City of Santa Fe
FY20 Review and FY21 Update

March 2021
Agenda

- FY20 Review- Finance Department Staff
- FY21 Economic Update- Dr. Reilly S. White
- FY21 Revenue Update- Finance Department Staff
Santa Fe Update
Featured Points

• One Year Ago- March & April 2020- Santa Fe faced uncertain economic outlook with the steep and sudden onset of a recession - unprecedented unemployment levels and declines in local economic sectors like tourism and retail with only 3 months in the FY20 to adjust

• One Year Later- FY21 and FY22 improved forecast - Key economic drivers include:
  • Strong consumer savings over the past year is powering higher demand for Travel, Healthcare, and Retail Spending
  • Federal stimulus (both consumer and State and Local government support)
  • Continued strength in Construction, Professional, Scientific and Technical Services, Real Estate and Financial Services
  • Recovery in Accommodations and Food Service, Arts and Entertainment, Retail, Healthcare

• FY21 City Revenues are expected to show continued improvement. Between now and end of FY21 the City is positioned to adjust budget to spend unanticipated revenue

• FY22 revenue is forecasted for improvement over FY21 budget, ex: GRT and Lodgers Tax, which will support hiring into critical vacant/unfunded positions, and support spending in the local economy in FY22

• Potential Risks- More dangerous variant of the virus causes closures and restrictions
FY20 Review
FY20 Review
Spring 2020, National Economic Data

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

US GDP growth since 2008
Real GDP, % change from previous quarter, annualized rate

Real Disposable Personal Income and Real Consumer Spending

Source: US Bureau of Economic Analysis

Source: Bureau of Economic Analysis
FY20 Review
Spring 2020, Local Tourism Industry Data

- Trends in initial Santa Fe tourism industry data an early indicator City revenue would decline.
- March 2020 hotel occupancy decrease 45% and revenue per available room (RevPAR) decrease by close to 50%. Hotel occupancy decreased further from 63.8% in April 2019 to 15.1% in April 2020.
- Santa Fe Airport data showed passenger traffic declined 98 percent from 21,213 passengers in February 2020 to 502 passengers in April 2020.
FY20 Review
Spring 2020, Local Employment Impacts of Pandemic

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

<table>
<thead>
<tr>
<th>Employer</th>
<th>Business</th>
<th># of Employees</th>
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<tbody>
<tr>
<td>State of New Mexico</td>
<td>Government</td>
<td>20,000+</td>
</tr>
<tr>
<td>Christus St. Vincent</td>
<td>Healthcare</td>
<td>2000-3000</td>
</tr>
<tr>
<td>City of Santa Fe</td>
<td>Government</td>
<td>1000-2000</td>
</tr>
<tr>
<td>County of Santa Fe</td>
<td>Government</td>
<td>1000-2000</td>
</tr>
<tr>
<td>City Of Gold Casino</td>
<td>Tribal</td>
<td>500-999</td>
</tr>
<tr>
<td>Buffalo Thunder Resort and Casino</td>
<td>Tribal</td>
<td>500-999</td>
</tr>
<tr>
<td>Santa Fe Community College</td>
<td>Education</td>
<td>500-999</td>
</tr>
<tr>
<td>Wal-Mart</td>
<td>Retail</td>
<td>500-999</td>
</tr>
<tr>
<td>Eldorado Hotel and Spa</td>
<td>Tourism</td>
<td>250-499</td>
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FY20 Review
Spring 2020, Local and State Initial Unemployment Claims

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

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<tbody>
<tr>
<td>Santa Fe County</td>
<td>39</td>
<td>53</td>
<td>1,864</td>
<td>2,692</td>
<td>2,372</td>
<td>1,407</td>
<td>8,427</td>
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<tr>
<td>Statewide*</td>
<td>659</td>
<td>834</td>
<td>18,113</td>
<td>27,854</td>
<td>26,142</td>
<td>19,047</td>
<td>92,649</td>
</tr>
<tr>
<td>SF as % of Total</td>
<td>6%</td>
<td>6%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
<td>7%</td>
<td>9%</td>
</tr>
</tbody>
</table>

*Statewide weekly high during last recession was just over 3,000
FY20 Review  
Spring 2020, Impacts of Pandemic on Local Economy  

• Understanding the unique nature and risks of the pandemic to the economy has been an important part of understanding the impact to different sectors of the Santa Fe economy. 
• Overall, the taxable gross receipts in Santa Fe decreased $504 million, or 14%, when comparing the period of February 2020 – January 2021 data to February 2019 – January 2020.
FY20 Review
Spring 2020, Impacts of Pandemic on Local Government

• Last spring, City governments nationwide were also grappling with uncertainty and lost tax revenue from stay-at-home orders to prevent the spread of the virus.
• Cities surveyed nationwide had unanticipated revenue shortfalls, increased costs of responding to the public health emergency leading to reductions in public services and furloughs and layoffs for municipal employees.
2020 Federal Stimulus Worked
Stimulus helped us not fall off as deep of a cliff as we originally feared.

- Legislature issued a report in December 2020 concluding that $9.3 billion in federal stimulus aid that New Mexico received during the coronavirus pandemic was a lifeline that helped cushion state and local governments from a massive drop in tax revenue.
- In Spring 2020 State of New Mexico received $1.25 billion in Federal Cares Act funding
- In September, the City of Santa Fe received $17.5 million in Cares Act Funds from the State
- The $1,200 federal stimulus that was sent to most Americans as well as the weekly additional $600 in federal funding added to unemployment checks through July 25 helped improve the economy
- The Federal Stimulus kept many businesses afloat and helped workers who lost their jobs
- The stimulus packages helps businesses and unemployed workers, and the individual stimulus checks would inject money into the local economies that would indirectly bump City revenues
- These federal dollars have played an essential role in keeping New Mexico’s economy from facing a severe depression and in preventing the City budget from experiencing larger shortfalls
FY21 Economic Update
• Tenured Associate Professor of Finance, UNM
  • Director, $4.5 Million Student-Run Portfolio
  • Daniels Fund Ethics Fellow
• 15 Years of Experience in Economic Analysis, Banking, Budgeting, and Academic Research

Areas of Expertise
• Budget Forecasting and Modeling
• Portfolio Analysis
• Scenario Analysis and Forecasting
• Cryptocurrencies and Financial Technology
• Financial Literacy

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

• Robust and continued economic recovery
  • 2021 GDP growth expected to near 6%
  • Low-to-moderate inflation expectations
  • Continued recovery in travel and leisure, consumer spending
  • Federal Reserve will keep rates near 0%, encouraging rapid economic growth

• Significantly lower recession probability (12%)
  • Persistent Unemployment remains an area of concern.
Major Macroeconomic Indicators
Consumer Confidence Board, Consensus Estimates
Major Macroeconomic Indicators
WSJ Economist Consensus, March 2021
US Real Estate Appreciation
1987-2020, where Jan 2000=100
30-Year Average Fixed Mortgage Rates
1971-2021
Daily TSA Checkpoint Travel Numbers
2019-2021 (Forecasted)
$1.9 Trillion Stimulus
Anticipated Economic Impacts

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

Summary

• Economic Growth Continues
  • Headwinds: persistently high unemployment
    • Depressed employment in oil and gas (-32% YoY), leisure and hospitality (-30% YoY),
      government (-8% YoY), and financial activities (-11% YoY)

• Robust residential real estate growth and improving inventories

• Oil and Gas Sector should recovery slowly with steady oil prices above $60/bl
Santa Fe Economic Overview
Summary

• Economic Growth Continues
  • Steady recovery in tourism expected in FY 2021, FY 2022
  • Gradual improvement improvements in hotel occupancy, restaurant spending
  • Low rates have powered rapid appreciation in Santa Fe Real Estate (15-25% in calendar year 2020, exceeding the US (11%) growth rates.
  • Construction activity has been strong and current employment has reached pre-pandemic levels.
  • Consumer spending will increase between 4-10% in FY 2021, benefitting retail establishments, particularly electronics, home furnishing, and luxury stores.
  • Public Sector Employment remains 10% below last year (roughly -1,400 jobs), but stronger fiscal positioning will allow greater hiring in this sector.
Construction Boom Continues
Monthly Data, 2016-2021

New Private Housing Units Authorized by Building Permits: 1-Unit Structures for Santa Fe, NM (MSA)
Wining and Dining
Seated Diners (2020-2021) where 2019=100
The State of the Hotel Industry
Occupancy % and Forecast, 2020-2021 (STR Data, Santa Fe)
Residential Real Estate Dynamics for Santa Fe, NM
Zillow Home Value Index

Jan 2021
- New Mexico $229K
- Santa Fe $430K

$457K
$350K
$244K
$137K

Santa Fe Economic Overview
Revenue Outlook

• The Santa Fe Economy is in a strong position for continued recovery.
  • GRT and Lodgers’ Tax revenues will be bolstered by recovering economic conditions, increased travel, and pent-up consumption from historically high savings rates.
  • A robust property market, powered by low interest rates and a growing population, will allow steady growth in property tax revenue.
  • The risk of moderate inflation (3%) due to economic ‘overheating’ is more probable than another recession.

• Worst-Case Scenario Analysis
  • An appreciably more dangerous virus variant could force additional closures, in which GRT and Lodgers’ Tax are most vulnerable. On the opposite end, higher-than-anticipated inflation generally increases both revenues and expenditures for municipalities, and represents a more complex risk.
FY21 Revenue Update
FY21 Revenue Update
Equally important is understanding the revenue base and distribution timing for the City’s Budget.

- Gross Receipts Tax revenue is the single largest source of revenue for the City of Santa Fe and has proven to be extremely volatile source of revenue during the previous economic recessions.
- GRT alone makes up close to 30% of all City revenue.
- Cities in New Mexico face a two-month lag between Gross Receipt Tax (GRT) collection and disbursement. GRT earned in March 2020 was distributed by the Taxation and Revenue Department to the City two months later, in May 2020.
- The largest single fund for the City is the General Fund. A substantial majority, or just under 70%, of the City’s General Fund revenue is generated from GRT.
FY21 Revenue Update
Total Taxable Gross Receipts by Industry Sector, December 2020

- Construction at 15% of total Taxable Gross Receipts has been a strong performer as other sectors have posted declines throughout the last year
FY21 Revenue Update
Taxable Gross Receipts, July – December FY20 to FY21 Comparison

- A decrease in taxable gross receipts equates to lost revenue to Santa Fe businesses as well as lost City GRT revenue.
FY21 Revenue Update
Gross Receipts Tax Distribution, July – December FY20 to FY21 Comparison

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

• Historically the principal disbursements of Property Tax receipts from the County to the City occur in December and January and the secondary disbursements occur in May and June.
• July to December, the City received $6M or 50% of the total Property Tax budget of $12 million, Property Tax revenue may not reach the budgeted levels in FY21
FY21 Revenue Update
Lodgers Tax Receipts by Month

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

March
• FY21 Revised Revenue Estimates
• FY21 Budget Adjustments

April
• FY22 Budget Development
• FY21 Budget Adjustments

May
• FY22 Budget Submitted to DFA
• FY21 Budget Adjustments
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Featured Points

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Appendix
% of Servicing Portfolio Volume in Forbearance by Investor Type over Time (Full Sample)
Appendix 2

Percent Job Losses in Post WWII Recessions

- 1948
- 1953
- 1957
- 1960
- 1969
- 1974
- 1980
- 1981
- 1990
- 2001
- 2007
- 2020

Number of Months After Peak Employment

Percent Job Losses Relative to Peak Employment Month

- 2007 Employment Recession

- 2020 Employment Recession

http://www.calculatedriskblog.com/
Appendix 3
Appendix 5

Unemployment Dynamics for Santa Fe, 2011-2021
Modified ARIMA model
Santa Fe FY 2021 Revenues
Major Revenue Sources

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