## CITY OF SANTA FE

## QUARTERLY FINANCIAL PERFORMANCE REPORT

As of June 30, 2017


Presented to the Finance Committee
September 18, 2017

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## I. CITY OF SANTA FE - QUARTERLY REVENUE UPDATE

## City of Santa Fe Gross Receipts \& Lodgers' Tax Update through June 2017

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 following overview covers the GRT activity for the quarter ending June 30, 2017, reported in August 2017.

Gross receipts activity during the last two quarters of the fiscal year typically tends to follow cyclical patterns of consumer activity, after the heightened flurry of holiday receipts. Total gross receipts for June were $\$ 475$ million, down approximately three percent from $\$ 490$ million reported for June 2016. The results reported for June by the State of New Mexico Taxation and Revenue Department are early estimates. The GRT Breakout by Industry table was not included in this report, as the RP- 500 report released by TRD contained various reporting errors due to delays in processing taxpayer payments and reporting. The reports are anticipated to be corrected within the next few months. Receipts are estimated to have increased in June in the construction sector, admin support, waste management/remediation services, agriculture and forestry and utilities and mining sectors. Real estate and manufacturing sectors also reported increases with summer activity picking up. A strong real estate market contributed well during the quarter. June 2017 GRT distribution to the city was $\$ 8.016$ million, slightly lower from June 2016 at $\$ 8.022$ million. Fiscal year to date distribution comparisons are up an estimated 2.3 percent over the previous fiscal year for the twelve months ended June 30.


Chart 2


Data Source: NM Taxation \& Revenue Dept.
Strength in gross receipts observed in June 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.

Chart 3


Data Source: NM Taxation \& Revenue Dept.

## Chart 4



## Chart 5



## II. CITY OF SANTA FE - REVENUE/EXPENDITURE PROJECTIONS

This report is a summary of financial results for the City through the fourth quarter of the fiscal year. It provides summarized information on how the City's financial sources and uses performed through the end of the fiscal year, with detail provided by department and major categories.

## HIGHLIGHTS

The City's overall revenue portfolio, as always, is dominated by Gross Receipts Tax (GRT), which comprises just under $29 \%$ of all City revenue. Although GRT receipts did not end the year as strongly as was projected in previous quarterly reports due to somewhat-disappointing $4^{\text {th }}$ Quarter GRT receipts (the $3^{\text {rd }}$ Quarter projection forecasted GRT to come in at $5 \%$ over budget), the year-end GRT picture is still a positive one, with actual GRT revenue exceeding budget by $3 \%$. While some revenue sources like Franchise Tax, Licenses \& Permits and Fines performed below budgeted expectations, other sources such as Property Tax, Lodgers' Tax and Ambulance Fees performed better than expected. Overall revenues ended the fiscal year at $1 \%$ above budget.

On the expenditures side, prior quarterly projections were 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. The year's data bear out this trend, with Salaries and Benefits coming in at $99 \%$ and $92 \%$ of budgeted amounts respectively, while Contractual Services, Repairs \& Maintenance and Capital Purchases ended the year much further from budgeted targets ( $71 \%, 64 \%$ and $59 \%$ respectively), and these three categories represented the highest variances from budget targets of all the expenditure categories. It is worth noting as well that the small variances in Salaries and Benefits indicate that the City successfully met its vacancy savings targets for FY 2016/17. As a whole, expenditures ended up with no significant budget vs. actual variance ( $100.34 \%$ of budget expended).

## GENERAL FUND

As is the case with all funds, GRT represents the largest portion of General Fund revenues, but in even greater proportion, amounting to $69 \%$ of total General Fund revenues. Although some revenue categories in the General Fund such as Other Fees/Services, Franchise Tax and Miscellaneous Revenues came in below their budget targets, because GRT is by far the largest General Fund revenue source, positive GRT performance over the course of the fiscal year made up the difference, leaving overall General revenues within $1 \%$ of budget. On the expenditure side, and as noted in previous reports, the City tightened its personnel services budget for FY 2016/17, and as a result salaries and benefits ended up a good deal 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. Further, the Police and Fire Departments, whose budgets contain a larger share of salaries/benefits than other City Departments, exceeded their overall General Fund budgets by the end of the fiscal year due to overtime costs that exceeded budget targets. Overall, however, General Fund expenditures ended the fiscal year at $1 \%$ below budget, a somewhat lower (tighter) budget-to-actual variance than that projected in previous quarterly reports.

In conclusion, the City ended the fiscal year quite close to its budget targets, a situation attributable to improved revenue forecasting and policy changes that enhanced overall budget discipline. The Finance Department will continue to closely monitor the City's revenue and expenditure profile in FY 2017/18 and going forward, and recommend adjustments where necessary, to ensure that the City's financial goals continue to be met in the most efficient and effective manner possible.

## ALL FUNDS - OPERATING BUDGET \& ACTUAL SUMMARY

Table 1

| DESCRIPTION | $\begin{gathered} \text { FISCAL YEAR } \\ \text { 2015/2016 } \\ \text { ACTUAL } \\ \hline \end{gathered}$ | FISCAL YEAR 2016/2017 |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: |
|  |  | $\begin{gathered} \text { APPROVED } \\ \text { BUDGET } \end{gathered}$ | $\begin{gathered} \hline \text { AMENDED } \\ \text { BUDGET } \end{gathered}$ | $\begin{gathered} \text { ACTUAL } \\ 06 / 30 / 2017 \end{gathered}$ | $\begin{aligned} & \text { \% RECEIVED } \\ & \text { / EXPENDED } \end{aligned}$ |
| BEGINNING BALANCE <br> Revenues: | 141,719,995 | 124,973,340 | 124,973,340 | 124,973,340 |  |
| Gross Receipts Tax | 101,173,715 | 98,690,364 | 98,690,364 | 101,972,155 | 103\% |
| Property Tax | 10,531,692 | 9,761,061 | 9,761,061 | 10,970,829 | 112\% |
| Franchise Tax | 3,669,517 | 4,625,575 | 4,625,575 | 4,051,638 | 88\% |
| Lodgers' Tax | 9,743,758 | 10,000,000 | 10,000,000 | 10,809,464 | 108\% |
| Gasoline Tax | 1,276,598 | 1,445,000 | 1,445,000 | 1,560,411 | 108\% |
| Other Taxes | 469,285 | 490,110 | 490,110 | 527,686 | 108\% |
| Licenses \& Permits | 2,792,742 | 3,932,931 | 4,213,413 | 3,486,605 | 83\% |
| Ambulance Fees | 3,684,148 | 1,641,543 | 1,641,543 | 2,250,019 | 137\% |
| Insurance Premiums/Deductibles | 28,274,746 | 27,556,262 | 27,683,861 | 28,020,330 | 101\% |
| Parking Fees | 3,992,840 | 5,203,113 | 5,203,113 | 4,711,329 | 91\% |
| Recreation Fees | 3,316,566 | 3,313,194 | 3,313,194 | 3,176,425 | 96\% |
| Solid Waste Fees | 18,440,996 | 18,614,394 | 18,614,394 | 19,241,306 | 103\% |
| Wastewater Fees | 12,406,403 | 11,629,038 | 11,629,038 | 11,672,261 | 100\% |
| Water Fees | 35,528,446 | 34,314,486 | 34,444,049 | 31,473,916 | 91\% |
| Other Fees/Services ** | 29,072,746 | 20,260,387 | 21,355,910 | 20,686,887 | 97\% |
| Fines \& Forfeitures | 1,361,274 | 1,292,003 | 1,292,003 | 1,018,791 | 79\% |
| Miscellaneous Revenues*** | 49,218,968 | 7,481,070 | 14,542,229 | 25,644,212 | 176\% |
| Interest on Investments | 865,539 | 602,288 | 599,913 | 456,650 | 76\% |
| State Grants | 4,261,889 | 3,294,549 | 4,407,473 | 3,300,650 | 75\% |
| Federal Grants | 5,009,046 | 5,130,404 | 5,907,371 | 2,680,990 | 45\% |
| SF County/Other Grants | 136,777 | 6,978,525 | 7,806,016 | 79,972 | 1\% |
| Transfers In | 138,525,160 | 50,895,938 | 58,512,854 | 63,429,658 | 108\% |
| Subtotal - Revenues | 463,752,851 | 327,152,235 | 346,178,484 | 351,222,183 | 101\% |
| TOTAL RESOURCES | 605,472,846 | 452,125,575 | 471,151,824 | 476,195,523 |  |
| Expenditures: |  |  |  |  |  |
| Salaries | 73,255,533 | 69,600,480 | 72,531,379 | 71,833,662 | 99\% |
| Benefits | 38,036,704 | 39,601,561 | 40,801,196 | 37,464,579 | 92\% |
| Contractual Services | 26,024,477 | 23,910,760 | 27,408,484 | 19,393,461 | 71\% |
| Utilities | 11,986,640 | 12,112,968 | 13,604,969 | 11,008,256 | 81\% |
| Repairs \& Maintenance | 5,021,616 | 5,870,522 | 7,041,287 | 4,512,259 | 64\% |
| Supplies | 8,829,188 | 10,695,841 | 11,246,588 | 8,812,142 | 78\% |
| Insurance | 28,558,239 | 32,052,116 | 32,238,530 | 30,208,291 | 94\% |
| Other Operating | 20,961,988 | 24,732,805 | 26,893,056 | 22,581,003 | 84\% |
| Capital Purchases | 9,257,529 | 6,302,704 | 11,162,427 | 6,594,279 | 59\% |
| Land \& Building | 4,709,567 | 826,419 | 1,471,598 | 1,097,353 | 75\% |
| Debt Service-Principal | 104,545,860 | 19,105,177 | 26,710,177 | 53,690,581 | 201\% |
| Debt Service-Interest | 15,970,114 | 13,739,866 | 12,055,301 | 12,534,282 | 104\% |
| Transfers Out | 133,342,050 | 51,650,370 | 58,312,111 | 62,909,407 | 108\% |
| TOTAL EXPENDITURES | 480,499,506 | 310,201,589 | 341,477,103 | 342,639,556 | 100\% |
| ENDING BALANCE | 124,973,340 | 141,923,986 | 129,674,721 | 133,555,966 |  |

[^0]YEAR-END ANALYSIS



GENERAL FUND BUDGET \& ACTUAL SUMMARY
Table 2


## GENERAL FUND BUDGET \& ACTUAL DETAIL BY DEPARTMENT/MAJOR DIVISION

Table 3

| DESCRIPTION | $\begin{gathered} \hline \text { AMENDED } \\ \text { BUDGET } \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { ACTUAL } \\ \mathbf{0 6 / 3 0 / 2 0 1 7} \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { \% RECEIVED } \\ \text { / EXPENDED } \\ \hline \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| Community Services Department: |  |  |  |
| -Administration Division: |  |  |  |
| -Salaries, Wages \& Benefits | 315,494 | 393,930 | 125\% |
| -Contractuals \& Utilities | 291,600 | 227,651 | 78\% |
| -Supplies | 1,000 | 1,496 | 150\% |
| -Insurance | 5,113 | 5,113 | 100\% |
| -Other Operating Costs | 150 | 83 | 55\% |
| -Subtotal: Administration Division | 613,357 | 628,273 | 102\% |
| -Library Division: |  |  |  |
| -Salaries, Wages \& Benefits | 1,980,261 | 1,986,074 | 100\% |
| -Contractuals \& Utilities | 177,521 | 162,159 | 91\% |
| -Repairs \& Maintenance | 9,440 | 8,451 | 90\% |
| -Supplies | 365,812 | 342,460 | 94\% |
| -Insurance | 81,229 | 81,229 | 100\% |
| -Other Operating Costs | 8,098 | 3,847 | 48\% |
| -Transfers Out | 998,009 | 998,009 | 100\% |
| -Subtotal: Library Division | 3,620,370 | 3,582,228 | 99\% |
| -Senior Services Division: |  |  |  |
| -Salaries, Wages \& Benefits | 7,803 | 7,803 | 100\% |
| -Insurance | 140,243 | 140,243 | 100\% |
| -Transfers Out | 2,272,266 | 2,275,427 | $\underline{100 \%}$ |
| -Subtotal: Senior Services Division | 2,420,312 | 2,423,473 | 100\% |
| -Youth \& Family Division: |  |  |  |
| -Salaries, Wages \& Benefits | 643,384 | 505,110 | 79\% |
| -Contractuals \& Utilities | 18,700 | 16,816 | 90\% |
| -Repairs \& Maintenance | 1,950 | 1,213 | 62\% |
| -Supplies | 22,518 | 17,011 | 76\% |
| -Insurance | 68,004 | 68,004 | 100\% |
| -Subtotal: Youth \& Family Division | 754,556 | 608,154 | 81\% |
| Total: Community Services Department | 7,408,595 | 7,242,128 | 98\% |
| Finance Department: |  |  |  |
| -Salaries, Wages \& Benefits | 3,144,481 | 3,400,669 | 108\% |
| -Contractuals \& Utilities | 477,303 | 429,595 | 90\% |
| -Repairs \& Maintenance | 10,859 | 9,533 | 88\% |
| -Supplies | 152,221 | 112,056 | 74\% |
| -Insurance | 84,856 | 84,856 | 100\% |
| -Other Operating Costs | 177,799 | 137,624 | 77\% |
| -Capital Outlay | 81,083 | 55,000 | 68\% |
| -Transfers Out | 7,259,021 | 7,259,021 | 100\% |
| Total: Finance Department | 11,387,623 | 11,488,354 | 101\% |

## GENERAL FUND BUDGET \& ACTUAL DETAIL BY DEPARTMENT/MAJOR DIVISION

Table 3 (continued)

| DESCRIPTION | $\begin{gathered} \hline \text { AMENDED } \\ \text { BUDGET } \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { ACTUAL } \\ 06 / 30 / 2017 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { \% RECEIVED } \\ \text { / EXPENDED } \\ \hline \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| Fire Department: |  |  |  |
| -Salaries, Wages \& Benefits | 15,014,517 | 15,641,240 | 104\% |
| -Contractuals \& Utilities | 237,000 | 233,784 | 99\% |
| -Repairs \& Maintenance | 104,753 | 128,550 | 123\% |
| -Supplies | 515,900 | 556,109 | 108\% |
| -Insurance | 390,794 | 390,794 | 100\% |
| -Other Operating Costs | 105,911 | 152,668 | 144\% |
| -Capital Outlay | 174,079 | 103,911 | 60\% |
| -Transfers Out | 181,530 | 181,530 | 100\% |
| Total: Fire Department | 16,724,484 | 17,388,585 | 104\% |
| General Government: |  |  |  |
| -Salaries, Wages \& Benefits | 5,715,205 | 5,532,675 | 97\% |
| -Contractuals \& Utilities | 1,086,210 | 750,334 | 69\% |
| -Repairs \& Maintenance | 96,143 | 57,793 | 60\% |
| -Supplies | 143,062 | 105,794 | 74\% |
| -Insurance | 118,780 | 118,780 | 100\% |
| -Other Operating Costs | 449,064 | 320,143 | 71\% |
| -Capital Outlay | 52,093 | 11,075 | 21\% |
| -Transfers Out | 300,000 | 300,000 | 100\% |
| Total: General Government | 7,960,557 | 7,196,593 | 90\% |
| Human Resources Department: |  |  |  |
| -Salaries, Wages \& Benefits | 833,465 | 788,368 | 95\% |
| -Contractuals \& Utilities | 47,000 | 26,038 | 55\% |
| -Repairs \& Maintenance | 2,000 | 462 | 23\% |
| -Supplies | 11,149 | 10,238 | 92\% |
| -Insurance | 18,975 | 18,975 | 100\% |
| -Other Operating Costs | 68,630 | 62,680 | $\underline{91 \%}$ |
| Total: Human Resources Department | 981,219 | 906,761 | 92\% |
| Information Technology and |  |  |  |
| Telecommunications Department (ITT): |  |  |  |
| -Salaries, Wages \& Benefits | 2,608,196 | 2,748,292 | 105\% |
| -Contractuals \& Utilities | 1,147,463 | 720,803 | 63\% |
| -Repairs \& Maintenance | 307,535 | 206,632 | 67\% |
| -Supplies | 250,259 | 233,834 | 93\% |
| -Insurance | 63,473 | 63,473 | 100\% |
| -Other Operating Costs | 43,528 | 33,608 | 77\% |
| Total: ITT Department | 4,420,454 | 4,006,642 | 91\% |

## GENERAL FUND BUDGET \& ACTUAL DETAIL BY DEPARTMENT/MAJOR DIVISION

Table 3 (continued)

| DESCRIPTION | $\begin{gathered} \hline \text { AMENDED } \\ \text { BUDGET } \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { ACTUAL } \\ 06 / 30 / 2017 \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { \% RECEIVED } \\ \text { / EXPENDED } \\ \hline \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| Parks \& Recreation Department: |  |  |  |
| -Salaries, Wages \& Benefits | 4,833,429 | 4,697,369 | 97\% |
| -Contractuals \& Utilities | 2,489,638 | 2,326,949 | 93\% |
| -Repairs \& Maintenance | 156,914 | 53,218 | 34\% |
| -Supplies | 415,960 | 317,484 | 76\% |
| -Insurance | 281,280 | 281,280 | 100\% |
| -Other Operating Costs | 218,704 | 150,823 | 69\% |
| -Capital Outlay | 59,436 | 80,379 | 135\% |
| -Transfers Out | 589,060 | 589,060 | 100\% |
| Total: Parks \& Recreation Department | 9,044,421 | 8,496,562 | 94\% |
| Planning \& Land Use Department: |  |  |  |
| -Salaries, Wages \& Benefits | 4,084,592 | 3,706,227 | 91\% |
| -Contractuals \& Utilities | 165,462 | 107,265 | 65\% |
| -Repairs \& Maintenance | 8,599 | 2,963 | 34\% |
| -Supplies | 96,753 | 76,437 | 79\% |
| -Insurance | 107,515 | 107,515 | 100\% |
| -Other Operating Costs | 123,499 | 62,120 | 50\% |
| -Capital Outlay | 15,300 | - | 0\% |
| -Transfers Out | 335,000 | 335,000 | 100\% |
| Total: Planning \& Land Use Department | 4,936,720 | 4,397,528 | 89\% |
| Police Department: |  |  |  |
| -Salaries, Wages \& Benefits | 17,734,713 | 19,436,695 | 110\% |
| -Contractuals \& Utilities | 922,400 | 734,367 | 80\% |
| -Repairs \& Maintenance | 23,000 | 14,271 | 62\% |
| -Supplies | 122,541 | 109,947 | 90\% |
| -Insurance | 1,154,354 | 1,154,354 | 100\% |
| -Other Operating Costs | 520,656 | 473,998 | 91\% |
| -Capital Outlay | 425,300 | 407,539 | 96\% |
| -Transfers Out | 20,887 | 20,887 | 100\% |
| Total: Police Department | 20,923,851 | 22,352,056 | 107\% |
| Environmental Services Division / Graffiti: |  |  |  |
| -Salaries, Wages \& Benefits | 229,324 | 253,189 | 110\% |
| -Contractuals \& Utilities | 3,586 | 1,426 | 40\% |
| -Repairs \& Maintenance | 2,500 | 735 | 29\% |
| -Supplies | 28,552 | 18,720 | 66\% |
| -Insurance | 1,604 | 1,604 | 100\% |
| -Other Operating Costs | 15,100 | 8,144 | 54\% |
| Total: Environmental Services Division / Graffiti | 280,666 | 283,819 | 101\% |

## GENERAL FUND BUDGET \& ACTUAL DETAIL BY DEPARTMENT/MAJOR DIVISION

Table 3 (continued)

| DESCRIPTION | $\begin{gathered} \hline \text { AMENDED } \\ \text { BUDGET } \end{gathered}$ | $\begin{gathered} \hline \text { ACTUAL } \\ \mathbf{0 6 / 3 0 / 2 0 1 7} \\ \hline \end{gathered}$ | $\begin{gathered} \hline \text { \% RECEIVED } \\ \text { / EXPENDED } \end{gathered}$ |
| :---: | :---: | :---: | :---: |
| Public Works Department: <br> -Administration Division: |  |  |  |
|  |  |  |  |
| -Salaries, Wages \& Benefits | 229 | 55,220 | 24114\% |
| -Repairs \& Maintenance | 3,916 | 2,085 | 53\% |
| -Supplies | 1,821 | 533 | 29\% |
| -Insurance | 2,606 | 2,606 | 100\% |
| -Other Operating Costs | 200 | - | 0\% |
| -Transfers Out (Airport GF Subsidy) | 145,726 | 145,726 | 100\% |
| -Subtotal: Administration Division | 154,498 | 206,170 | 133\% |
| -Engineering Division: |  |  |  |
| -Salaries, Wages \& Benefits | 1,126,722 | 1,111,828 | 99\% |
| -Contractuals \& Utilities | 1,222,514 | 1,005,822 | 82\% |
| -Repairs \& Maintenance | 63,000 | 46,400 | 74\% |
| -Supplies | 294,993 | 273,050 | 93\% |
| -Insurance | 102,465 | 102,465 | 100\% |
| -Other Operating Costs | 22,602 | 22,512 | 100\% |
| -Capital Outlay | 13,082 | 13,082 | $\underline{100 \%}$ |
| -Subtotal: Engineering Division | 2,845,378 | 2,575,158 | 91\% |
| -Facilities Maintenance Division: |  |  |  |
| -Salaries, Wages \& Benefits | 1,582,814 | 1,689,405 | 107\% |
| -Contractuals \& Utilities | 398,873 | 300,675 | 75\% |
| -Repairs \& Maintenance | 240,921 | 231,048 | 96\% |
| -Supplies | 130,557 | 121,162 | 93\% |
| -Insurance | 84,022 | 84,022 | 100\% |
| -Other Operating Costs | 15,723 | 13,955 | 89\% |
| -Transfers Out | 272,364 | 232,470 | 85\% |
| -Subtotal: Facilities Maintenance Division | 2,725,274 | 2,672,738 | 98\% |
| -Streets \& Drainage Division: |  |  |  |
| -Salaries, Wages \& Benefits | 1,329,095 | 1,086,821 | 82\% |
| -Contractuals \& Utilities | 107,000 | 11,168 | 10\% |
| -Repairs \& Maintenance | 36,027 | 29,160 | 81\% |
| -Supplies | 180,654 | 140,117 | 78\% |
| -Insurance | 186,548 | 186,548 | 100\% |
| -Other Operating Costs | 1,920 | - | $\underline{0} \%$ |
| -Subtotal: Streets \& Drainage Division: | 1,841,244 | 1,453,814 | 79\% |
| Total: Public Works Department | 7,566,394 | 6,907,881 | 91\% |
| TOTAL EXPENDITURES | 91,634,984 | 90,666,910 | 99\% |

## III. CITY OF SANTA FE - INVESTMENT PORTFOLIO <br> AS OF JUNE 30, 2017

The composition of the portfolio reported minimal changes in the fourth quarter of the fiscal year. During the quarter, the Treasury staff decreased the savings account balances and one CD matured. The CD was not renewed in order to comply with the City's investment policy, where non-US Government issuers cannot exceed five percent of the portfolio. The issuer of the CD represented over seven percent of the total portfolio, therefore the maturing CD was not renewed.

## Chart 8

## Portfolio Composition

July 2015 to June 2017


Chart 9


In an effort to increase local deposits, the Treasury Division developed a new CD program to be implemented at the beginning of Fiscal Year 2018. The City will offer up to two and a half percent ( $\$ 4$ million) of the portfolio at the beginning of each quarter to financial institutions that have branches in the City to bid on. Total CD investment is not to exceed ten percent ( $\$ 16$ million) of the portfolio and no single issuer shall represent more than five percent ( $\$ 8$ million) of the portfolio. During the quarter, no new CDs were purchased, two existing CDs will be renewed and one will be redeemed. New Mexico State Statute, 6-10-36 (E), states that public fund deposits must meet or exceed the US Treasury rate for the same maturity. This sets a high bar that many local financial institutions choose not to meet because they can get deposits or capital from other sources at
much lower levels or they do not have sufficient loan demand. Treasury staff contacted 13 financial institutions and the results for July 2017 are attached at the end of this report.

Table 4: Investment Income by Quarter and Composition

|  | Q1 |  | Q2 |  | Q3 |  | Q4 |  | FY 2017 |  |
| :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- | :--- |
|  | $\underline{\text { Income }}$ | $\underline{\text { Return }}$ | $\underline{\text { Income }}$ | $\underline{\text { Return }}$ | $\underline{\text { Income }}$ | $\underline{\text { Return }}$ | $\underline{\text { Income }}$ | $\underline{\text { Return }}$ | $\underline{\text { Income }}$ | $\underline{\text { Return }}$ |
| Savings | $\$ 38,976$ | $.05 \%$ | $\$ 22,687$ | $.08 \%$ | $\$ 3,751$ | $.04 \%$ | $\$ 1,973$ | $.03 \%$ | $\$ 67,357$ | $.21 \%$ |
| CDs | $\$ 16,890$ | $.14 \%$ | $\$ 17,286$ | $.15 \%$ | $\$ 16,085$ | $.14 \%$ | $\$ 16,810$ | $.15 \%$ | $\$ 67,071$ | $.58 \%$ |
| WF | $\$ 158,797$ | $.19 \%$ | $\$ 199,784$ | $.17 \%$ | $\$ 296,821$ | $.21 \%$ | $\$ 428,156$ | $.29 \%$ | $\$ 1,083,558$ | $.86 \%$ |
| Trust |  |  |  |  |  |  |  |  |  |  |
| Total | $\mathbf{\$ 2 1 4 , 6 6 4}$ | $\mathbf{. 1 3 \%}$ | $\mathbf{\$ 2 3 9 , 7 5 6}$ | $\mathbf{. 1 3 \%}$ | $\mathbf{\$ 3 1 6 , 6 5 8}$ | $\mathbf{. 1 9 \%}$ | $\mathbf{\$ 4 4 6 , 9 0 9}$ | $\mathbf{. 2 7 \%}$ | $\mathbf{\$ 1 , 2 1 7 , 9 8 7}$ | $\mathbf{. 7 1 \%}$ |

Chart 10


The uptick in CD yield is due to one CD maturing that was at a lower rate than the remaining CDs in the portfolio.

## Chart 11



## Chart 12



Charts 11 and 12 show that the yield on the portfolio continued to increase during the fourth quarter, while the change in market value of the portfolio dipped in June resulting in an unrealized loss of $\$ 59,617$ for the month.

Chart 13


Chart 14


Chart 15
Total Investment Income by Month FY 2016 and 2017


Chart 13 shows total interest earned by month, including accrued interest or the portfolio's "Yield" in dollar terms. Chart 14 shows realized and unrealized capital gains or losses, which indicates how much "Interest Rate Risk" the portfolio is taking. Chart 15 shows total return, the combination of total interest and total gains and losses. Currently, staff is keeping the Duration or interest rate risk of the portfolio low, so as the Federal Reserve increases interest rates, the portfolios yield goes up with minimal market value change.

## Chart 16



Chart 17


Charts 16 and 17 compare the City's portfolio against two widely used market benchmarks: the Bloomberg 1-3 year Government Index and the Bloomberg 1-3 year Aggregate Index. The Aggregate is comprised of Government, Corporate and Mortgage securities with maturities between one and three years. While the City has not formally adopted a performance benchmark, these two benchmarks are consistent with the level of investment risk the City has adopted in its investment policy.

Interest rates rose in June as the market correctly anticipated that the Federal Reserve would raise shortterm interest rates at its June meeting. The Federal Reserve has consistently stated its decisions will be data driven, so it is important to give a brief overview of the economic data.

The Federal Reserve's most recent Beige Books reported the US economy as expanding, with the pace of growth ranging from slight to modest. Consumer spending appears to be rising across a majority of Federal Reserve Districts, led by non-auto sales and tourism. Recent auto sales have declined in half of the Districts. Manufacturing and non-financial services activity continued to grow. Residential and non-residential
construction activity was flat to expanding in most Districts, reporting low home inventory levels. The unemployment rate was less than 4.5 percent, which many economists consider full employment. Even with extremely low unemployment, wages are not increasing at the rate the Phillips Curve would predict, one of the Federal Reserves' primary economic analysis tools.

Year over year inflation declined during the quarter causing market participants to question whether the Federal Reserve will stick to its plan of raising short-term interest rates three times this year. The Federal Reserve has achieved its two Congressional mandates: full employment and stable prices. However, the Federal Reserve is not content, wishing to create slightly more inflation (increasing it from 1.7 percent to 2.0 percent), leaving many economists and market participants scratching their heads as to the precision the Federal Reserve believes it has in managing the economy. The lack of inflation has created doubt in the market as to whether the Federal Reserve will raise the Fed Funds rate for a third time this year.

The other major question investors are considering is what impact will shrinking of the Federal Reserve's $\$ 4.5$ trillion balance sheet have on interest rates or the shape of the yield curve. In the last two Open Market Committee meetings, the Federal Reserve laid out its plan to reduce its holdings of both US Treasuries and mortgage backed securities without much reaction from the market.

The global economy continues to improve, but at an anemic pace. England surprised the world with its election; the Conservative Party expected to strengthen its position in Parliament but ended up losing its majority. The French election was no surprise with the result being what everyone expected. The European Central Bank and the Bank of Japan continued their quantitative easing policies by purchasing fixed income securities in the open market. The Bank of Canada increased its short-term interest rates from 0.50 percent to 0.75 percent for the first time in seven years.

Chart 18


Treasury staff continues to keep a large balance in the money market funds with the expectation that the Federal Reserve will continue to raise short-term interest rates. The current yield curve does not compensate investors to take additional interest rate risk by extending maturities. The current yield curve is depicted in Chart 26 , compared to the previous quarters.

The Treasury division is currently evaluating US Government Agency floating rate notes (FRNs), which reset quarterly. This is an excellent bond structure given the department's interest rate expectations because FRNs move in tandem with Federal Reserve actions on interest rates, just like the money market funds do. One month LIBOR ( 1.24 percent) is yielding a few basis points more than the money market funds (Fidelity 1.21 percent, Blackrock 1.19 percent, and JP Morgan 1.21 percent) which comprise over half of the City's portfolio. The City does not currently own any government agency FRNs. The purchase of government agency, floating rate notes improves the portfolio's credit quality by decreasing the allocation to Prime Funds, while increasing the
overall yield of the portfolio. Treasury staff would like to increase the balance in CDs and Taxable Municipal bonds and will eliminate the remaining balance in the savings accounts, which have the lowest return on investment.

Chart 19


The large balance in overnight funds is a strategic investment decision given the Treasury divisions outlook for interest rates.

## Chart 20



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 Government issues. Wells Fargo Government Money Market fund and the NM LGIP invest only in US Government and US Government Agency issues.

Chart 21


Chart 22


Chart 23


The portfolio's duration and weighted average maturity reflects the Treasury Department's investment strategy to avoid interest rate risk.

Chart 24


The difference between Modified Duration and Effective Duration is driven by the amount of callable securities in the portfolio relative to all securities.

## Chart 25



## Investment Strategy

Like the Federal Reserve, the Treasury division adheres to data driven decision making processes. If the US and global economies continue to grow with strong employment gains, consumer spending, and corporate capital investment; and if consumer and if business sentiment remains confident, our expectation is that the Federal Reserve will continue to raise short-term interest rates. We expect that the Federal Reserve will begin to shrink its balance sheet this fall by not reinvesting the interest it currently earns or the proceeds from securities maturing. We do not believe the Federal Reserve will actively sell securities to shrink the balance sheet at this point in time but may do so in the distant future. As such, the portfolio's duration will remain under one year with a substantial investment in overnight investments. Staff will start incrementally adding US Government Agency floating rate securities to the portfolio as a substitute for money market funds. As of February, when an individual security's remaining time to maturity becomes less than one year or their yield falls below the yield on money market funds, those securities will be sold and the proceeds will be reinvested out the yield curve.

However, if the economy shows signs of distress, slowing or the beginnings of a recession, staff would extend the duration of the portfolio by selling money market funds and purchasing securities farther out the yield curve.

Chart 26


It was previously stated that the yield curve is flat and that there is little incentive to invest in five year securities when there is only 80 basis points between the five year US Treasury and the one month US Treasury Bill. The Federal Reserve has stated that it is their intention to raise the short-term interest rate by 200 basis points in the next 17 months. It is clear that investors simply do not believe the Federal Reserve, or the yield curve would be much steeper. Until the market prices in what the Federal Reserve says it will do or the economy slows down and proves the Federal Reserve wrong, it is the Treasury division's position to remain cautious and avoid excessive interest rate risk.

Table 5: Portfolio Holdings as of 6/30/2017*

| City of Santa Fe |  |  |  |  |  |  |  |  |  |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Portfolio Holdings Report |  |  |  |  |  |  |  |  |  |
| As of June 30, 2017 |  |  |  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  | Modified | Effective |
| Type | Issuer | Par Value | Market Value | Book Value | Coupon | $\underline{\text { YTM }}$ | Maturity Date | Duration | Duration |
| CD | State Employee CU | 250,000 | 250,000 | 250,000 | 1.46\% | 1.46\% | 07/08/2017 | 0.02 | 0.02 |
| CD | Century Bank | 200,601 | 200,601 | 200,601 | 0.30\% | 0.30\% | 07/28/2017 | 0.07 | 0.07 |
| CD | State Employee CU | 255,676 | 255,676 | 255,676 | 1.00\% | 1.00\% | 04/18/2018 | 0.82 | 0.82 |
| CD | First National Bank of Santa F | 3,000,000 | 3,000,000 | 3,000,000 | 0.55\% | 0.55\% | 10/08/2017 | 0.27 | 0.27 |
| CD | First National Bank of Santa F | 3,500,000 | 3,500,000 | 3,500,000 | 0.55\% | 0.55\% | 10/11/2017 | 0.28 | 0.28 |
| CD | Guadalupe CU | 250,000 | 250,000 | 250,000 | 1.00\% | 1.00\% | 08/19/2017 | 0.13 | 0.13 |
| CD | First National Bank of Santa F | 2,000,000 | 2,000,000 | 2,000,000 | 0.75\% | 0.75\% | 07/16/2018 | 1.04 | 1.04 |
|  | Total CDs | 9,456,277 | 9,456,277 | 9,456,277 |  | 0.64\% |  | 0.43 | 0.43 |
|  |  |  |  |  |  |  |  |  |  |
| Money Market | Blackrock Prime Inst \#24 | 25,881,187 | 25,882,481 | 25,881,187 |  | 1.20\% |  |  |  |
| Money Market | JP Morgan Prime MM Fund \#3605 | 40,127,663 | 40,128,867 | 40,127,663 |  | 1.21\% |  |  |  |
| Money Market | Fidelity Prime MM Port \#2014 | 20,086,955 | 20,087,759 | 20,086,955 |  | 1.21\% |  |  |  |
| Money Market | Wells Fargo Bank MM | 2,338,302 | 2,338,302 | 2,338,302 |  | 0.76\% |  |  |  |
| LGIP | NM Local Gvt Inv. Pool | 898 | 898 | 898 |  | 0.91\% |  |  |  |
| Savings | Wells Fargo Bank Savings | 2,539 | 2,539 | 2,539 |  | 0.17\% |  |  |  |
| Savings | Wells Fargo Bank Savings | 4,419,833 | 4,419,833 | 4,419,833 |  | 0.17\% |  |  |  |
|  | Total Money Market | 92,857,377 | 92,860,679 | 92,857,377 |  | 1.15\% |  | - | - |
|  |  |  |  |  |  |  |  |  |  |
| Municipal | New Mexico Severance Tax | 2,500,000 | 2,513,225 | 2,555,425 | $\underline{2.00 \%}$ | 1.25\% | 07/01/2019 | 1.95 | 1.95 |
|  | Total Municipal | 2,500,000 | 2,513,225 | 2,555,425 |  | 1.25\% |  | 1.95 | 1.95 |
|  |  |  |  |  |  |  |  |  |  |
| Agency | Federal Home Loan Bank | 5,000,000 | 4,979,100 | 4,985,050 | 0.88\% | 1.07\% | 06/29/18 | 0.99 | 0.99 |
| Agency | Federal Home Loan Bank | 5,000,000 | 4,958,900 | 4,953,800 | 1.13\% | 1.44\% | 11/29/19 | 2.37 | 2.37 |
| Agency | Federal Home Loan Bank | 2,000,000 | 1,993,860 | 1,995,780 | 1.38\% | 1.45\% | 11/15/19 | 2.32 | 2.32 |
| Agency | Federal Home Loan Bank | 5,000,000 | 5,026,950 | 5,054,730 | 1.75\% | 1.20\% | 12/14/18 | 1.43 | 1.43 |
| Agency | Federal Home Loan Bank | 5,000,000 | 5,017,000 | 5,034,800 | 1.63\% | 1.34\% | 06/14/19 | 1.91 | 1.91 |
| Agency | Federal Home Loan Bank | 5,000,000 | 5,017,000 | 5,032,550 | 1.63\% | 1.36\% | 06/14/19 | 1.91 | 1.91 |
| Agency | Federal Farm Credit Bank | 3,000,000 | 2,993,730 | 2,995,500 | 1.04\% | 1.07\% | 03/26/18 | 0.73 | 0.73 |
| Agency | Federal Farm Credit Bank | 5,000,000 | 4,980,750 | 4,982,400 | 1.25\% | 1.43\% | 02/27/19 | 1.62 | 1.62 |
| Agency | Federal Home Loan Mtg Corp | 1,500,000 | 1,496,190 | 1,497,900 | 1.00\% | 1.07\% | 05/25/18 | 0.89 | - |
| Agency | Federal Home Loan Mtg Corp | 3,000,000 | 2,983,770 | 3,000,000 | 1.05\% | 1.05\% | 11/07/18 | 1.33 | - |
| Agency | Federal Home Loan Mtg Corp | 2,000,000 | 1,989,180 | 1,997,600 | 1.05\% | 1.11\% | 11/07/18 | 1.33 | - |
| Agency | Federal Home Loan Mtg Corp | 3,000,000 | 2,987,610 | 3,000,000 | 1.13\% | 1.13\% | 11/28/18 | 1.39 | - |
| Agency | Federal National Mtg Assn | 3,500,000 | 3,490,200 | 3,500,000 | 1.00\% | 1.00\% | 04/30/18 | 0.82 | - |
| Agency | Federal National Mtg Assn | 2,500,000 | 2,490,500 | 2,500,000 | 1.13\% | 1.13\% | 10/29/18 | 1.31 | - |
| Agency | Federal National Mtg Assn | 5,000,000 | 5,005,050 | 4,996,250 | 1.85\% | 1.88\% | 03/27/20 | 2.65 | 0.24 |
| Agency | GNMA | 1,404 | 1,409 | 1,485 | 6.00\% | 4.93\% | 03/15/18 | 0.40 | 0.40 |
|  | Total Agency | 55,501,404 | 55,411,199 | 55,527,845 |  | 1.29\% |  | 0.56 | 0.37 |
|  |  |  |  |  |  |  |  |  |  |
|  | Total Portfolio | $\underline{\underline{160,315,058}}$ | $\underline{\text { 160,241,379 }}$ | $\underline{\underline{160,396,924}}$ |  | $\underline{\underline{1.17 \%}}$ |  | 0.25 | 0.18 |

[^1]FINANCIAL PERFORMANCE REPORT: FOURTH QUARTER FY 2016-2017

Table 6: Collateral Held

| Security | Cusip | Maturity | Par Value | Market Value |
| :--- | :--- | :--- | ---: | ---: |
| First National 1870* |  |  |  |  |
| FHLMC Pool\# C91710 | 3128Pt3T8 | $06 / 01 / 2033$ | $\$ 2,170,000$ | $\$ 1,390,467$ |
| FHLMC Pool\# C91748 | 3128P75H2 | $02 / 01 / 2034$ | $4,160,000$ | $2,733,809$ |
| FNMA Series 2013-14 | 3136AGJV5 | $08 / 25 / 2038$ | $5,610,000$ | $2,735,178$ |
| FHLMC Series 4281 | 3137B6PB1 | $01 / 15 / 2043$ | $3,250,000$ | $1,885,651$ |
| FNMA Pool\# BC0070 | 3140EUCG2 | $12 / 01 / 2045$ | $2,288,509$ | $2,178,689$ |
| FNMA Pool\# MA1165 | 31418AJK5 | $09 / 01 / 2032$ | $1,500,000$ | 807,802 |
| Total |  | $\$ 18,978,509$ | $\$ 11,731,596$ |  |
|  |  |  |  |  |
| Wells Fargo Bank, NA** |  | $\$ 38,883,739$ | $\$ 23,829,304$ |  |
| FMAC 3.00\% 12/15/42 | $3137 B 0 N H 3$ | $12 / 15 / 2042$ | 514,002 | 477,963 |
| FNMS 3.00\% 6/1/2046 | $3138 W H E R 9$ | $06 / 01 / 2046$ | $9,310,278$ | $6,492,937$ |
| FNMA 3.00\% 6/1/2043 | $3138 W T R R 9$ | $06 / 01 / 2043$ | $48,708,019$ | $\mathbf{3 0 , 8 0 0 , 2 0 4}$ |
| Total |  | $\$ 67,686,528$ | $\$ 42,531,800$ |  |
| Total Collateral |  |  |  |  |

* Collateral held at Boston Federal Reserve Bank
** Collateral held at Bank of New York, New York

Table 7: Results of the First Quarter, FY 2017-2018 CD Program

|  | Length of Maturity |  |  |
| :---: | :---: | :---: | :---: |
| Financial Institution | One Year | Two Year | Three Year |
| US Treasury | 1.17\% | 1.35\% | 1.51\% |
| Credit Unions |  |  |  |
| Del Norte CU | NA | NA | NA |
| Guadalupe CU | 1.21\% | 1.35\% | 1.49\% |
| Nusenda CU | NA | NA | NA |
| State Employee CU | 1.05\% | 1.56\% | 1.66\% |
| Banks |  |  |  |
| Bank of Albuquerque | NA | NA | NA |
| Century Bank | 0.30\% | NA | NA |
| First Citizens Bank | 0.10\% | 0.20\% | 0.25\% |
| First National 1870 | NA | NA | NA |
| LANB | 0.50\% | 0.65\% | 0.75\% |
| NM Bank \& Trust | 0.20\% | 0.35\% | 0.45\% |
| US Bank | NA | NA | NA |
| Washington Federal | NA | NA | NA |
| Wells Fargo | NA | NA | NA |


[^0]:    *Includes unaudited year-end actuals plus encumbrances; excludes CIP funds
    **Other Fees/Services include: Internal Service Charges; Airport Fees; Police/Court Fees; Transit Fees; Land Use Fees; and other fees
    ***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

[^1]:    * CDs are held in Santa Fe, NM by the local banks, LGIP is held by JP Morgan, New York, Money Market Funds held by Wells Fargo Retirement and Trust, in Minneapolis, MN, Treasury and Government Agency Securities are registered in Wells Fargo Trust Department nominees name at Depository Trust and Clearing Corporation.

