	51,914,863	43,428,130	51,914,863	0%
<b>TOTAL EXPENDITURES</b>	<b>480,499,506</b>	<b>310,201,589</b>	<b>326,525,063</b>	<b>184,225,678</b>	<b>303,278,910</b>	<b>-7%</b>
<b>ENDING BALANCE</b>	<b>124,973,340</b>	<b>141,923,986</b>	<b>130,704,350</b>	<b>117,245,983</b>	<b>175,269,179</b>	

\*Includes year-to-date actuals plus encumbrances; excludes CIP funds

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

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

## PROJECTIONS ANALYSIS

Chart 6

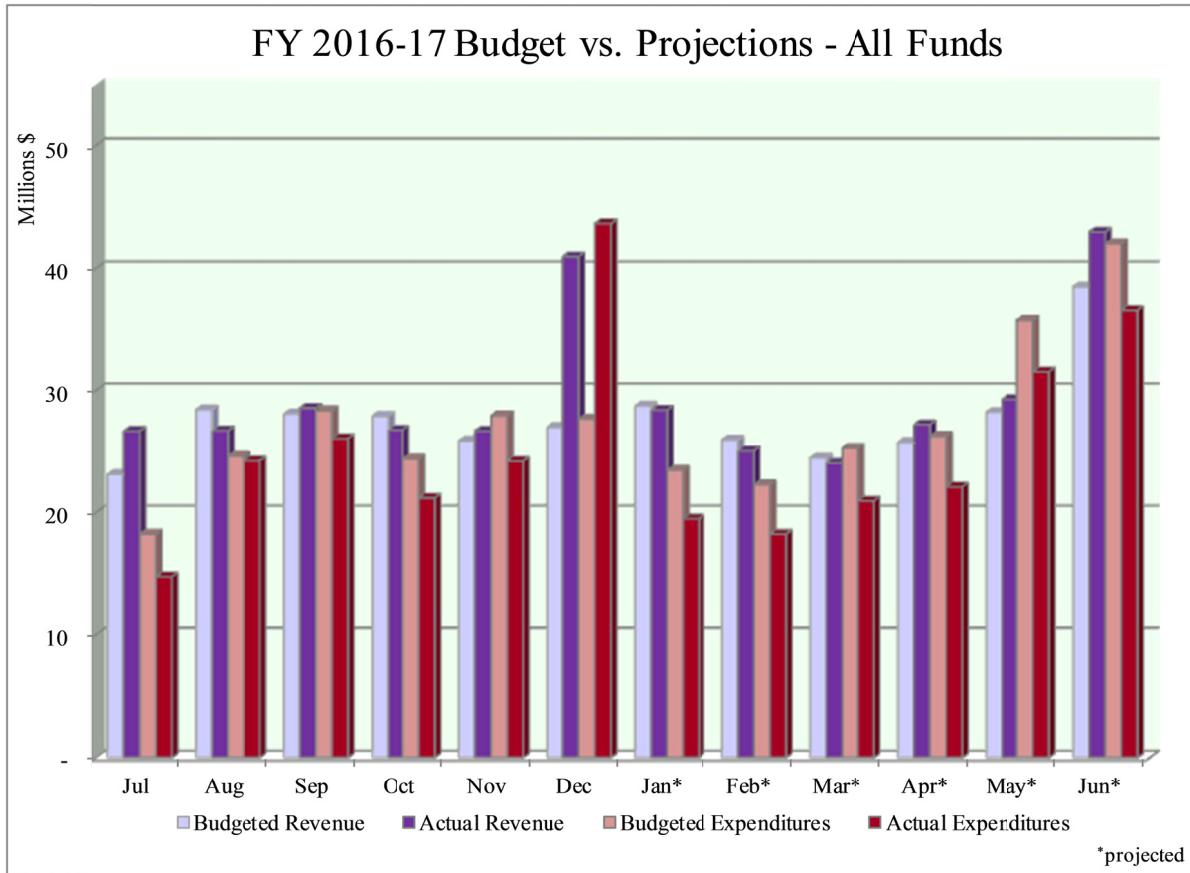
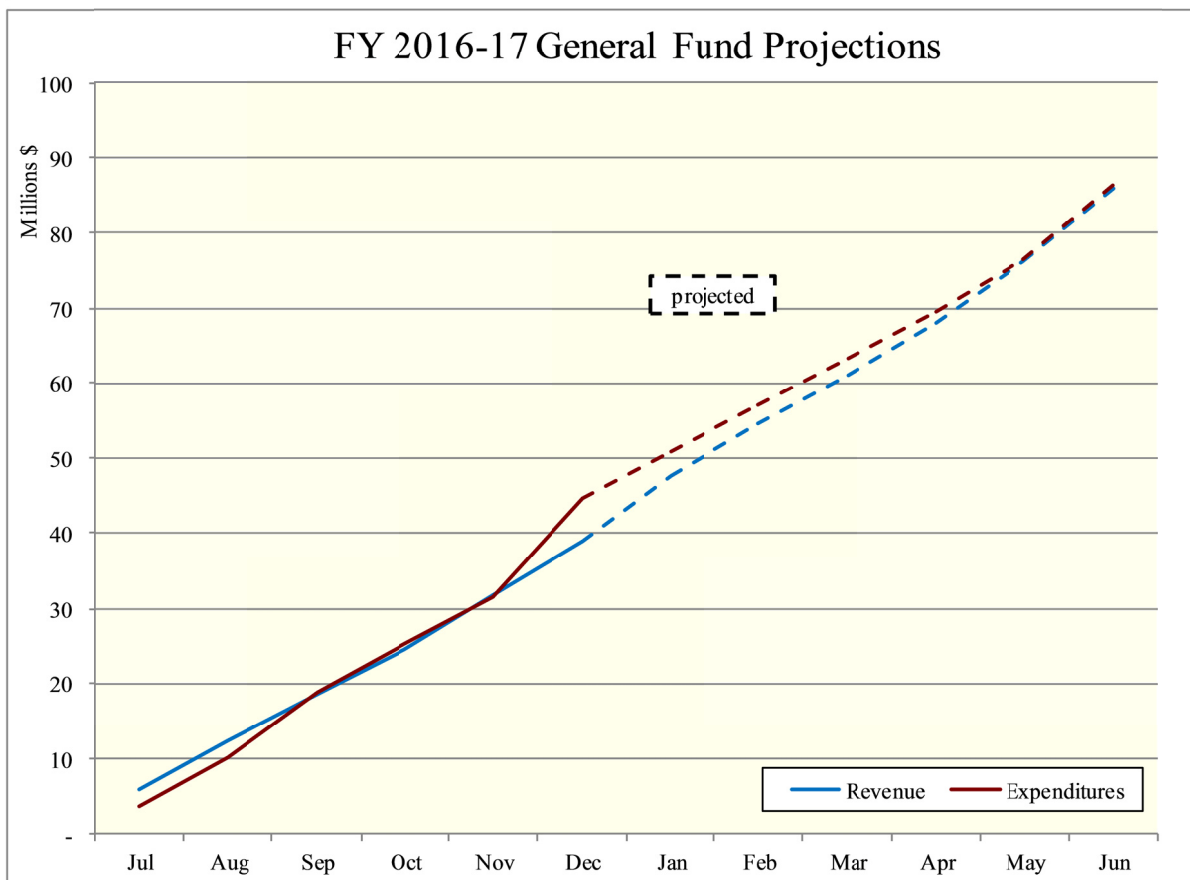


Chart 7



# FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2016-2017

## GENERAL FUND SUMMARY & PROJECTIONS

DESCRIPTION	FISCAL YEAR 2015/2016 ACTUAL	FISCAL YEAR 2016/2017				
		APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
<b>BEGINNING BALANCE</b>	<b>2,690,726</b>	<b>8,568,937</b>	<b>8,568,937</b>	<b>8,568,937</b>	<b>8,568,937</b>	
<i>Revenues:</i>						
Gross Receipts Tax	55,427,303	57,002,045	57,002,045	29,656,107	59,852,570	5%
Property Tax	3,540,610	6,629,139	6,629,139	2,023,666	6,455,256	-3%
Franchise Tax	3,650,602	4,605,575	4,605,575	366,830	3,456,291	-25%
Other Taxes	407,436	430,273	430,273	178,523	440,033	2%
Licenses & Permits	2,760,196	3,914,431	4,194,913	1,388,770	4,349,813	4%
Ambulance Fees	3,684,148	1,641,543	1,641,543	1,071,607	2,460,749	50%
Planning/Land Use Fees	276,552	289,200	289,200	115,813	299,659	4%
Recreation Fees	476,035	443,051	443,051	209,016	470,546	6%
Reimbursed Expenditures**	6,260,900	6,813,281	6,813,281	3,518,344	7,051,774	4%
Other Fees/Services	237,772	314,270	362,270	96,319	199,740	-45%
Fines & Forfeitures	373,917	432,144	432,144	157,071	358,331	-17%
Miscellaneous Revenues	90,080	292,084	292,084	27,716	79,611	-73%
Interest on Investments	60,923	41,149	41,149	-	61,726	50%
State/Other Grants	121,698	205,427	205,427	32,807	205,427	0%
Transfers In	6,567,805	301,667	301,667	230,146	301,667	0%
<b>Subtotal - Revenues</b>	<b>83,935,977</b>	<b>83,355,279</b>	<b>83,683,761</b>	<b>39,072,736</b>	<b>86,043,193</b>	<b>3%</b>
<b>TOTAL RESOURCES</b>	<b>86,626,704</b>	<b>91,924,216</b>	<b>92,252,698</b>	<b>47,641,673</b>	<b>94,612,129</b>	
<i>Expenditures:</i>						
Community Services Department:						
-Administration Division	542,045	493,357	543,357	376,703	533,809	-2%
-Library Division	2,606,638	3,620,370	3,620,370	1,843,797	3,444,342	-5%
-Senior Services Division	2,351,415	2,420,312	2,420,312	1,206,255	2,412,509	0%
-Youth & Family Division	678,886	754,556	754,556	323,380	641,362	-15%
Finance Department	6,459,504	4,128,602	11,387,623	8,197,290	11,004,397	-3%
Fire Department	15,389,045	16,630,622	16,719,069	8,428,132	16,926,772	1%
General Government	7,157,429	7,841,772	7,875,772	3,697,827	6,704,734	-15%
Human Resources Department	1,114,554	981,219	981,219	442,095	846,101	-14%
Information Technology and Telecommunications Department	3,466,736	4,365,501	4,420,454	2,608,784	3,786,242	-14%
Parks & Recreation Department	7,572,884	8,934,464	9,040,421	4,850,684	8,366,450	-7%
Planning & Land Use	3,945,095	4,608,238	4,936,720	2,220,548	4,226,367	-14%
Police Department	21,084,936	20,851,516	20,851,516	11,294,377	20,839,007	0%
Environmental Services / Graffiti	303,308	280,666	280,666	133,877	245,846	-12%
Public Works Department:						
-Administration Division	9,913	8,772	8,772	2,605	5,698	-35%
-Airport Division (GF Subsidy)	-	145,726	145,726	72,863	145,726	0%
-Engineering Division	2,381,302	2,512,459	2,845,378	2,024,740	2,447,390	-14%
-Facilities Maintenance Division	2,364,141	2,672,380	2,672,380	1,432,314	2,367,235	-11%
-Streets & Drainage Division	629,935	1,841,244	1,841,244	696,754	1,541,617	-16%
<b>TOTAL EXPENDITURES</b>	<b>78,057,767</b>	<b>83,091,776</b>	<b>91,345,555</b>	<b>49,853,025</b>	<b>86,485,603</b>	<b>-5%</b>
<b>ENDING BALANCE</b>	<b>8,568,937</b>	<b>8,832,440</b>	<b>907,143</b>	<b>(2,211,352)</b>	<b>8,126,526</b>	
<i>City Council-Mandated Minimum General Fund Balance***</i>	<i>6,204,548</i>	<i>6,541,289</i>	<i>6,611,250</i>		<i>6,611,250</i>	
<i>Equivalent # Days of Operation</i>	<i>42</i>	<i>41</i>	<i>4</i>		<i>40</i>	

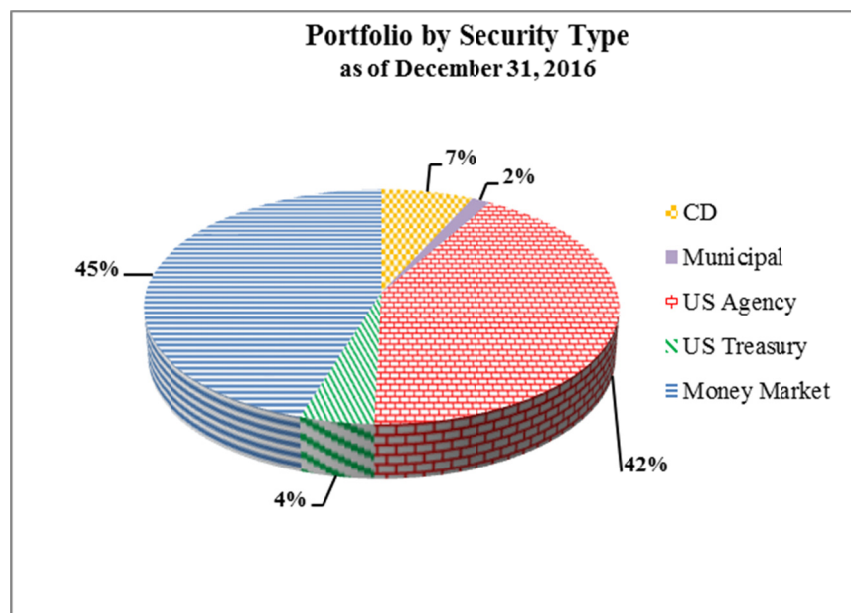
\*Includes year-to-date actuals plus encumbrances

\*\*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 budgeted annual General Fund expenditures excluding transfers (30 days)

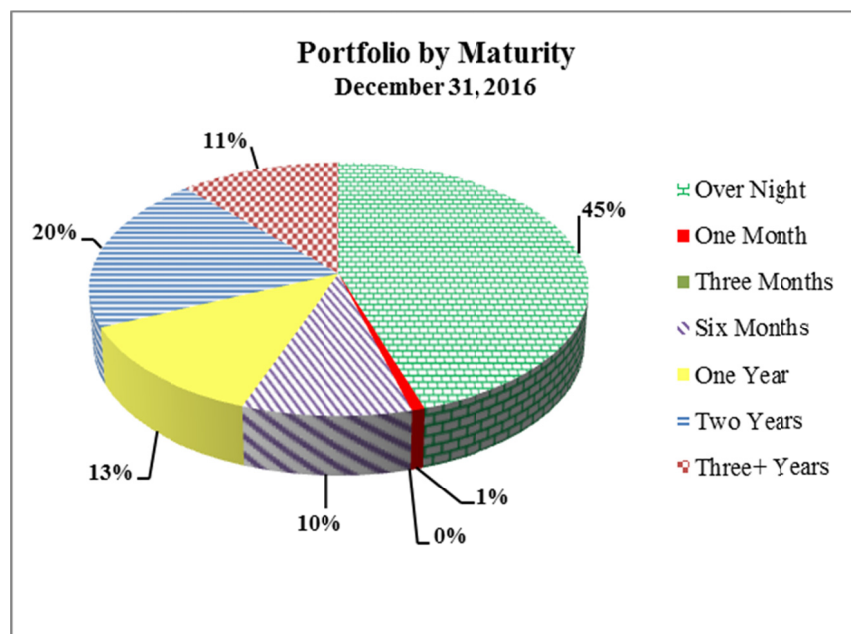
### III. CITY OF SANTA FE – INVESTMENT PORTFOLIO AS OF DECEMBER 31, 2016

Chart 8



Portfolio by Security Type		
	Market Value	Percent
CD	11,706,372	7.02%
Municipal	2,509,750	1.50%
US Agency	69,935,047	41.91%
US Treasury	7,502,105	4.50%
Money Market	75,217,075	45.08%
	166,870,349	100.00%

Chart 9

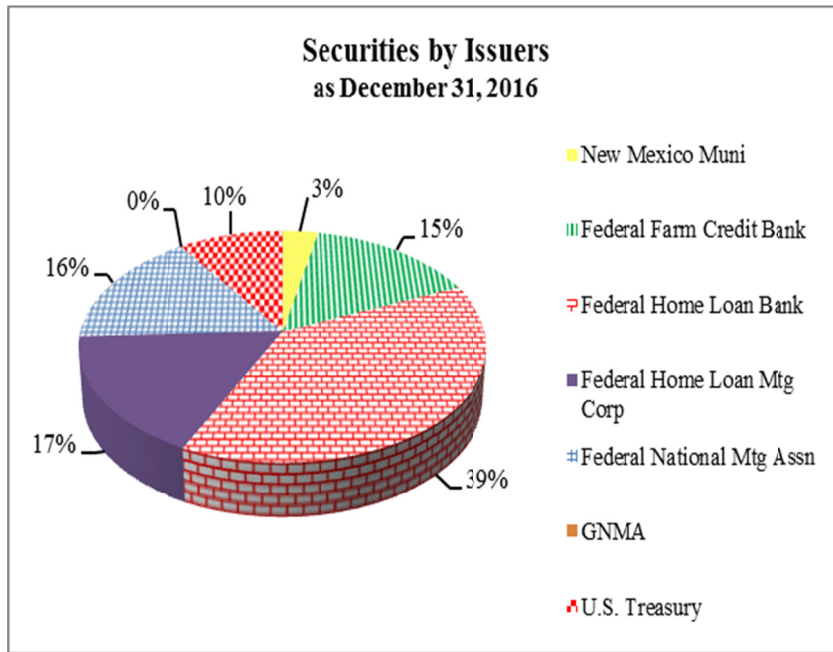


Portfolio by Maturity		
	Market Value	Percent
Over Night	75,217,075	45.08%
One Month	1,249,988	0.75%
Three Months	100	0.00%
Six Months	16,267,731	9.75%
One Year	21,182,528	12.69%
Two Years	33,457,106	20.05%
Three+ Years	19,495,820	11.68%
Portfolio Totals	166,870,349	100.00%



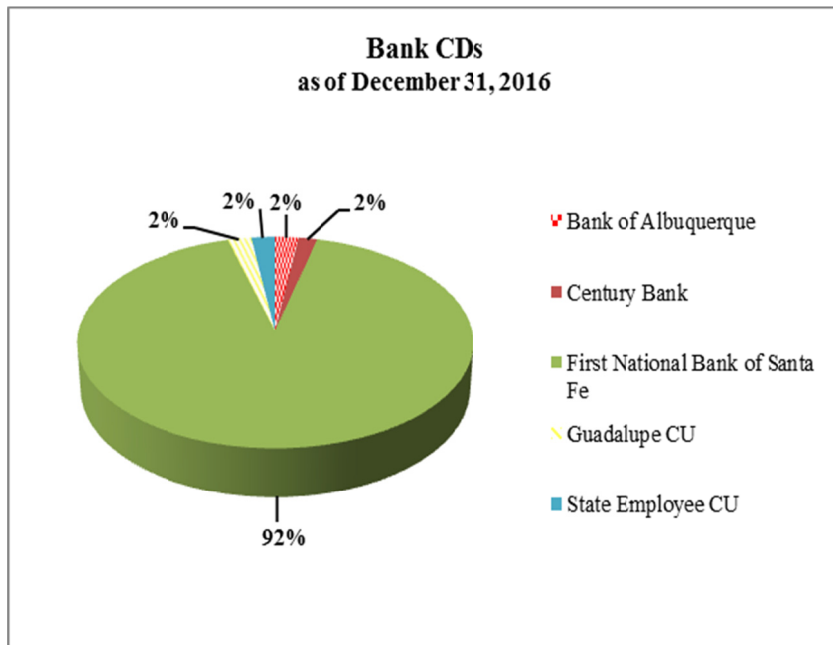
## FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2016-2017

Chart 10



Security by Issuers		
	Market Value	Percent
NM Muni	2,509,750	3.14%
FFCB	12,104,624	15.14%
FHLB	31,018,960	38.80%
FHLMC	13,724,313	17.17%
FNMA	13,083,319	16.37%
GNMA	3,831	0.00%
UST	7,502,105	9.38%
	79,946,902	100.00%

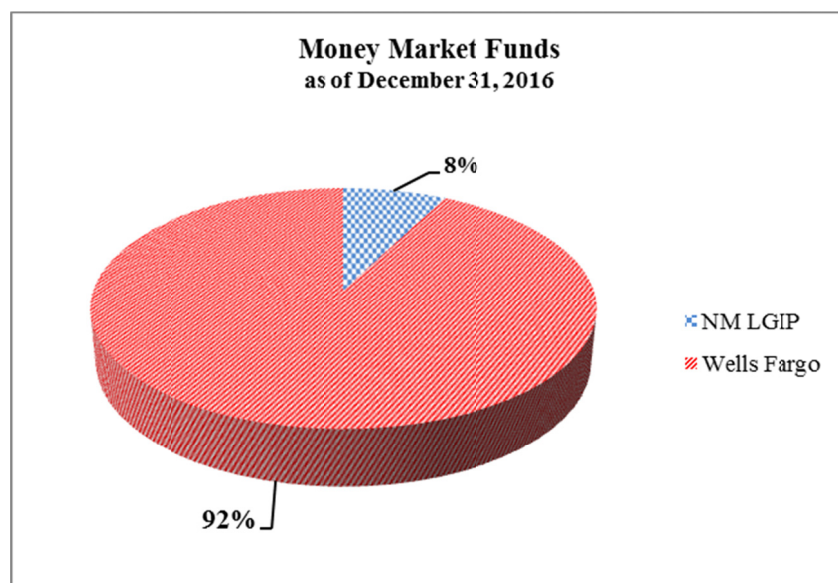
Chart 11



CDs		
	Market Value	Percent
Bank of Albuquerque	250,000	2.14%
Century Bank	200,601	1.71%
FNB Santa Fe	10,755,771	91.88%
Guadalupe CU	250,000	2.14%
State Employee CU	250,000	2.14%
	11,706,372	100.00%

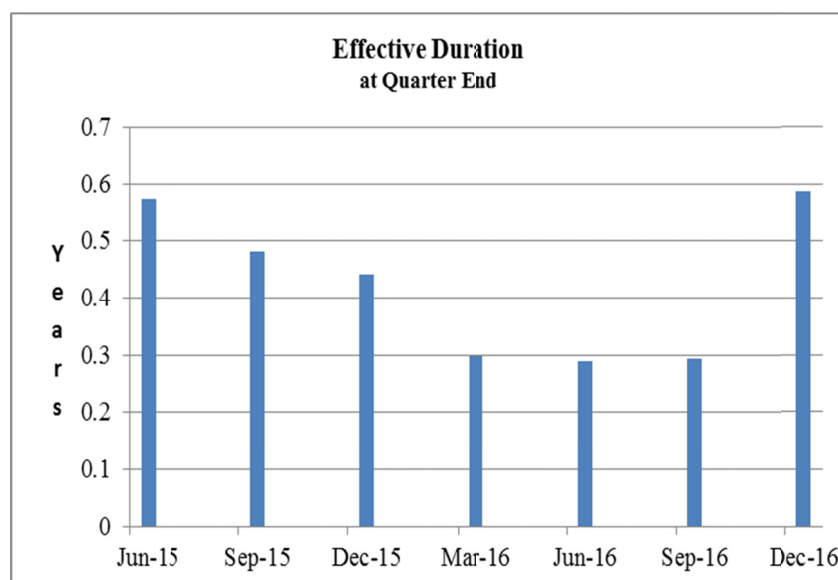
## FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2016-2017

Chart 12



Money Market		
	Market Value	Percent
NM LGIP	5,698,445	7.58%
Wells Fargo	69,518,630	92.42%
	75,217,075	100.00%

Chart 13



### Market News:

As expected the Federal Reserve increased the overnight borrowing rate by 25 basis points at its December 14, 2016 meeting, stating that the US economy appeared healthy and growing at a solid rate. They surprised the market by suggesting that they will raise interest rates three times in 2017. This unexpected statement sent interest rates spiking higher.

President Trump is a wildcard for the markets and the Federal Reserve. Fed Chair Janet Yellen suggested in the Q&A at the press conference after the Federal Reserve meeting that strong fiscal policy stimulus will have an impact on the economy and has the potential to cause the Federal Reserve to tighten monetary policy to keep inflation in check. In speech to the San Francisco Economic club, Federal Reserve Chair Yellen predicted that by 2019 the Fed Funds rate will be in line with its long-term average of three percent, implying that there will be nine rate hikes of 25 basis points each over the next three years.

The Federal Reserve Beige Book released in mid-January reported a strong labor market with unemployment down and at what many economist consider full employment. As the labor market is tightening, wage pressures are increasing. Wages increases were also attributed to the increase in the minimum wage that many States implemented on January 1, 2017. Several Federal Reserve districts reported widespread difficulties in finding workers for skilled positions, while a few reported problems

recruiting for less skilled positions. Overall, economic activity advanced across most regions amid solid retail sales, despite mostly disappointing holiday related results.

The election of Donald Trump as President came as a surprise to the investment market causing stocks to rise and bond prices to plummet (yields rise). His platform of proposed tax cuts, decreases of regulations and increased infrastructure investment has many economists thinking that fiscal policy will be more robust and stimulative for the economy. The US Dollar strengthened against all currencies after the election. A strong US Dollar is good for US consumers but hurts US exporters. In a deviation from the past 20 years of US Dollar policy, President Trump declared the US Dollar is too strong. In addition to the new administration's US Dollar policy, global trade will be an issue of discussion over the coming months and the impact on the economy remains to be seen.

Currently, the markets are somewhat optimistic that the new administration's policies will be good for businesses, trade and the economy. It seems that the Federal Reserve is also cautiously optimistic that fiscal policy will strengthen the economy as well.

### **Investment Strategy:**

In December staff sold roughly \$20 million in securities with maturities less than three months and purchased an equal amount of securities between 18 and 36 months, extending the duration of the portfolio from .29 years to .58 years and increasing the portfolio yield from 52 basis points to 60 basis points. The yield on Agency bonds increased from 83 basis points to over one percent with the purchases.

In early January staff implemented the new investment policy adopted by the City Council in December 2016, by moving \$60 million from Wells Fargo Government Money Market fund to three "Prime" Funds: Fidelity Prime Money Market Portfolio, JP Morgan Prime Money Market, and Blackrock Temporary Institutional Liquidity Fund. Each of the three "Prime" funds yield over 80 basis points, a significant pick up over the Wells Fargo Government money market of 37 basis points and translates into \$25,000 more income per month, approximately \$300,000 per year.

Also in January, staff moved \$5.7 million out of the LGIP into the Wells Fargo Trust to be invested in the Prime money market funds, increasing its yield from 40 basis points to over 80 basis points.

The portfolio is positioned to fund the June 1, 2017 debt service, defease the 2008 General Obligation Bond and payoff NMFA's 2004 Railyard Phase I and 2006 Railyard Phase II loans once approved by the Council.

The main objective at this point, given the uncertainty of the new administration and the expectation of the Federal Reserve being aggressive in its rate increases, is to keep the portfolio with a low duration and re-invest maturing securities as needed. All securities maturing between now and the fiscal year end will be needed to make the debt service payments. If the Council chooses not to defease the 2008 GO bond and payoff the two NMFA loans, staff will invest the \$15 million opportunistically.

# FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2016-2017

## City of Santa Fe Portfolio Details - Investments As of December 31, 2016

<b>CUSIP</b>	<b>Issuer</b>	<b>Par Value</b>	<b>Market Value</b>	<b>Book Value</b>	<b>Coupon</b>	<b>YTM</b>	<b>Maturity</b>	<b>Effective Duration</b>	<b>Modified Duration</b>
3133ECJX3	Federal Farm Credit Bank	3,000,000	2,985,090	2,998,886	1.04%	1.07%	3/26/18	1.219	1.219
3135G0WM1	Federal National Mtg Assn	3,500,000	3,491,915	3,500,000	1.00%	1.00%	4/30/18	0.000	1.315
3137EADF3	Federal Home Loan Mtg Corp	3,000,000	3,006,570	3,004,796	1.25%	0.80%	5/12/17	0.358	0.358
3130A1NN4	Federal Home Loan Bank	2,000,000	2,001,020	1,999,287	0.88%	0.97%	5/24/17	0.391	0.391
3133EE4K3	Federal Farm Credit Bank	1,125,000	1,124,944	1,124,285	0.72%	0.84%	7/21/17	0.551	0.551
3137EADU0	Federal Home Loan Mtg Corp	1,250,000	1,249,988	1,249,991	0.50%	0.51%	1/27/17	0.071	0.071
3136G2PF8	Federal National Mtg Assn	2,500,000	2,485,275	2,500,000	1.13%	1.13%	10/29/18	0.000	1.797
3135G0JA2	Federal National Mtg Assn	1,500,000	1,502,265	1,501,996	1.13%	0.71%	4/27/17	0.317	0.317
3134G9KU0	Federal Home Loan Mtg Corp	1,500,000	1,496,115	1,498,518	1.00%	1.07%	5/25/18	0.000	1.384
3135G0MZ3	Federal National Mtg Assn	5,600,000	5,603,864	5,607,874	0.88%	0.66%	8/28/17	0.653	0.653
3133EEQX1	Federal Farm Credit Bank	5,000,000	5,006,200	5,009,275	1.00%	0.75%	9/25/17	0.727	0.727
3133EGUN3	Federal Farm Credit Bank	3,000,000	2,988,390	2,996,432	0.72%	0.84%	1/16/18	1.031	1.031
3134GAVW1	Federal Home Loan Mtg Corp	3,000,000	2,989,050	3,000,000	1.05%	1.05%	11/7/18	0.000	1.823
3134GAYE8	Federal Home Loan Mtg Corp	3,000,000	2,989,890	3,000,000	1.13%	1.13%	11/28/18	0.000	1.879
3130A6LZ8	Federal Home Loan Bank	2,000,000	1,996,920	1,997,180	0.63%	0.80%	10/26/17	0.814	0.814
3134GAVW1	Federal Home Loan Mtg Corp	2,000,000	1,992,700	1,997,755	1.05%	1.11%	11/7/18	0.000	1.823
3130AA3R7	Federal Home Loan Bank	2,000,000	1,992,020	1,995,907	1.38%	1.45%	11/15/19	2.800	2.800
3130A8BD4	Federal Home Loan Bank	5,000,000	4,982,600	4,985,739	0.88%	1.07%	6/29/18	1.479	1.479
313376BR5	Federal Home Loan Bank	5,000,000	5,052,350	5,052,778	1.75%	1.20%	12/14/18	1.915	1.915
313379EE5	Federal Home Loan Bank	5,000,000	5,024,250	5,033,805	1.63%	1.34%	6/14/19	2.395	2.395
3130AA2H0	Federal Home Loan Bank	5,000,000	4,945,550	4,954,918	1.13%	1.44%	11/29/19	2.848	2.848
313379EE5	Federal Home Loan Bank	5,000,000	5,024,250	5,031,864	1.63%	1.36%	6/14/19	2.395	2.395
36225BRY6	GNMA	100	100	104	6.00%	5.11%	2/15/17	0.000	0.000
36202SGG7	GNMA	3,707	3,731	3,920	6.00%	4.93%	3/15/18	0.635	0.635
	Total Agency	69,978,807	69,935,047	70,045,310		1.05%		1.14	1.51
912828K66	U.S. Treasury	2,500,000	2,499,825	2,499,817	0.50%	0.52%	4/30/17	0.326	0.326
912828WH9	U.S. Treasury	2,000,000	2,002,040	2,002,186	0.88%	0.58%	5/15/17	0.367	0.367
912828SY7	U.S. Treasury	3,000,000	3,000,240	2,999,643	0.63%	0.65%	5/31/17	0.410	0.410
		7,500,000	7,502,105	7,501,645		0.59%		0.371	0.371
647310X97	New Mexico Servance Tax Bond	2,500,000	2,509,750	2,545,848	2.00%	1.25%	07/01/19	2.429	2.429
		2,500,000	2,509,750	2,545,848		1.25%		2.429	2.429
SYS10210	Wells Fargo Bank MM	59,990,339	59,990,339	59,990,339	0.37%	0.37%	12/31/16	0.000	0.000
SYS10213	NM Local Gvt Inv. Pool	5,698,445	5,698,445	5,698,445	0.40%	0.40%	12/31/16	0.000	0.000
SYS10724	Wells Fargo Bank Savings	37,228	37,228	37,228	0.18%	0.18%	12/31/16	0.000	0.000
SYS10727	Wells Fargo Bank Savings	9,491,063	9,491,063	9,491,063	0.18%	0.18%	12/31/16	0.000	0.000
		75,217,075	75,217,075	75,217,075		0.35%		0.000	0.000
SYS10760	State Employee CU	250,000	250,000	250,000	1.46%	1.46%	7/8/17	0.513	0.513
SYS9085	First National Bank of Santa F	2,000,000	2,000,000	2,000,000	0.45%	0.45%	6/2/17	0.421	0.421
SYS10819	Bank of Albuquerque	250,000	250,000	250,000	0.65%	0.65%	9/20/17	0.714	0.714
SYS10837	First National Bank of Santa F	255,771	255,771	255,771	0.45%	0.45%	4/2/17	0.000	0.000
SYS3486	First National Bank of Santa F	3,000,000	3,000,000	3,000,000	0.55%	0.55%	10/8/17	0.769	0.769
SYS3559	First National Bank of Santa F	3,500,000	3,500,000	3,500,000	0.55%	0.55%	10/11/17	0.774	0.774
SYS5297	First National Bank of Santa F	2,000,000	2,000,000	2,000,000	0.75%	0.75%	7/16/18	1.529	1.529
SYS437	Guadalupe CU	250,000	250,000	250,000	1.00%	1.00%	8/19/17	0.626	0.626
SYS10854	Century Bank	200,601	200,601	200,601	0.30%	0.30%	7/28/17	0.572	0.572
		11,706,372	11,706,372	11,706,372		0.59%		0.81	0.81
	<b>Total Portfolio</b>	<b>166,902,254</b>	<b>166,870,349</b>	<b>167,016,250</b>		<b>0.68%</b>		<b>0.586</b>	<b>0.741</b>