

CITY OF SANTA FE
QUARTERLY FINANCIAL PERFORMANCE REPORT

As of December 31, 2017



Presented to the Finance Committee

March 19, 2018

CITY OF SANTA FE – QUARTERLY FINANCIAL REPORT

TABLE OF CONTENTS

	<u>Page #</u>
I. QUARTERLY REVENUE UPDATE	
A. Executive Summary	3
B. <u>Chart 1</u> : Total Gross Receipts Tax (GRT).....	3
C. <u>Table 1</u> : City of Santa Fe Total Gross Receipts, September 2017	4
D. <u>Table 2</u> : GRT Distribution Variance by Industry Sector.....	4
E. <u>Chart 2</u> : GRT Historical Four-Year Comparison	5
F. <u>Chart 3</u> : City of Santa Fe GRT by Industry Sector	5
G. <u>Chart 4</u> : Historical GRT Distribution	6
H. <u>Chart 5</u> : February GRT Distribution (December Activity)	6
I. <u>Chart 6</u> : 2015-2018 Lodgers Tax Revenue Comparison.....	6
J. <u>Chart 7</u> : Unemployment Rate, FY 2014-2018, Seasonally Adjusted.....	7
II. REVENUE/EXPENDITURE PROJECTIONS	
A. Executive Summary	8
B. <u>Table 3</u> : All Funds – Operating Budget Summary & Projections	7
C. Projections Analysis:	
1. <u>Chart 8</u> : FY 2017-18 Budget vs. Projections – All Funds	10
2. <u>Chart 9</u> : FY 2017-18 General Fund Projections	10
D. <u>Table 4</u> : General Fund Budget Summary & Projections.....	11
III. INVESTMENT PORTFOLIO	
A. <u>Chart 10</u> : Portfolio Composition by Security Type.....	12
B. <u>Chart 11</u> : Portfolio Composition Yields.....	12
C. <u>Chart 12</u> : Investment Income	13
D. <u>Chart 13</u> : Total Return Annualized	13
E. <u>Chart 14</u> : Total Interest Income by Month	14
F. <u>Chart 15</u> : Change in Market Value by Month	14
G. <u>Chart 16</u> : Generic Two-Year US Treasury Note Interest Rate.....	15
H. <u>Chart 17</u> : Total Investment Income by Month	15
I. <u>Chart 18</u> : Monthly Rate of Return.....	16
J. <u>Chart 19</u> : Cumulative Return	16
K. <u>Chart 20</u> : Portfolio by Security Type	17
L. <u>Chart 21</u> : Portfolio by Maturity	17
M. <u>Chart 22</u> : Money Market Funds	18
N. <u>Chart 23</u> : Securities by Issuers	18
O. <u>Chart 24</u> : Bank CDs	19
P. <u>Chart 25</u> : Duration at Quarter End	19
Q. <u>Chart 26</u> : Weighted Average Maturity at Quarter End.....	20
R. Investment Strategy	20
S. <u>Table 5</u> : Portfolio Holdings Report	21
T. <u>Table 6</u> : Collateral for Demand Deposits.....	22

I. CITY OF SANTA FE – QUARTERLY REVENUE UPDATE

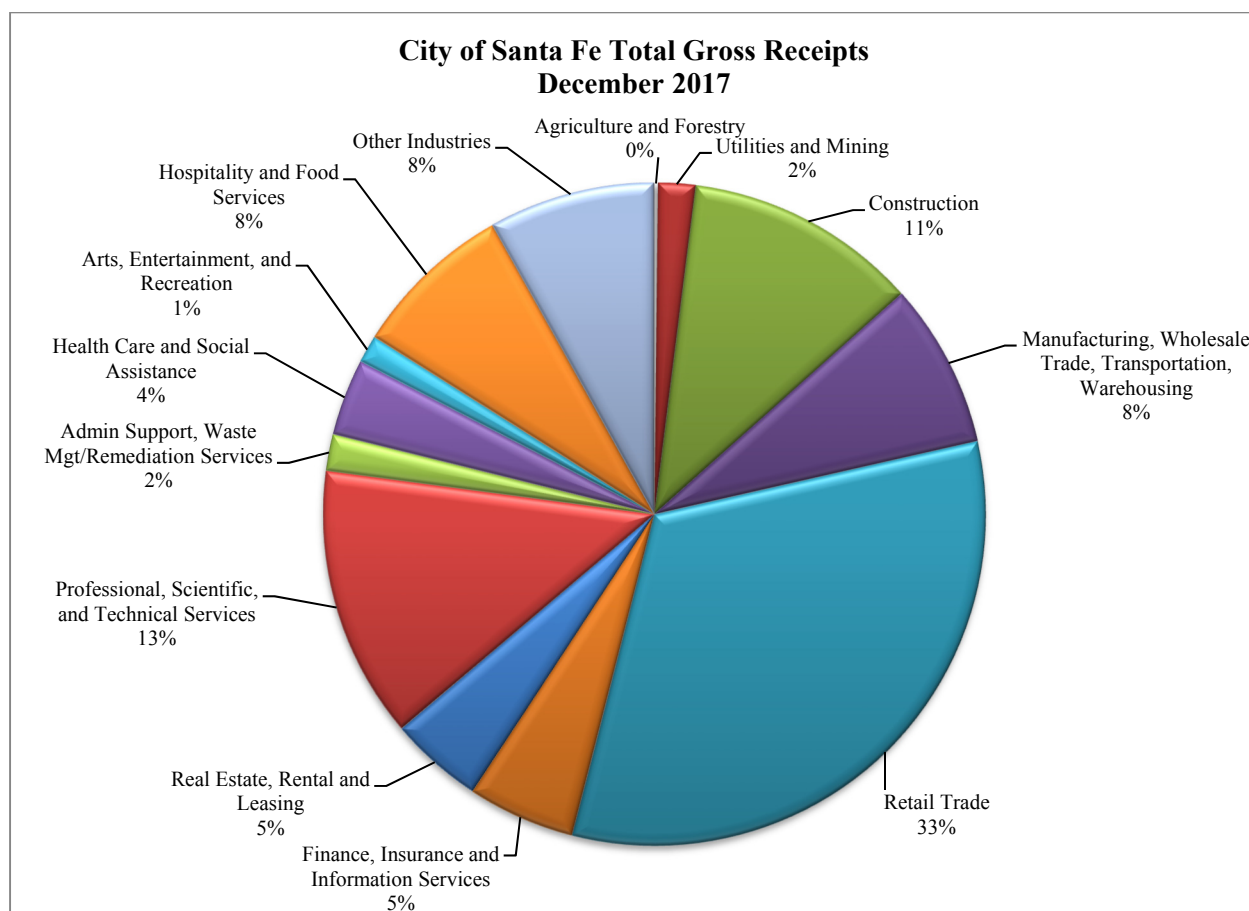
City of Santa Fe Gross Receipts & Lodgers' Tax Update through December 2017

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 month of December 2017, reported in February 2018.

December gross receipts activity typically experiences an annual uptick resulting from the holiday consumer activities and increased tourism from instate day-trips. Total gross receipts for December were \$531 million, up approximately 17 percent from \$453 million reported for December 2016. Receipts received were particularly strong in professional, scientific and technical services, construction and finance, insurance and information services sectors and retail trade. A slight increase was observed for the February 2018 GRT distribution to the city of \$9.88 million, up half of a percent over February 2017 at \$9.83 million. Areas of increased tax payments include: construction, real estate, information and cultural industries, admin support and finance and insurance. The increased total gross receipts revenue collected is reflective of observed activity reported at the state level as well. New Mexico, overall, reported an increase of 17.3 percent for December 2017 over the same period last year.

December 2017 GRT Review (February 2018 Distribution)

Chart 1



Data Source: NM Taxation & Revenue Dept.

FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2017-2018

Table 1

City of Santa Fe Total Gross Receipts December 2017				
	Dec-17	Dec-16	YOY \$ Change	YOY % Change
Agriculture and Forestry	891,342	402,635	\$488,707	121.38%
Utilities and Mining	9,727,154	10,622,478	(\$895,324)	-8.43%
Construction	60,735,838	39,630,019	\$21,105,818	53.26%
Manufacturing, Wholesale Trade, Transportation, Warehousing	42,790,178	39,908,491	\$2,881,687	7.22%
Retail Trade	173,097,110	166,027,912	\$7,069,198	4.26%
Finance, Insurance and Information Services	27,962,049	18,534,992	\$9,427,057	50.86%
Real Estate, Rental and Leasing	24,248,612	19,463,559	\$4,785,052	24.58%
Professional, Scientific, and Technical Services	70,673,730	41,054,887	\$29,618,843	72.14%
Admin Support, Waste Mgt/Remediation Services	9,458,736	8,037,036	\$1,421,700	17.69%
Health Care and Social Assistance	19,896,408	19,628,690	\$267,719	1.36%
Arts, Entertainment, and Recreation	7,170,489	7,220,931	(\$50,442)	-0.70%
Hospitality and Food Services	41,922,072	42,348,352	(\$426,280)	-1.01%
Other Industries	43,340,770	39,945,728	\$3,395,042	8.50%
All Industries	531,914,488	452,825,709	\$79,088,779	17.47%

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

Table 2

City of Santa Fe GRT Distribution Variance by Industry Sector FY 2018 vs. FY 2017 Month over Month Comparison				
Category	February FY18	February FY17	\$ Variance	% Variance
Agriculture, Forestry, Hunting, Fishing	\$ 14,968	\$ 9,072	\$ 5,896	65%
Mining	\$ 908	\$ 1,425	\$ (517)	0%
Utilities	\$ 255,280	\$ 271,372	\$ (16,092)	-6%
Construction	\$ 1,056,476	\$ 846,343	\$ 210,133	25%
Manufacturing	\$ 202,061	\$ 163,113	\$ 38,948	24%
Wholesale	\$ 184,680	\$ 175,133	\$ 9,547	5%
Retail	\$ 2,978,796	\$ 3,222,929	\$ (244,133)	-8%
Transportation & Warehousing	\$ 34,068	\$ 49,294	\$ (15,226)	-31%
Information and Cultural Industries	\$ 425,989	\$ 340,571	\$ 85,418	25%
Finance & Insurance	\$ 190,813	\$ 153,854	\$ 36,959	24%
Real Estate, Rental & Leasing	\$ 250,718	\$ 184,684	\$ 66,034	36%
Professional, Scientific, Technical	\$ 702,049	\$ 696,167	\$ 5,882	1%
Management of Companies	\$ 7,382	\$ 11,618	\$ (4,236)	-36%
Admin & Support, Waste Mgt.	\$ 174,737	\$ 115,827	\$ 58,910	51%
Educational Services	\$ 47,694	\$ 72,441	\$ (24,747)	-34%
Health Care and Social Assistance	\$ 404,975	\$ 404,294	\$ 681	0%
Arts, Entertainment & Recreation	\$ 96,492	\$ 94,989	\$ 1,503	2%
Accommodation & Food	\$ 1,139,032	\$ 1,213,518	\$ (74,486)	-6%
Other Services	\$ 811,524	\$ 762,945	\$ 48,579	6%
Public Administration	\$ 254	\$ -	\$ 254	100%
Unclassified	\$ 47,368	\$ 71,746	\$ (24,378)	-34%
State Reimb-Food/Med Tax**	\$ 825,707	\$ 944,319	\$ (118,612)	-13%
Muni. Equivalent Distribution	\$ 33,858	\$ 27,763	\$ 6,095	22%
Total Distribution	\$ 9,885,829	\$ 9,833,417	\$ 52,412	0.53%

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

Chart 2

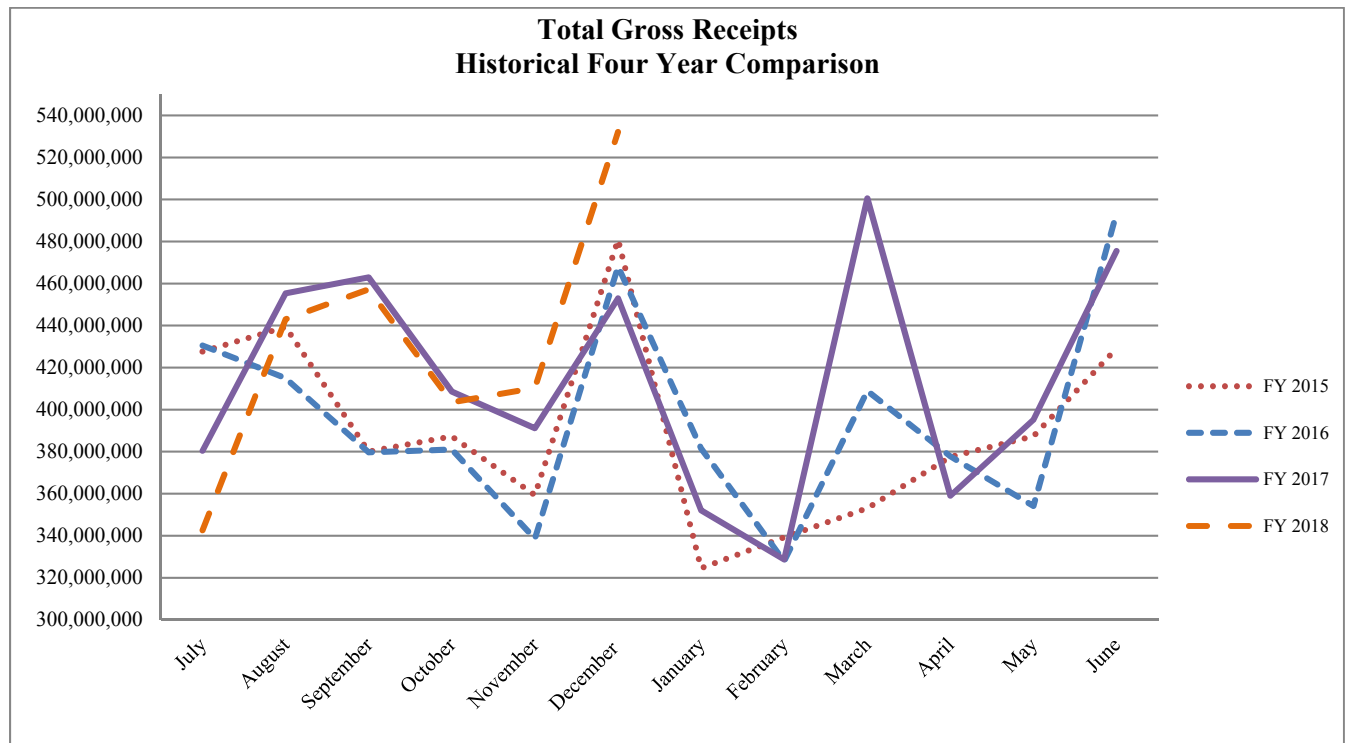
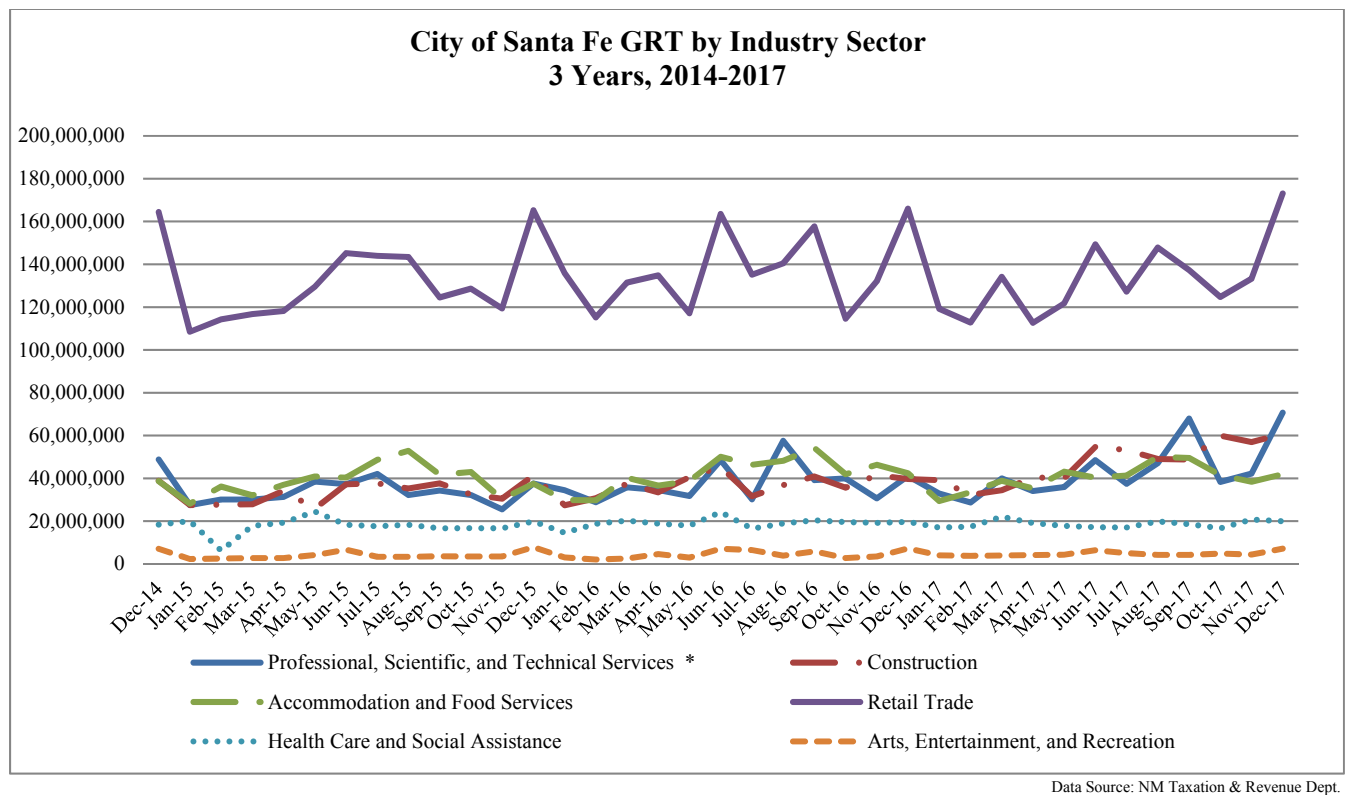
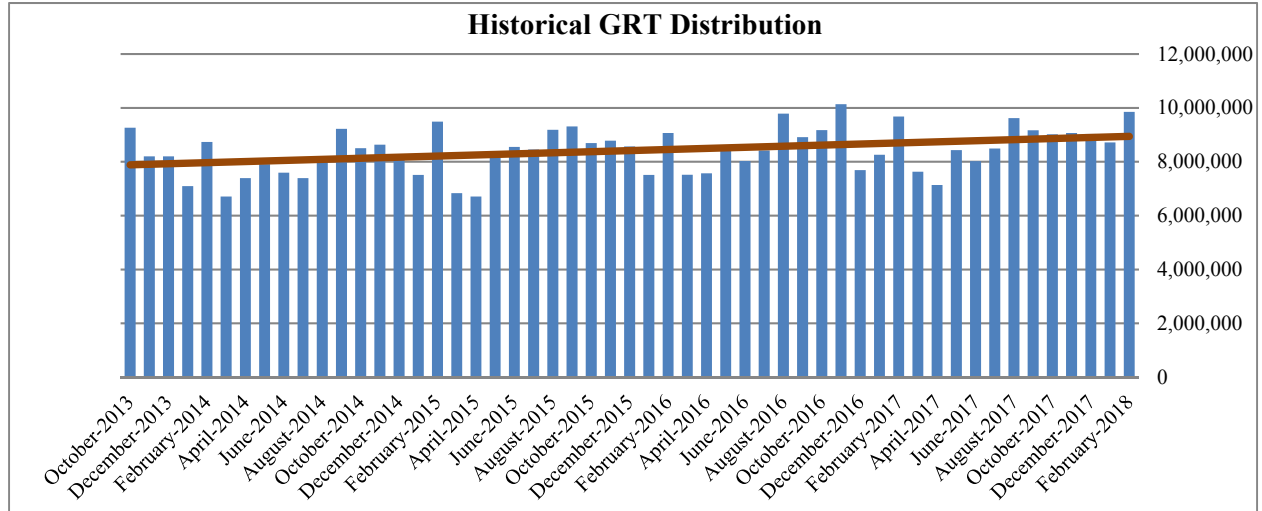


Chart 3



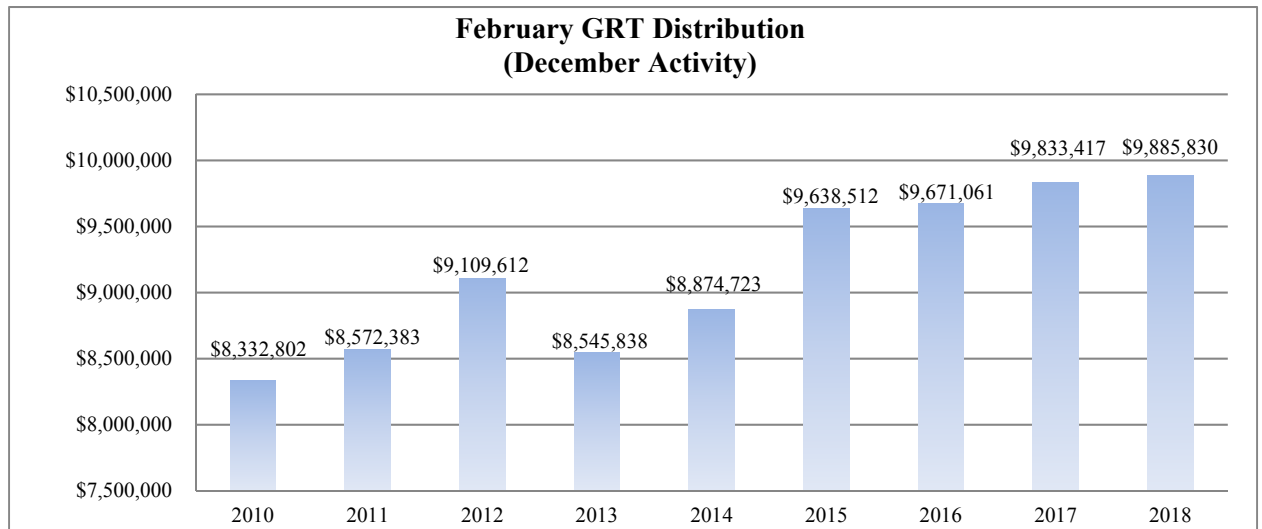
FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2017-2018

Chart 4



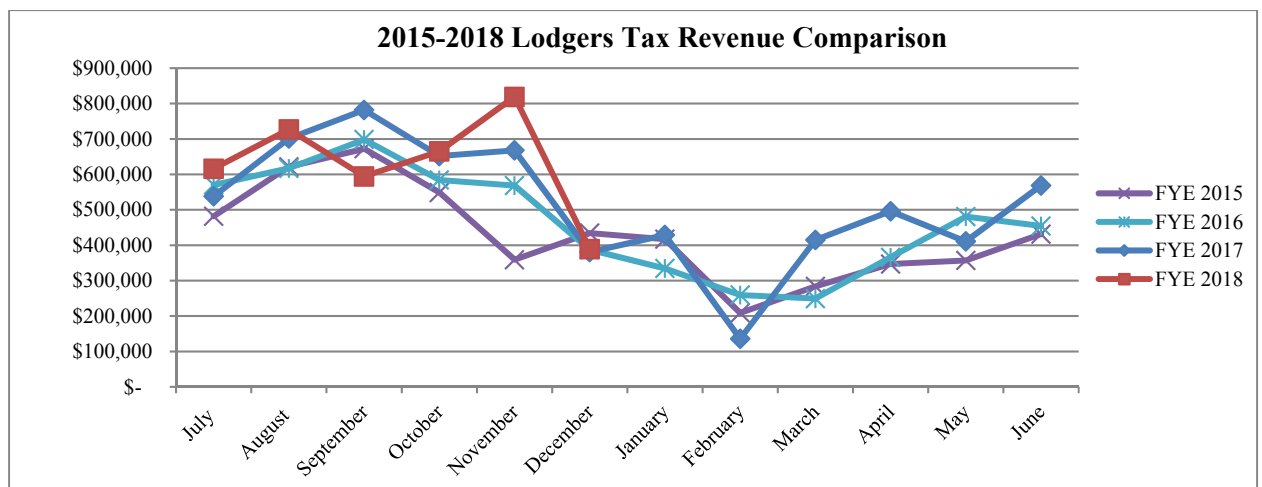
Data Source: NM Taxation & Revenue Dept.

Chart 5



Data Source: NM Taxation & Revenue Dept.

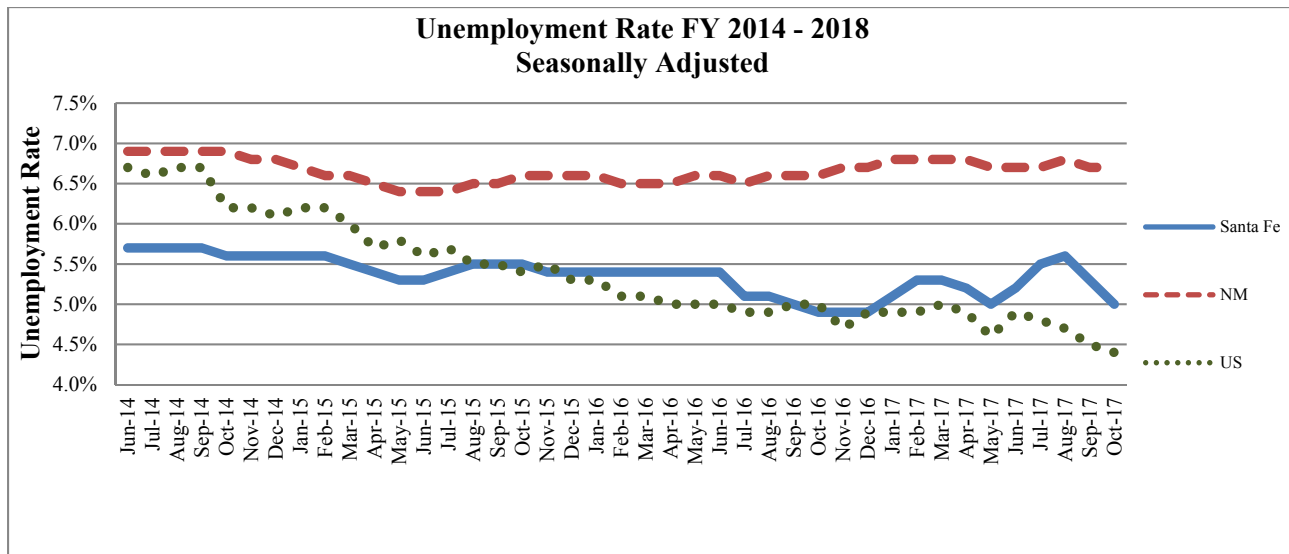
Chart 6



Data Source: City of Santa Fe – Finance Dept.

Employment is a strong economic indicator of the health of an economy. The Santa Fe MSA (metropolitan statistical area) has reported some growth in certain sectors, yet remains behind historical levels achieved during 2006-2007. In December, the Workforce Solutions Department (DWS) reported total non-seasonally adjusted employment in Santa Fe decreased by 0.6 percent over the month. Most losses were reported in the private sector service-providing industries. The leisure and hospitality sectors contracted significantly, followed by retail and professional and business services. Some of the losses were offset by increase in leisure and hospitality, the only industry adding jobs. This may be attributed to seasonal temporary hiring. The seasonally adjusted unemployment rate for Santa Fe was 4.7 percent in December 2017, down slightly from December 2016.

Chart 7



Data Source: NM Dept. Workforce Solutions

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

Overall the City's revenue performance is a bit better than expected so far this fiscal year. Although Gross Receipts Tax (GRT) revenue is coming in much as anticipated (with a moderate improvement of 2% vs. budget); some other revenue categories are not performing as well as expected. While some revenue sources like Gasoline Taxes and Fines & Forfeitures are performing below budgeted expectations, many other revenue sources such as Property Tax and Ambulance Fees are performing better than expected. Overall revenues are projected to come in at 5% above budget.

On the expenditures side, the projections are largely based on past usage history in more 'discretionary' accounts such as contractals, repairs/maintenance 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. However, it should be noted that, because these projections for both revenues and expenditures are based on one-half of the fiscal year, accurate prediction of trends is a bit challenging at this point; therefore, it is likely that some revenue or expenditure trend predictions will change in subsequent financial forecasts as the fiscal year progresses and clearer patterns emerge. As a whole, expenditures are currently projected to come in at 10% below budget.

GENERAL FUND

Although a few revenue categories in the General Fund such as Franchise Tax, Other Fees & Services and Fines & Forfeitures are trending below their budget targets, a slight uptick in GRT receipts in addition to better-than-expected revenue performance in some categories, such as the previously-noted Ambulance Fees and Planning & Land Use Fees, have left the General Fund revenue picture slightly better than expected, with overall revenue projected to come in at 2% above budget. On the expenditure side, as noted in previous reports, the City has recently tightened its personnel services budgets, and as a result salaries and benefits are trending closer to budget targets than in many 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 generally closer to (or in excess of) their budget targets, as compared to those Departments whose share is relatively smaller, such as the Finance and Planning & Land Use Departments. Overall, General Fund expenditures are projected to end the fiscal year at 2% below budget.

In conclusion, the overall City financial picture as of December 31 has improved a bit over the previous quarter's estimates. However, as noted above, the fiscal year is still only halfway completed, and more definite positive or negative trends may 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 2017-2018

ALL FUNDS - OPERATING BUDGET SUMMARY & PROJECTIONS

Table 3

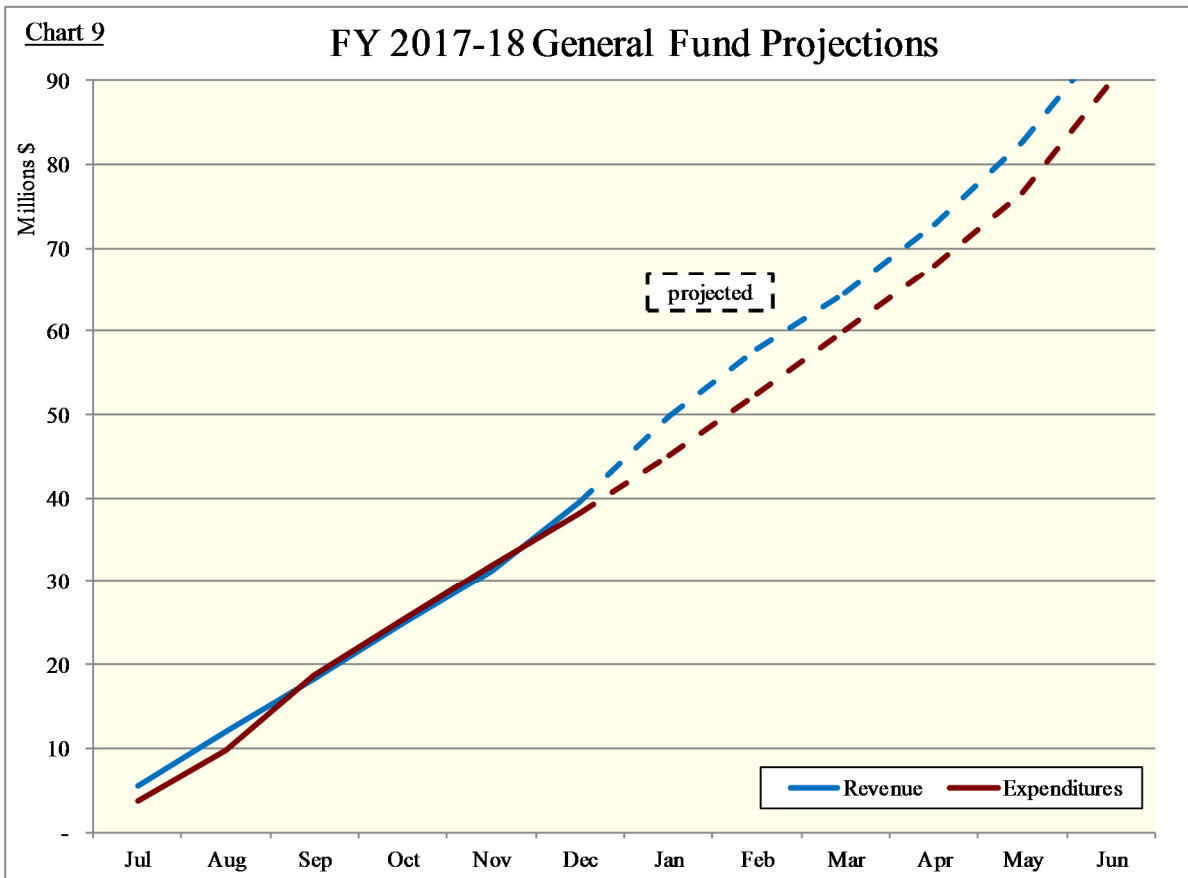
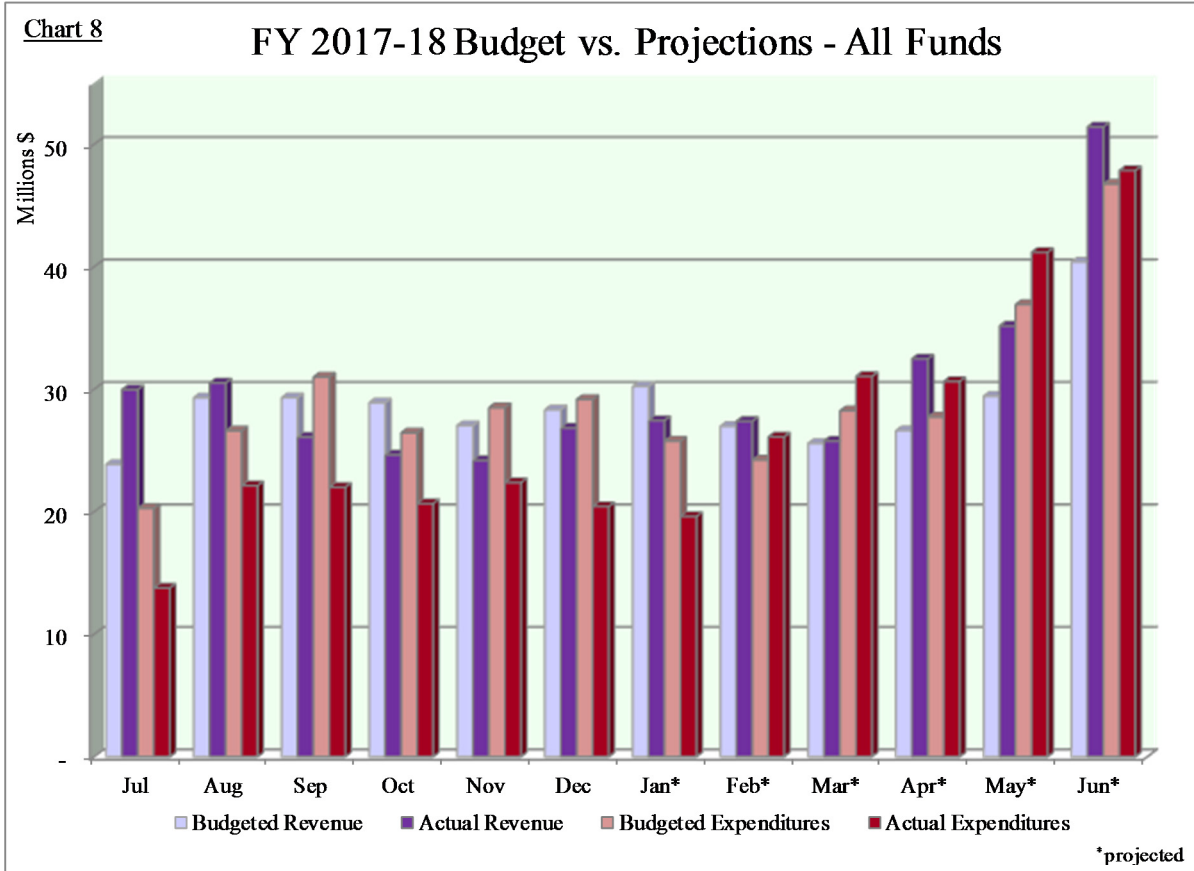
DESCRIPTION	FISCAL YEAR 2016/2017	FISCAL YEAR 2017/2018				
	ACTUAL	APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	124,973,340	28,099,696	28,099,696	28,099,696	28,099,696	
<i><u>Revenues:</u></i>						
Gross Receipts Tax	105,536,453	103,559,489	103,559,489	54,379,316	105,537,694	2%
Property Tax	11,287,434	10,128,419	10,128,419	3,492,714	11,182,359	10%
Franchise Tax	4,104,877	4,625,575	4,625,575	634,559	4,520,554	-2%
Lodgers' Tax	10,809,464	10,800,000	10,800,000	6,668,925	11,162,719	3%
Gasoline Tax	1,548,162	1,445,000	1,445,000	618,119	1,255,443	-13%
Other Taxes	563,826	490,110	490,110	171,833	450,258	-8%
Licenses & Permits	3,486,444	4,305,298	4,305,298	2,138,672	4,504,637	5%
Ambulance Fees	4,209,915	1,641,543	1,641,543	1,251,877	2,495,692	52%
Insurance Premiums/Deductibles	28,033,614	28,774,848	28,774,848	11,652,816	25,390,976	-12%
Parking Fees	4,710,913	4,967,697	4,967,697	2,531,820	4,827,130	-3%
Recreation Fees	3,417,599	3,345,194	3,345,194	1,435,026	3,501,294	5%
Solid Waste Fees	20,910,384	19,835,218	19,835,218	11,392,007	23,856,669	20%
Wastewater Fees	12,254,426	11,841,171	11,841,171	7,497,818	14,393,405	22%
Water Fees	34,606,175	34,102,559	34,401,801	25,286,977	43,499,327	26%
Other Fees/Services**	25,345,796	23,043,050	23,632,117	4,661,564	23,655,519	0%
Fines & Forfeitures	1,025,062	1,625,591	1,625,591	579,077	1,210,239	-26%
Miscellaneous Revenues***	7,951,072	6,796,020	7,050,165	3,087,006	7,000,091	-1%
Interest on Investments	1,422,603	2,044,579	2,044,579	17,100	2,044,579	0%
State Grants	3,632,140	3,943,087	5,606,086	1,536,211	5,606,086	0%
Federal Grants	2,958,892	4,177,483	5,430,314	516,701	5,430,314	0%
SF County/Other Grants	85,312	22,500	7,890,907	30,490	7,890,907	0%
Transfers In	63,436,576	50,388,716	52,538,550	22,699,039	52,538,550	0%
Subtotal - Revenues	351,337,136	331,903,147	345,979,672	162,279,667	361,954,440	5%
TOTAL RESOURCES	476,310,476	360,002,843	374,079,369	190,379,363	390,054,137	
<i><u>Expenditures:</u></i>						
Salaries	72,028,538	69,828,417	72,105,267	34,754,491	72,639,370	1%
Benefits	50,348,375	42,434,426	43,644,246	18,261,786	41,117,465	-6%
Contractual Services	21,205,991	19,724,042	24,736,055	17,711,732	17,607,833	-29%
Utilities	11,830,943	11,560,867	13,067,892	11,614,544	12,217,603	-7%
Repairs & Maintenance	4,867,518	7,136,729	8,772,791	4,025,451	5,555,635	-37%
Supplies	9,076,346	13,620,557	13,442,311	7,691,263	9,505,184	-29%
Insurance	30,843,677	30,725,962	30,881,485	14,415,281	27,022,580	-12%
Travel & Training	825,449	1,227,150	1,427,468	592,425	1,111,895	-22%
Other Operating	24,666,643	33,398,601	34,903,355	8,023,797	22,336,613	-36%
Capital Purchases	6,934,547	10,857,557	12,760,377	7,623,961	12,760,377	0%
Land & Building	1,158,509	1,423,141	2,367,709	426,544	2,367,709	0%
Debt Service-Principal	65,144,245	19,199,275	19,199,275	1,306,399	19,199,275	0%
Debt Service-Interest	15,937,949	10,467,583	10,467,583	5,181,062	10,467,583	0%
Transfers Out	133,342,050	51,650,370	63,906,093	22,745,281	63,906,093	0%
TOTAL EXPENDITURES	448,210,779	323,254,677	351,681,906	154,374,015	317,815,215	-10%
ENDING BALANCE	28,099,696	36,748,166	22,397,463	36,005,349	72,238,922	

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

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

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

PROJECTIONS ANALYSIS



FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2017-2018

GENERAL FUND SUMMARY & PROJECTIONS

Table 4

DESCRIPTION	FISCAL YEAR 2016/2017 ACTUAL	FISCAL YEAR 2017/2018				
		APPROVED BUDGET	AMENDED BUDGET	YEAR TO DATE*	PROJECTED YEAR-END	PROJECTED VARIANCE
BEGINNING BALANCE	15,262,955	8,951,003	8,951,003	8,951,003	8,951,003	
<i>Revenues:</i>						
Gross Receipts Tax	59,246,682	64,694,523	64,694,523	31,384,268	65,930,574	2%
Property Tax	6,737,420	8,129,139	8,129,139	2,495,590	8,360,441	3%
Franchise Tax	4,090,448	4,605,575	4,605,575	625,594	4,501,385	-2%
Other Taxes	498,485	430,273	430,273	171,833	450,258	5%
Licenses & Permits	3,449,984	4,289,598	4,289,598	2,122,232	4,456,245	4%
Ambulance Fees	4,209,915	1,641,543	1,641,543	1,251,877	2,495,692	52%
Planning/Land Use Fees	327,703	264,817	264,817	188,395	359,894	36%
Recreation Fees	477,258	443,051	443,051	190,781	586,675	32%
Reimbursed Expenditures**	7,014,308	5,021,173	5,021,173	48,134	5,021,173	0%
Other Fees/Services	247,286	362,270	362,270	104,281	287,719	-21%
Fines & Forfeitures	304,712	746,421	746,421	120,100	275,252	-63%
Miscellaneous Revenues	141,611	299,148	347,041	174,341	378,374	9%
Interest on Investments	27,545	1,613,272	1,613,272	-	1,613,272	0%
State/Other Grants	63,430	205,427	295,427	301,085	392,685	33%
Transfers In	459,980	692,860	695,739	349,555	695,739	0%
Subtotal - Revenues	87,296,768	93,439,090	93,579,862	39,528,066	95,805,377	2%
TOTAL RESOURCES	102,559,723	102,390,093	102,530,865	48,479,069	104,756,380	
<i>Expenditures:</i>						
Community Services Department:						
-Administration Division	654,984	1,261,030	1,261,030	475,781	884,779	-30%
-Library Division	3,619,964	3,750,737	3,790,287	1,862,260	3,733,211	-2%
-Senior Services Division	2,423,473	2,701,986	2,701,986	1,200,824	2,701,986	0%
-Youth & Family Division	609,390	685,279	685,279	228,262	580,674	-15%
Finance Department	13,744,922	5,328,564	6,528,564	2,392,769	6,040,974	-7%
Fire Department	17,409,016	18,434,849	18,484,877	9,021,283	19,639,968	6%
General Government	7,275,976	8,790,641	8,812,735	4,020,377	7,839,415	-11%
Human Resources Department	910,996	1,157,631	1,157,631	725,703	1,114,759	-4%
Information Technology and Telecommunications Department	4,157,037	-	-	-	-	0%
Parks & Recreation Department	8,593,308	9,953,382	9,953,382	5,412,977	9,955,601	0%
Planning & Land Use	4,404,317	5,219,988	5,283,085	2,091,082	4,793,577	-9%
Police Department	22,495,788	22,312,726	22,328,228	10,793,921	23,439,409	5%
Environmental Services / Graffiti	284,160	300,427	300,427	133,544	299,733	0%
Public Works Department:						
-Administration Division	60,444	377,945	377,945	76,208	277,373	-27%
-Airport Division (GF Subsidy)	145,726	105,544	105,544	52,772	105,544	0%
-Engineering Division	2,654,176	3,230,299	3,280,267	1,768,314	2,704,654	-18%
-Facilities Maintenance Division	2,708,338	4,564,784	4,564,784	1,986,625	3,944,324	-14%
-Streets & Drainage Division	1,456,705	2,412,576	2,412,576	899,495	2,026,833	-16%
TOTAL EXPENDITURES	93,608,720	90,588,388	92,028,627	43,142,195	90,082,815	-2%
ENDING BALANCE	8,951,003	11,801,705	10,502,238	5,336,873	14,673,565	
<i>City Council-Mandated Minimum General Fund Balance***</i>	<i>7,926,112</i>	<i>8,560,788</i>	<i>8,584,812</i>		<i>8,584,812</i>	
<i>Equivalent # Days of Operation</i>	<i>41</i>	<i>50</i>	<i>45</i>		<i>64</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 1/10 (10%) budgeted annual General Fund expenditures excluding transfers

III. CITY OF SANTA FE INVESTMENT PORTFOLIO AS OF DECEMBER 31, 2017

Certificates of Deposit totaling \$6.5 million were not renewed in the quarter, dropping the total investment in CDs to \$2.45 million. A total of \$15 million of floating rate notes were purchased during the quarter.

Chart 10

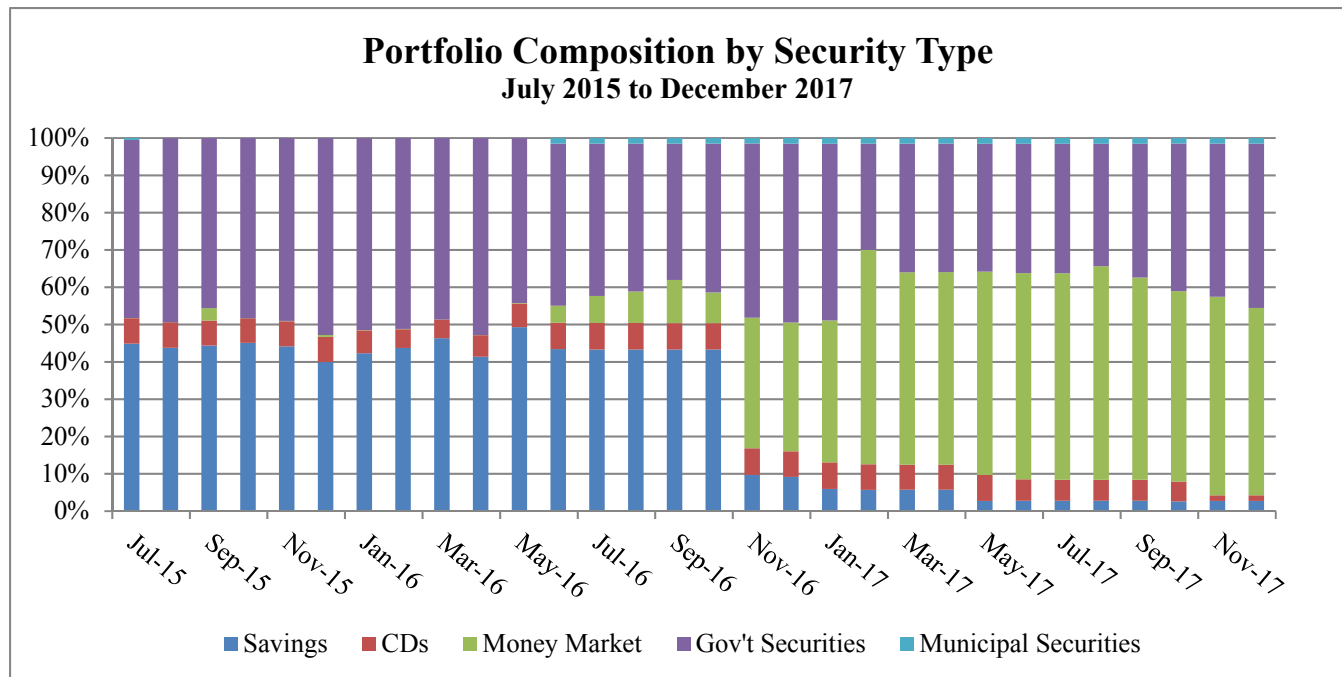
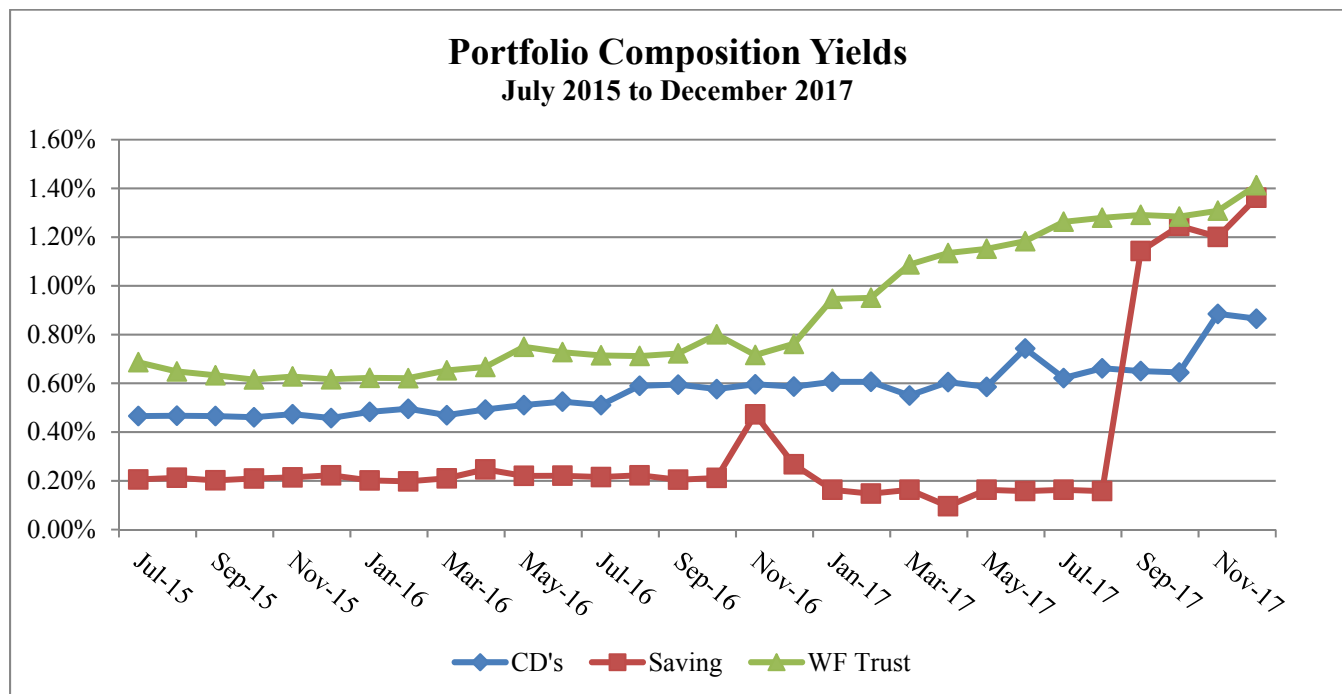
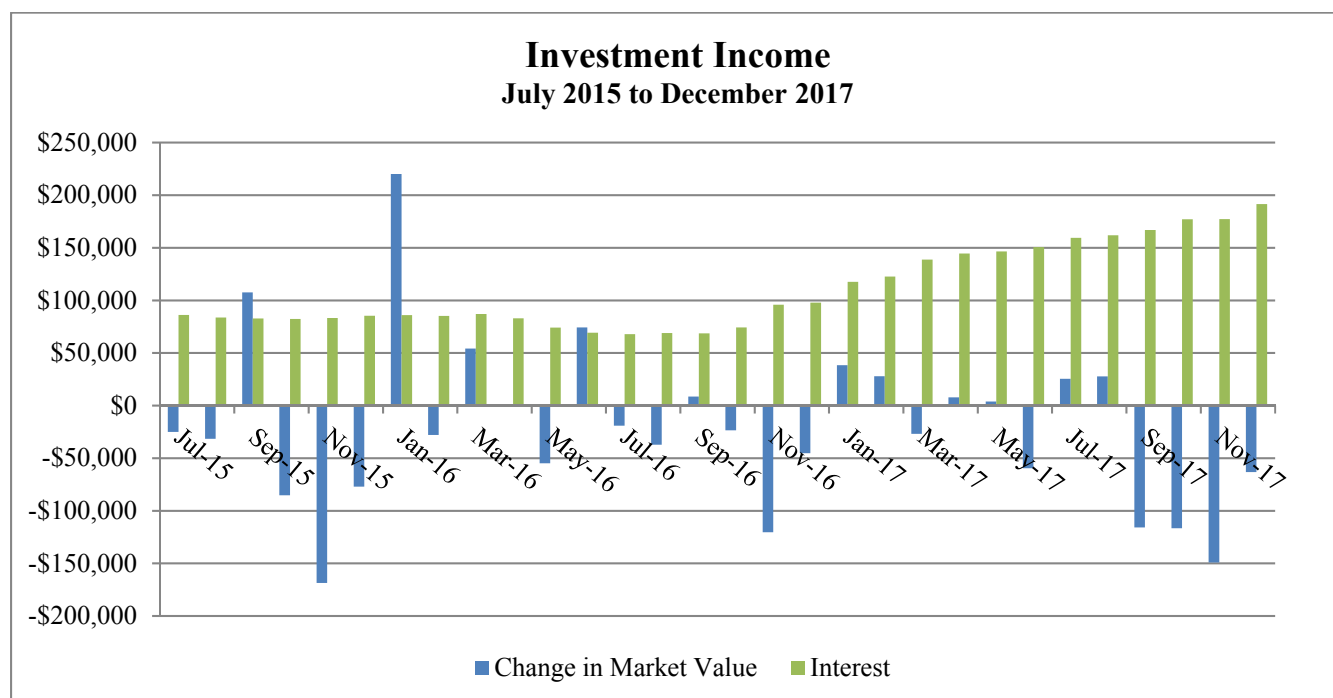


Chart 11



The spike in the savings rate reflects moving funds from a savings account to investing in a Prime Money Market Fund. As the Federal Reserve continues to increase short-term interest rates, the City will benefit from the resulting increase in interest income.

Chart 12


As interest rates rise, existing bonds decline in value, this is known as “interest rate risk” and has impacted the portfolio over the past four months. The two year US Treasury started the quarter at 1.48 percent, and ended the quarter at 1.92 percent. This is the primary reason staff has kept the duration of the portfolio short and invested in money market funds. It is why staff added \$15 million in floating rate securities, because their interest rate resets every month based on LIBOR. (London Inter Bank Offering Rate)

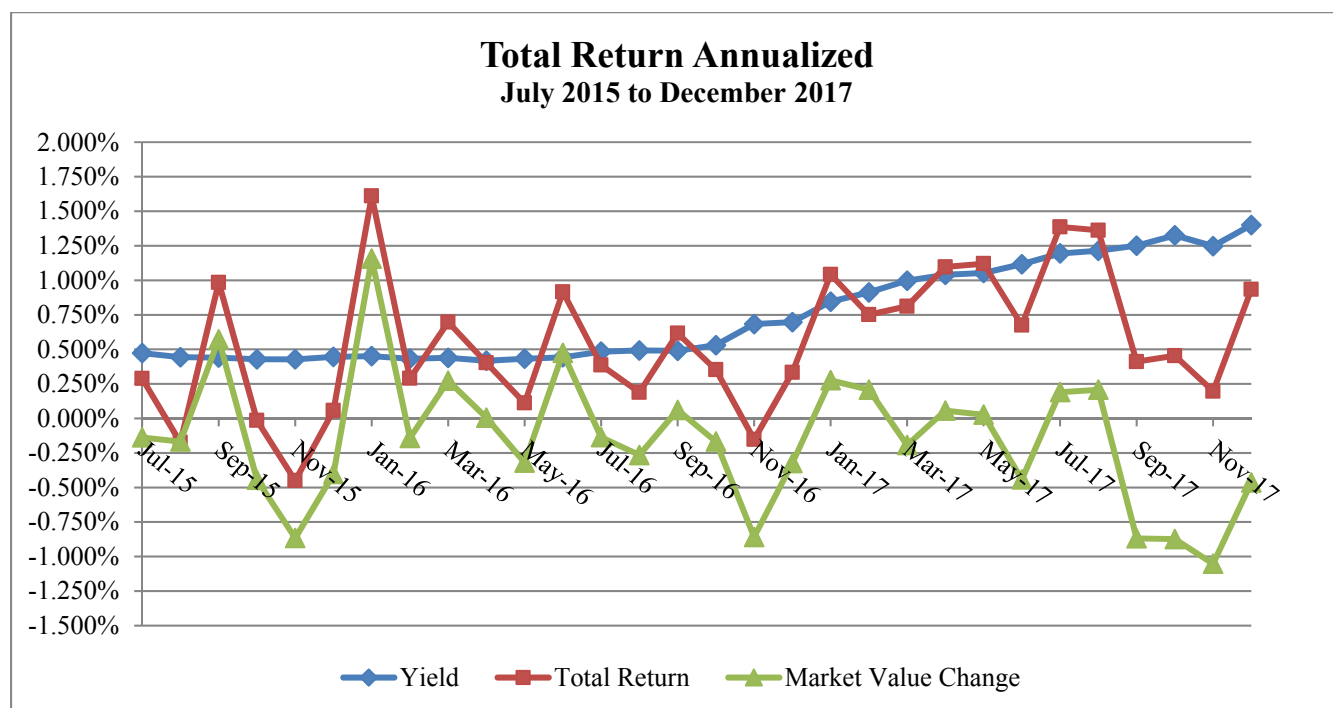
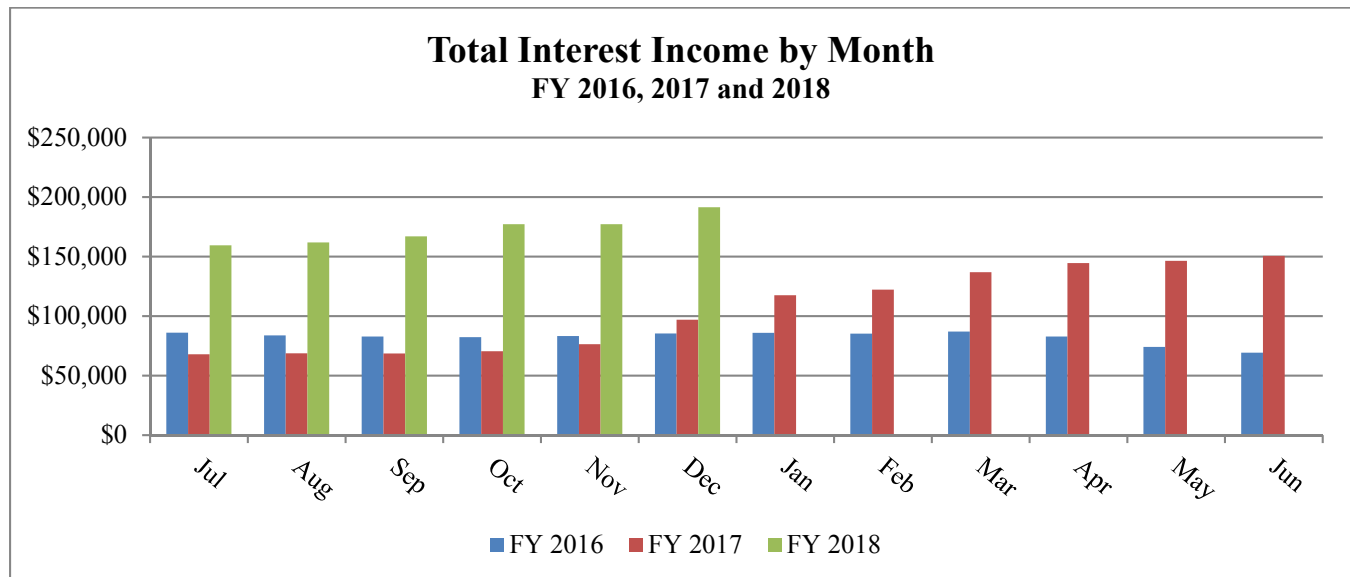
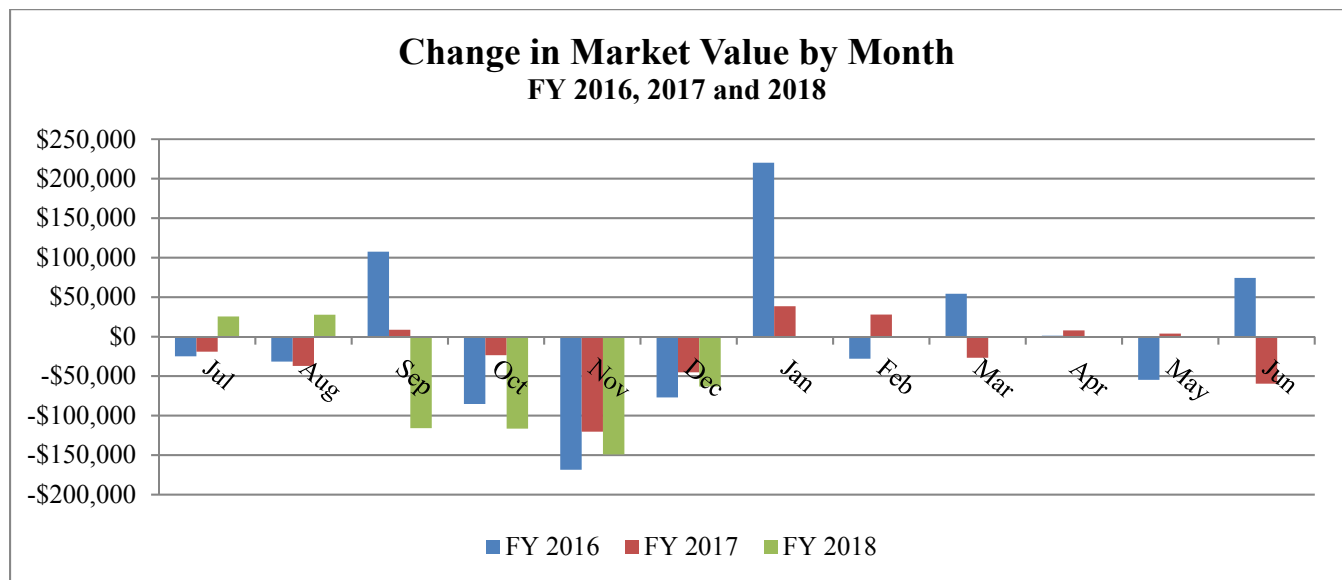
Chart 13


Chart 14



As you can see from the above chart, interest income has grown significantly in the past couple years. Treasury staff believes this trend will continue for all of Fiscal Year 2018. In the most recent testimony to the US Congress, newly elected Federal Reserve Chair, Jerome Powell was extremely clear that he expects the Federal Reserve will continue to increase short-term interest rates in 2018, and surprised the market by suggesting that they might raise rates four times, instead of the three previously indicated.

Chart 15



As the City's securities approach maturity, the market value of those securities will move back towards par, reversing the previous market value adjustments. Treasury staff is managing the desire to get the higher interest rates against the market value adjustments. The following chart presents the generic, two-year US Treasury note interest rate. Money market funds are currently yielding 1.5 percent and the two-year US Treasury is yielding 2.25 percent. The money market fund interest rate will go up each time the Federal Reserve raises interest rates, where a security has a fixed rate, and will stay at 2.25 percent for two years. Staff conducted a breakeven analysis based on their expectations of the market and determined if the City is better off locking in the two year rate, or foregoing the higher rate and take the incremental increases in money market funds as the Federal Reserve increases interest rates.

Chart 16

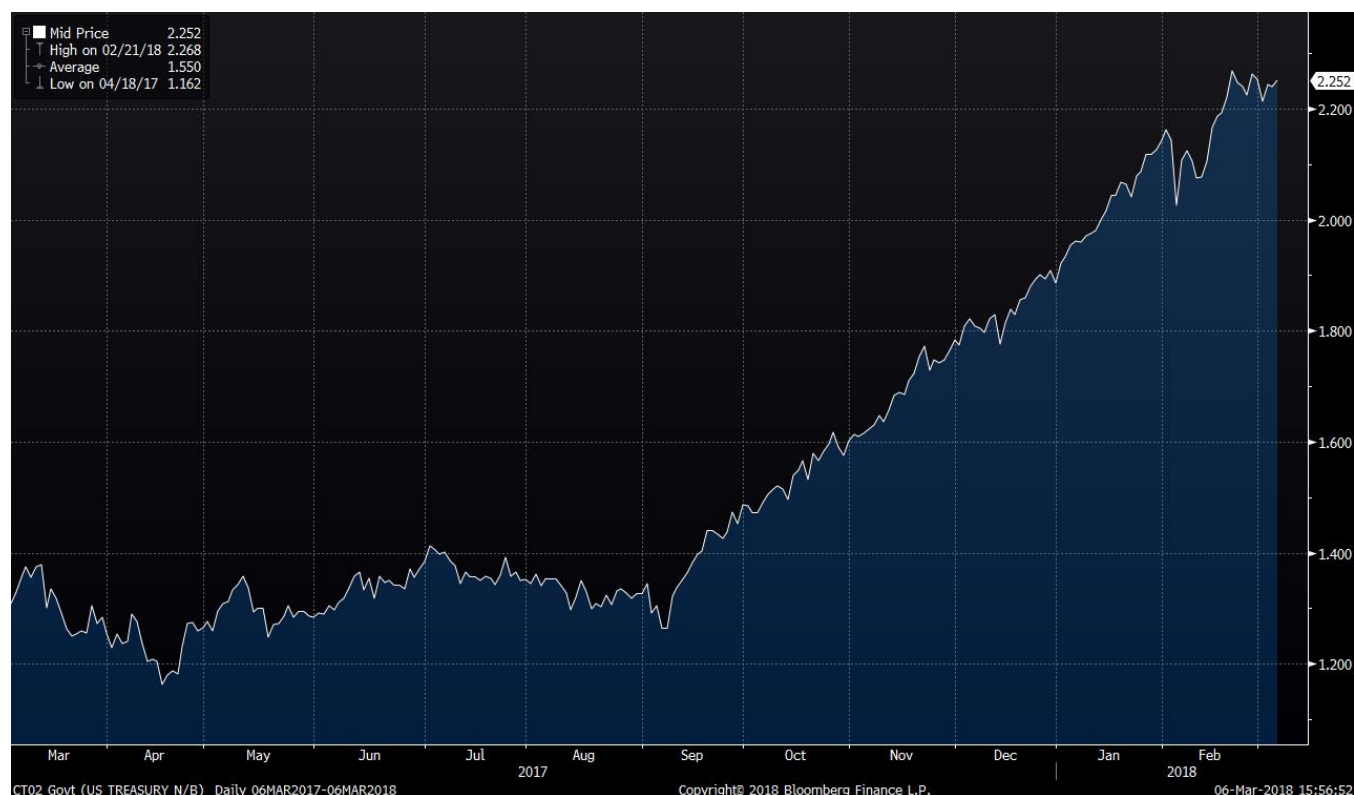
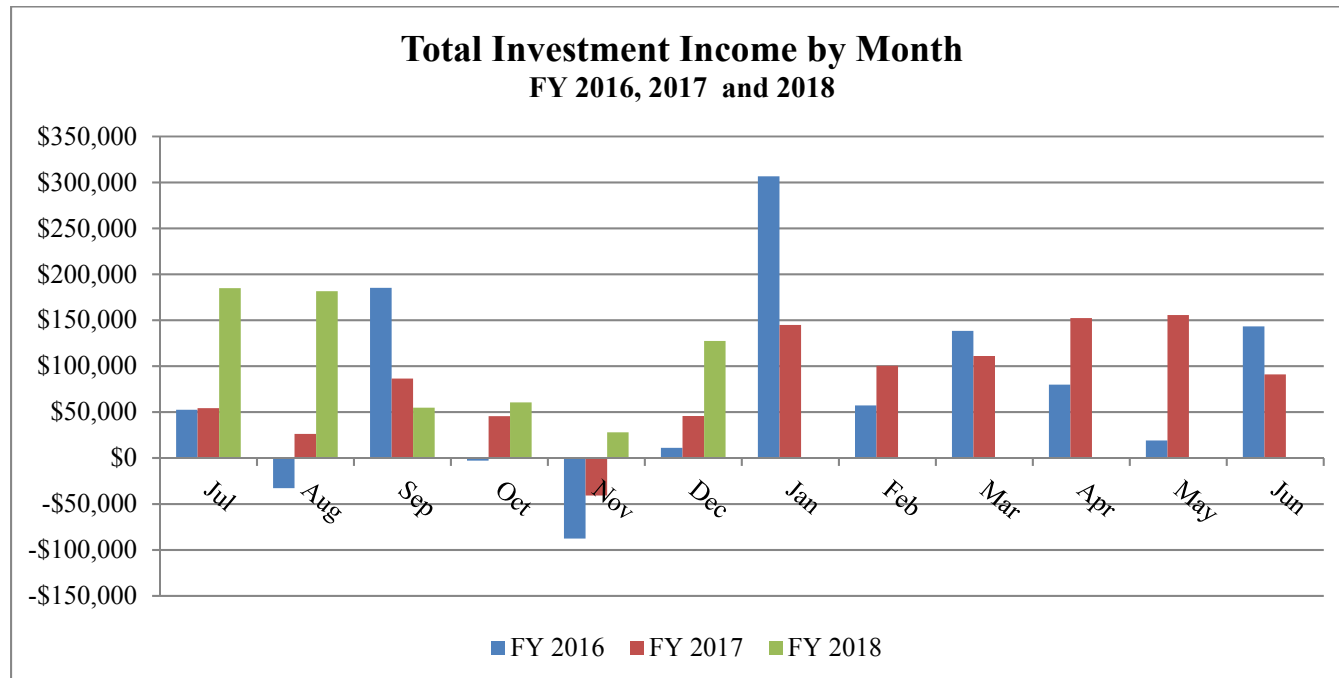
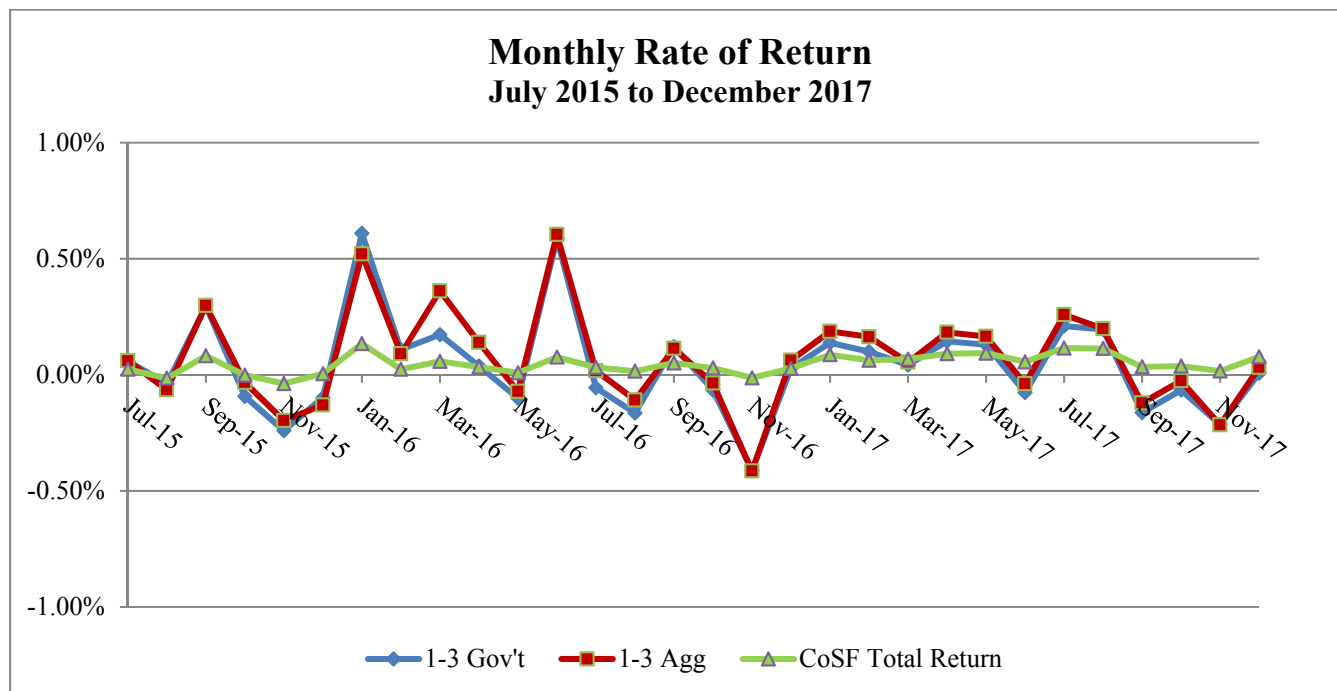


Chart 17



In FY 2018, the portfolio has had positive earnings, even with the market value adjustments. This can be attributed to the Treasury staff's management of duration, the high balance in money market funds and the inclusion of floating rate securities in the portfolio.

Chart 18



Charts 18 and 19 compare the City's investment returns to standard industry benchmarks for short-term investment portfolios; government only, and the other includes all issuers including Corporate, Mortgage and other Asset backed securities. The take away from Chart 18 is the City's investment portfolio is not as volatile as the benchmarks. The lack of volatility is directly related to the portfolio's duration which is substantially less than the benchmarks. It is important to point out that the variance between the two benchmarks represents "credit risk" which is minimal compared to the interest rate risk which causes significant variance of return, month to month.

Chart 19

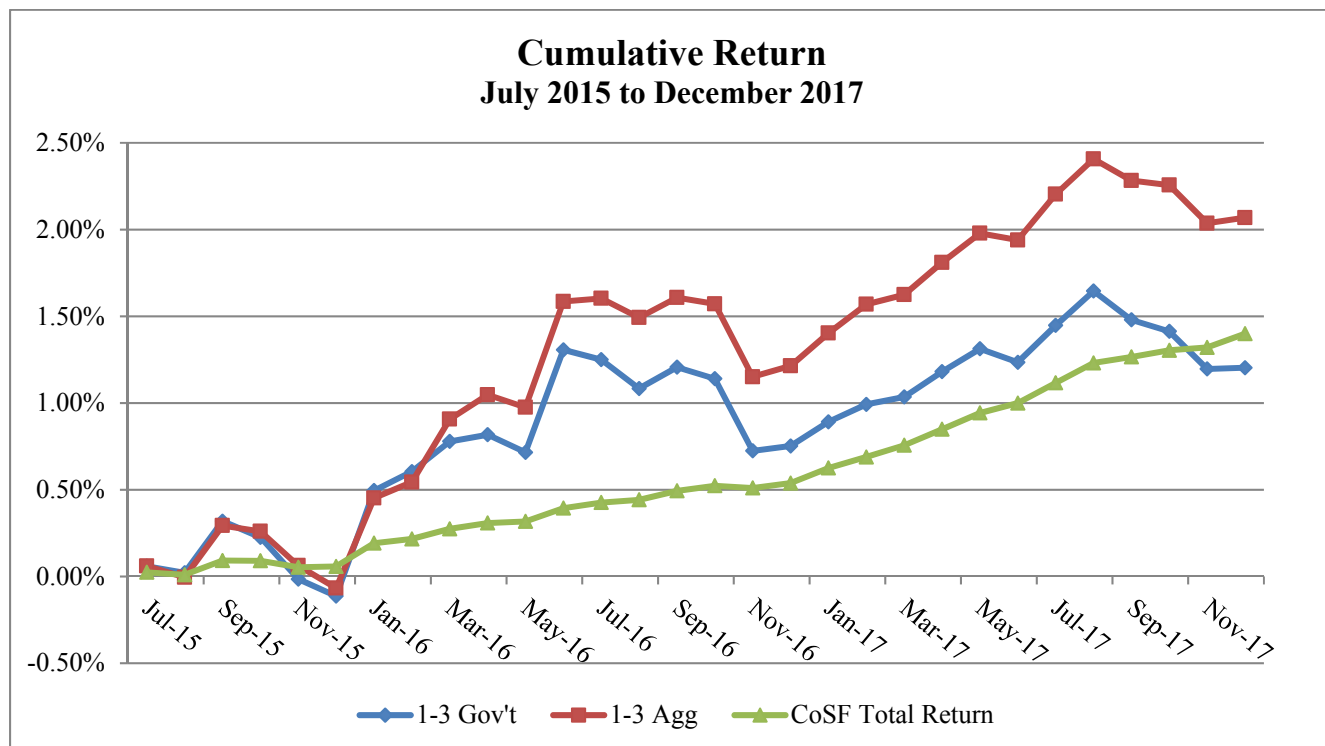
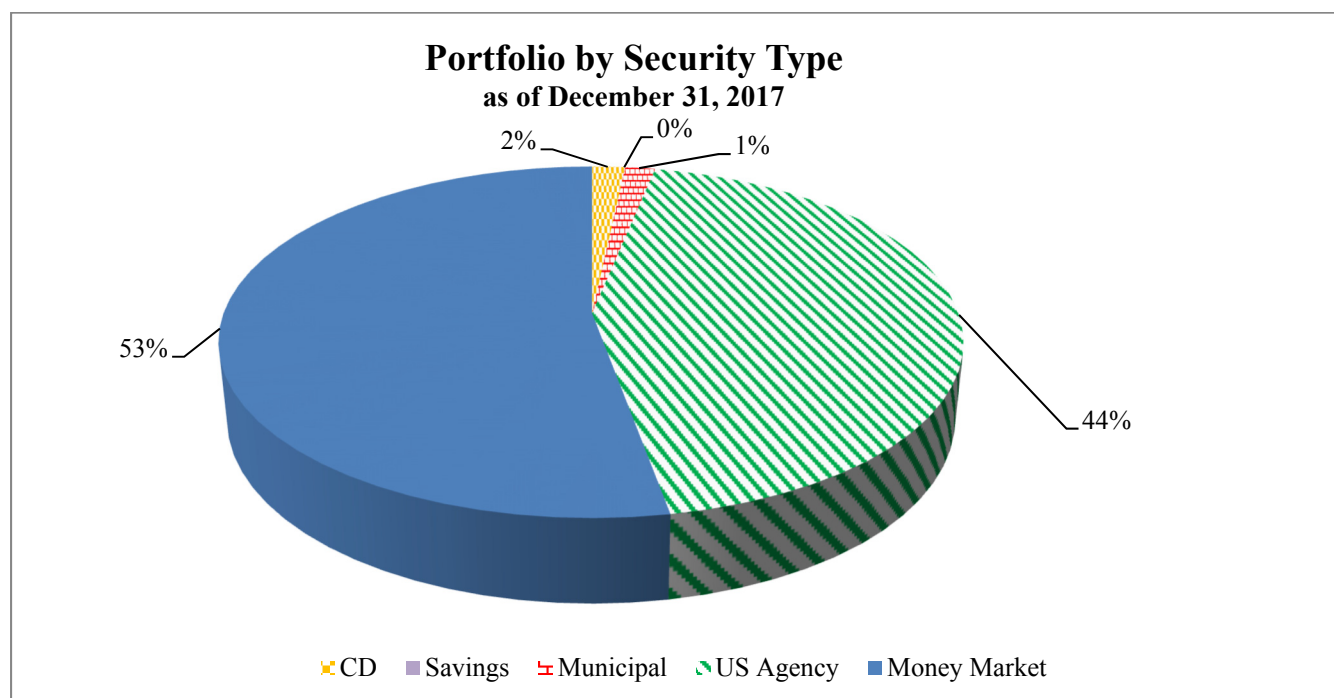


Chart 20



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. Treasury staff began adding floating rate securities to the portfolio in the second quarter in order to keep a balance between money market funds and securities. Floating rate securities have similar duration characteristics to money market funds.

Chart 21

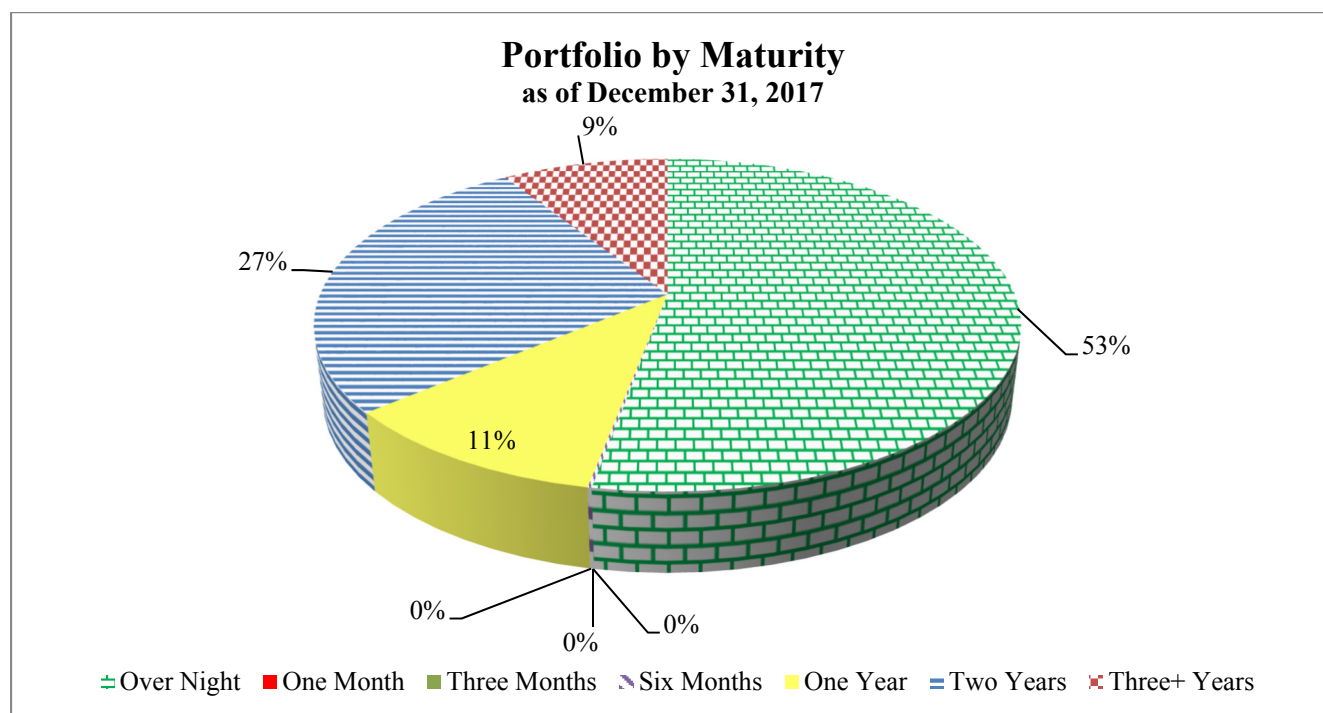
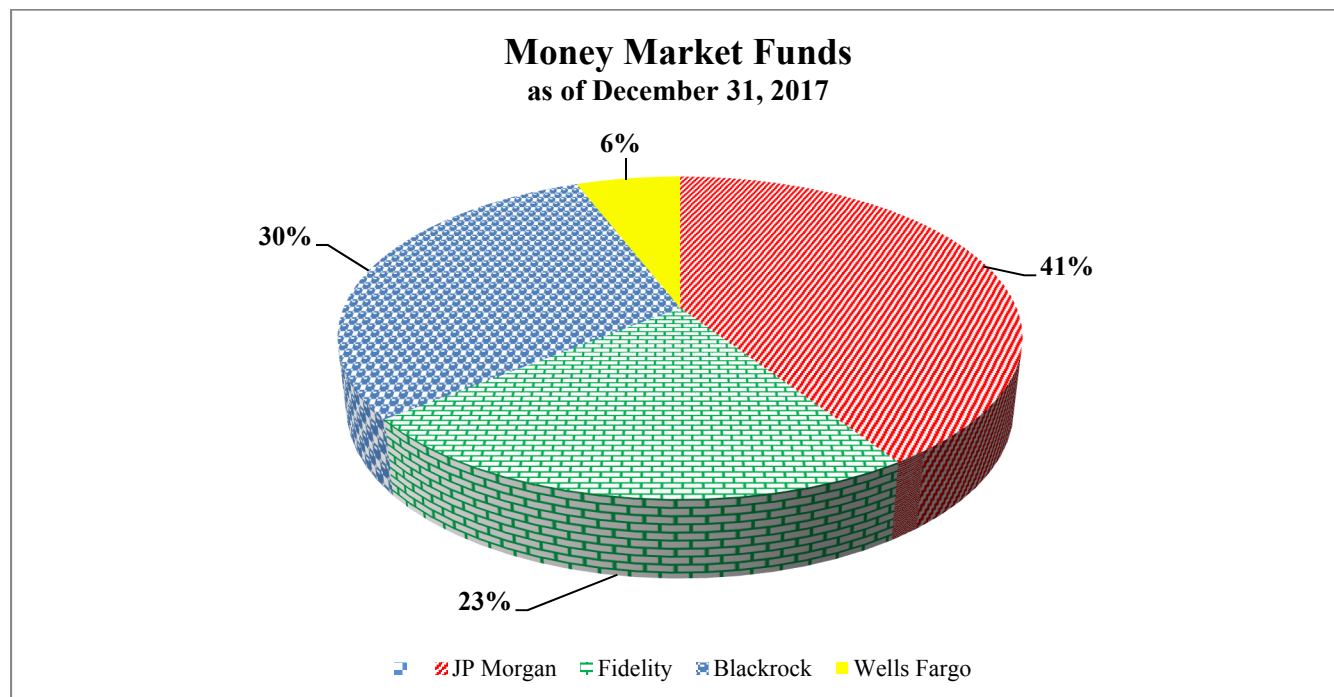


Chart 22



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 invest only in US Government and US Government Agency issues.

Chart 23

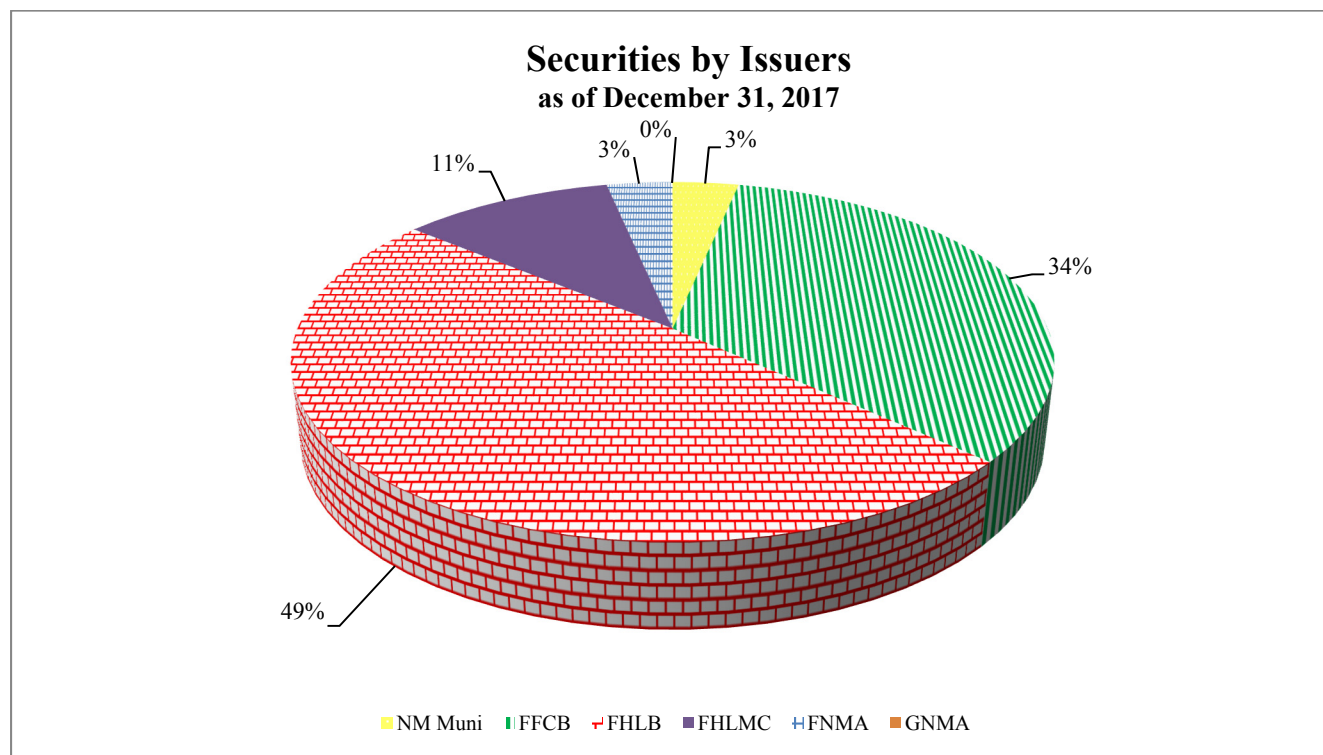
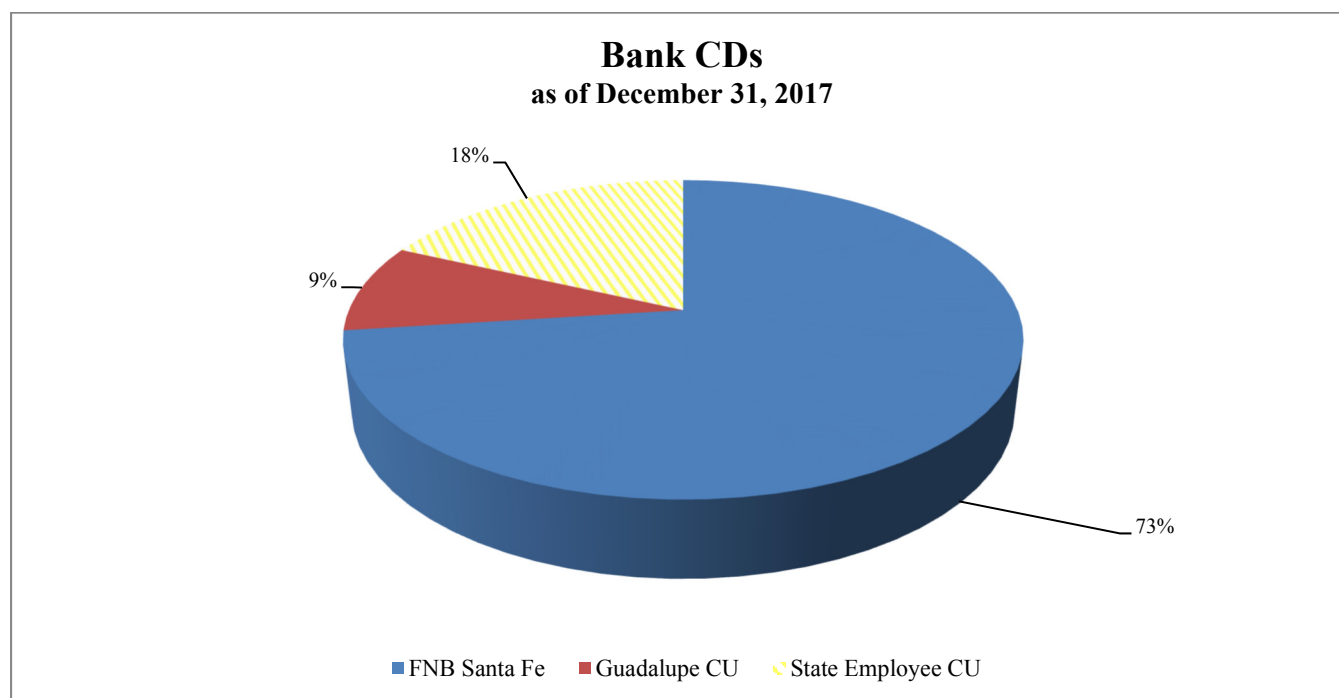
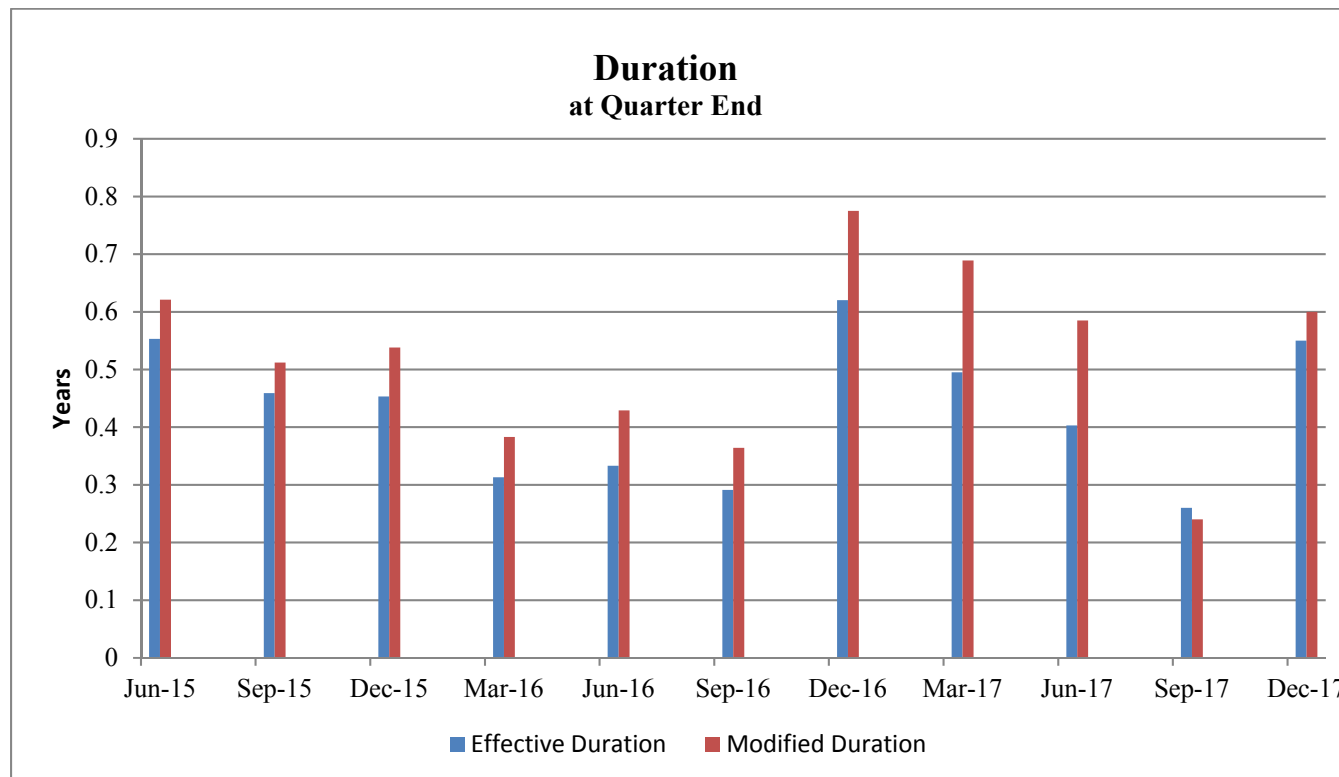


Chart 24



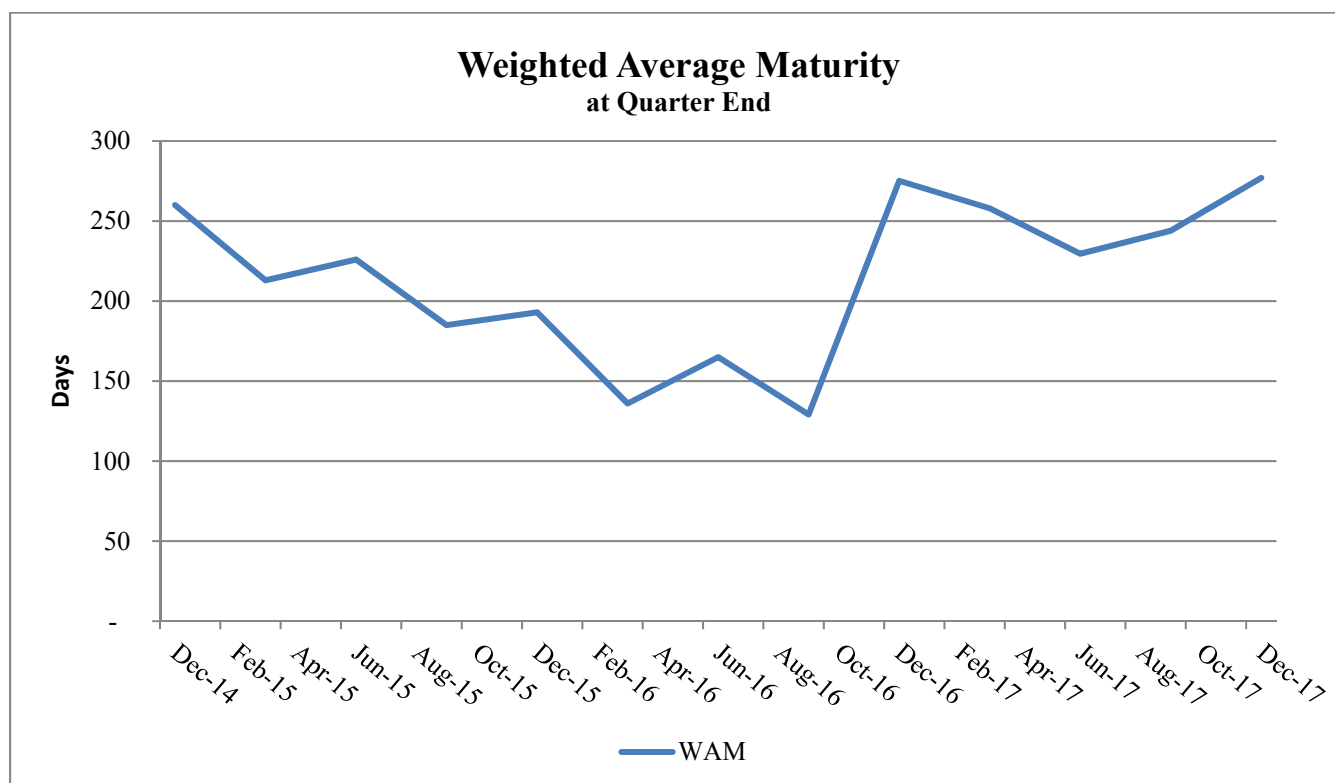
The portfolio's duration and weighted average maturity reflects the Treasury Department's investment strategy to avoid interest rate risk.

Chart 25



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

Chart 26



Investment Strategy

Federal Reserve Chair Jerome Powell was very clear in his Congressional testimony that the Federal Reserve was going to continue to increase interest rates in 2018, and in fact may raise rates four times, where previous expectations were for only three. It depends on the strength of the economy, and the inflation rate. Reviewing the “Dot Plot” where the members of the Federal Reserve Open Market Committee plot their expectations of where short-term interest rates will be out into the future, the committee has increased their expectations, individually and collectively. Treasury staff will continue to monitor the FOMC’s expectations, the strength of the economy, employment and inflation, but if nothing changes, the investment strategy will remain the same, short-duration, and a significant balance in money market funds and floating rate securities. However, any economic weakness reported will lead Treasury staff to re-evaluate the portfolio’s position and consider increasing the portfolio’s duration.

FINANCIAL PERFORMANCE REPORT: SECOND QUARTER FY 2017-2018

Table 5

City of Santa Fe								
Portfolio Holdings Report								
As of December 31, 2017								
							Modified	Effective
Issuer	Par Value	Market Value	Book Value	Coupon	YTM	Maturity Date	Duration	Duration
State Employee CU	256,320	256,320	256,320	1.00%	1.00%	04/18/2018	0.400	0.400
Guadalupe CU	245,000	245,000	245,000	1.21%	1.21%	08/20/2018	0.632	0.632
State Employee CU	240,000	240,000	240,000	1.56%	1.56%	07/21/2019	1.531	0.537
First National Bank of Santa F	<u>2,000,000</u>	<u>2,000,000</u>	<u>2,000,000</u>	<u>0.75%</u>	<u>0.75%</u>	<u>07/16/2018</u>	<u>0.537</u>	<u>0.537</u>
Total CDs	2,741,320	2,741,320	2,741,320		0.89%		0.62	0.53
Blackrock Prime Inst #24	26,035,407	26,035,459	26,035,407		1.39%			
JP Morgan Prime MM Fund #3605	35,368,383	35,368,419	35,368,383		1.43%			
Fidelity Prime MM Port #2014	20,207,710	20,207,771	20,207,710		1.45%			
Wells Fargo Bank MM	661,157	661,157	661,157		1.20%			
Wells Fargo Bank Savings	<u>2,541</u>	<u>2,541</u>	<u>2,541</u>	<u>0.00%</u>	<u>0.17%</u>		-	-
Total Money Market	82,275,198	82,275,346	82,275,198		1.42%		-	-
New Mexico Severance Tax	<u>2,500,000</u>	<u>2,491,925</u>	<u>2,555,425</u>	<u>2.00%</u>	<u>1.25%</u>	<u>07/01/2019</u>	<u>1.469</u>	<u>1.469</u>
Total Municipal	2,500,000	2,491,925	2,555,425		1.25%		1.47	1.47
Federal Home Loan Bank	5,000,000	4,945,200	5,003,550	1.63%	1.60%	09/11/2020	2.607	2.607
Federal Home Loan Bank	5,000,000	4,918,800	4,953,800	1.13%	1.44%	11/29/2019	1.875	1.875
Federal Home Loan Bank	2,000,000	1,979,940	1,995,780	1.38%	1.45%	11/15/2019	1.833	1.833
Farmer Mac	5,000,000	4,970,400	5,000,000	1.44%	1.44%	08/20/2019	1.600	1.600
Federal Home Loan Bank	5,000,000	4,994,550	5,054,730	1.75%	1.20%	12/14/2018	0.939	0.939
Federal Home Loan Bank	5,000,000	4,980,100	5,034,800	1.63%	1.34%	06/14/2019	1.426	1.426
Federal Home Loan Bank	5,000,000	4,980,100	5,032,550	1.63%	1.36%	06/14/2019	1.426	1.426
Federal Home Loan Bank	5,000,000	4,953,650	4,985,300	1.38%	1.53%	09/13/2019	1.663	1.663
Federal Home Loan Bank	5,000,000	5,006,500	5,046,450	2.00%	1.52%	09/13/2019	1.654	1.654
Federal Farm Credit Bank	5,000,000	4,994,850	5,000,000	1.70%	1.70%	01/07/2019	1.002	1.002
Federal Farm Credit Bank	5,000,000	4,967,700	4,982,400	1.25%	1.43%	02/27/2019	1.136	1.136
Federal Farm Credit Bank	10,000,000	9,992,000	10,000,000	1.50%	1.49%	10/20/2020	0.250	0.250
Federal Home Loan Mtg Corp	3,000,000	2,981,910	3,000,000	1.05%	1.05%	11/07/2018	0.840	0.000
Federal Home Loan Mtg Corp	2,000,000	1,987,940	1,997,600	1.05%	1.11%	11/07/2018	0.840	0.000
Federal Home Loan Mtg Corp	3,000,000	2,981,490	3,000,000	1.13%	1.13%	11/28/2018	0.897	0.000
Federal National Mtg Assn	<u>2,500,000</u>	<u>2,486,400</u>	<u>2,500,000</u>	<u>1.13%</u>	<u>1.13%</u>	<u>10/29/2018</u>	<u>0.817</u>	<u>0.000</u>
Total	72,500,000	72,121,530	72,586,960	0.23	0.22	0.00	1.26	1.14
Total Portfolio	<u>160,016,518</u>	<u>159,630,121</u>	<u>160,158,903</u>	<u>0.23</u>	<u>0.25</u>	<u>-</u>	<u>0.60</u>	<u>0.55</u>

Table 6

Collateral for Demand Deposits				
31-Dec-17				
First National 1870				
<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
FNR 2013-94 CA	3136AGJV5	08/25/2038	2,229,573	2,282,344
			-	-
Total First National 1870			2,229,573	2,282,344
Wells Fargo Bank, NA				
<u>Security</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Par Value</u>	<u>Market Value</u>
FNMA FNMS 3.5%	3138EEPW3	03/01/2042	14,777,029	6,282,402
FNMA FNMS 3.0%	3138MFHC	11/01/2042	345,650	196,570
FNMA FNMS 3.5%	3138WZWB4	07/01/2043	687,950	480,210
FNMA FNMS 2.5%	3140F3PM4	06/01/2031	4,237,249	3,456,284
FNMA FNMS 3.0%	31417DKG7	10/01/2042	50,066,566	30,532,263
FNMA FNMS 3.0%	31417EVM0	02/01/2043	690,706	430,967
Total Wells Fargo Bank, NA			70,805,150	41,378,695
Total Collateral			73,034,723	43,661,039