

Monthly Investment & Cash Flows Report

July 2020



CITY OF SEDONA

August 10, 2020

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Executive Summary

The fair market value of the City's **total cash and investments as of July 31, 2020 is \$51.8 million**, representing a **decrease of approximately \$1.3 million (-2%) for the month**. The **average yield exceeds the City's benchmark by 381%** as a result of a decision made by the Arizona State Treasurer's Office to increase liquidity in anticipation of local government drawdowns during the financial crisis caused by the COVID-19 closures and drops in interest rates.

July 2020 Cash & Investments Summary	
Total Cash & Investments	\$51,776,429
Average Yield	0.961%
Benchmark ¹	0.200%
Average Duration	0.7 years

As a result of early calls over the past few months for several U.S. government agency securities, the **average duration has dropped to 0.7 years**. Reinvestment of agency bonds called early are planned in August but are not expected to significantly impact the average duration of the investment pool. The current goal is to maintain as much liquidity as possible until there is better information regarding the City's future financial condition and impacts of the current financial crisis, as well as a sufficient return for tying up funds in investments with terms of 3-5 years.²

In the meantime, a transfer of \$15,000,000 was scheduled for August 3, 2020 from the Arizona State Treasurer's Office Local Government Investment Pool (LGIP) 5 to LGIP Pool 500.³ With the decreases that have occurred in the LGIP Pool 5 yields, LGIP Pool 500 now offers a much greater yield.

Investments Held

The City has invested in U.S. government agency securities, certificates of deposit (CDs), and Local Government Investment Pools (LGIP) offered by the Arizona State Treasurer's Office, in addition to balances maintained in checking accounts.⁴

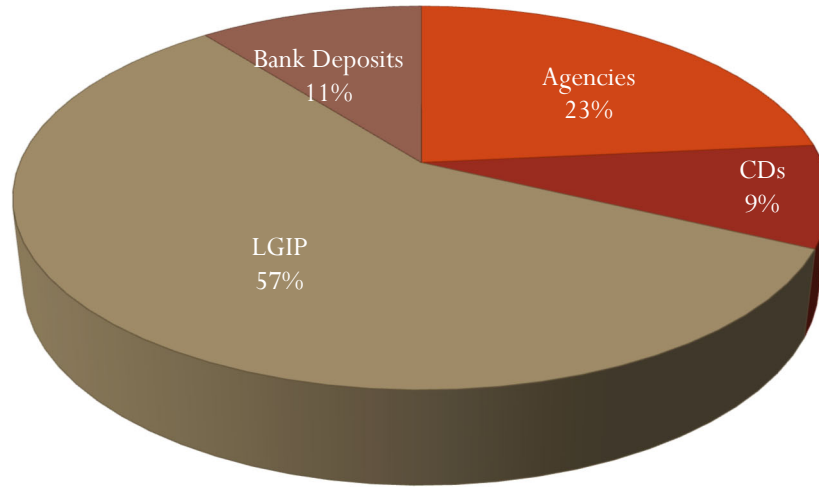
¹ The City's investment policy defines the benchmark as the yield for the Arizona State Treasurer's Office's Local Government Investment Pool (LGIP) 5. The adopted investment policy is available at <https://www.sedonaaz.gov/your-government/departments/financial-services/financial-policies>.

² Currently, investments available are offering yields of approximately 0.50% for 5-year terms, 0.38% for 4-year terms, 0.25% for 3-year terms, while the earnings rate on the City's checking account is 0.40%.

³ Deposits and withdrawals for LGIP Pool 500 are only allowed the first business day of each month.

⁴ All investments are allowable under Arizona Revised Statutes and the City's investment policy.

Cash & Investments by Category



Investments Transactions

Net transactions for July 2020 resulted in a decrease of the City's cash and investments of approximately \$1.3 million. This was largely the result of drawdowns to cover the capital improvement costs for the month of \$0.9 million, the semiannual payment to the Sedona Chamber of Commerce & Tourism Bureau (SCC&TB) of \$1.2 million, and a prepayment to the Public Safety Personnel Retirement System (PSPRS) of \$0.8 million.

Cash Flows

Cash basis **receipts for July 2020 were approximately \$1.5 million less than the prior month** while cash basis **disbursements were approximately \$341,000 less than the prior month.** Changes for July 2020 compared to the prior month include:

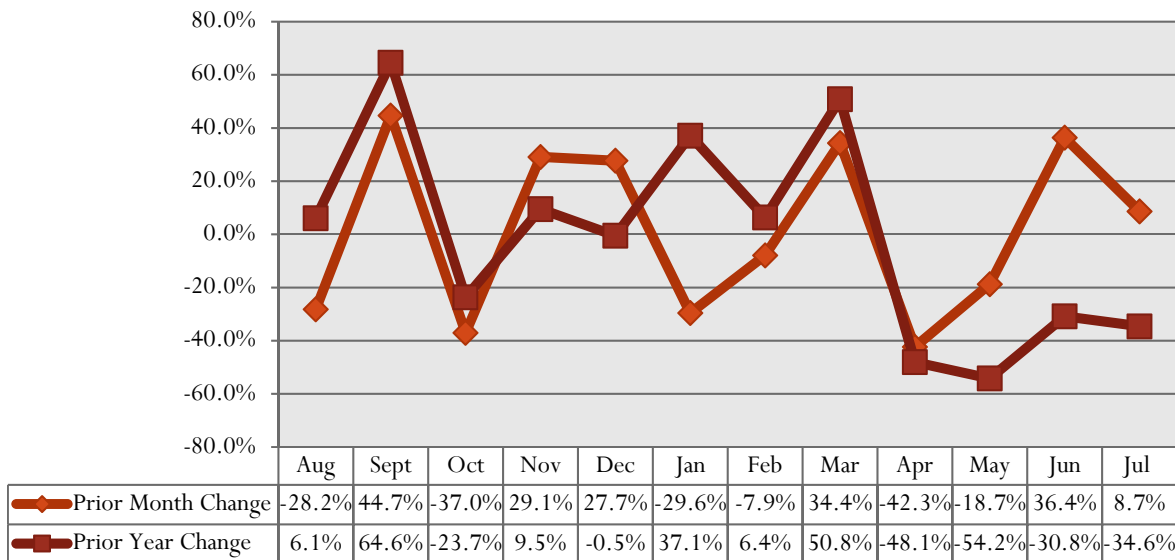
- Receipts:
 - Cash basis sales and bed tax receipts for July 2020 were approximately \$140,000 (8%) greater than the prior month.
 - Cash basis wastewater monthly receipts for July 2020 were approximately \$3,000 (<1%) greater than the prior month.
 - Approximately \$579,000 of one-time development impact fees and wastewater capacity fees were collected in June 2020.
 - Approximately \$1.2 million of one-time AZCares Act funding was collected in June 2020.
 - The FY 2020 allocation of Yavapai County Flood Control monies of \$375,000 was collected in June 2020.
 - Approximately \$210,000 of one-time CDBG reimbursements were received in July 2020.
 - Cash basis state shared revenue receipts for July 2020 were approximately \$57,000 (32%) greater than the prior month.
 - Cash basis interest receipts for July 2020 were approximately \$97,000 (5540%) greater than the prior month.

- Disbursements:
 - Capital improvement costs for July 2020 were approximately \$606,000 (40%) less than the prior month.
 - Transfers to the trustee for bond payments due on July 1, 2020 were approximately \$1.1 million (76%) less than the prior month.⁵
 - Cash basis road rehabilitation disbursements were approximately \$725,000 for June 2020. Road rehabilitation costs were not incurred in July 2020.
 - Approximately \$766,000 was prepaid to the Public Safety Personnel Retirement System (PSPRS) for estimated employer and employee contributions for the year.
 - The semiannual payment to the SCC&TB of approximately \$1.2 million was made in July 2020.

Cash Basis Sales & Bed Tax Receipts

Cash basis sales and bed tax receipts were 9% greater than the prior month and 35% less than the same month last year. The July 2020 receipts included a portion of May taxes filed in June and a portion of June taxes filed in July, including any delinquent payments that have been filed and paid in those months.

Changes in Cash Basis Sales & Bed Tax Receipts



⁵ The bond covenant for the Series 1998 bonds requires monthly deposits with the trustee for one-twelfth of the July 1 payment. All other bond covenants require semi-annual deposits for the January 1 and July 1 payments.

Analysis

Cumulative cash basis receipts since April 2020 were \$3.0 million less than cumulative cash basis disbursements. Data has not been accumulated in this manner prior to April 2020; however, it is typical for capital improvement costs and road rehabilitation costs to be higher during the last quarter of the fiscal year, in addition to the transfers to the trustee for bond payments due on July 1. Also, it is typical for July cash basis disbursements to include the first semiannual payment to the SCC&TB and the prepayment of PSPRS.⁶

Staff has been directed to freeze all nonessential expenditures and numerous vacant positions have been frozen. It appears these freezes, in addition to the significant one-time receipts in June and July 2020, have helped mitigate the revenue losses incurred as a result of the COVID-19 closures, while still covering most of the capital improvement, debt, and other costs not related to routine monthly operations.

April 2020 - July 2020 Cash Basis Receipts & Disbursements Summary	
Total Net Cash Basis Receipts (Disbursements)	\$(3,031,176)
Certain Cash Basis Receipts (Disbursements):	
One-Time Receipts	1,975,882
Capital Improvement Costs	(5,434,609)
Road Rehabilitation	(725,115)
Transfers to Bond Payment Trustee	(2,582,815)
PSPRS Prepayment	(766,299)
Semiannual Contract Payments	(1,223,030)

⁶ The prepayment to PSPRS was approximately \$303,000 less than would have been paid if the level payment of \$1,000,000 employer contributions had not been suspended for fiscal year 2020-21.

Report Format

The report consists of the following sections:

- **Executive Summary** – This summary includes a narrative discussion of the most significant information in this report.
- **Investment Holdings Summary** – A table of the investments held by the City has been presented with the average remaining duration of the portfolio, as well as the average yield of the portfolio compared to the policy benchmark.
- **Investment Transactions Summary** – A table of the investment transactions for the month has been presented including acquisitions, dispositions, investment earnings, and expenses.
- **Cash Flows Report** – A summary of the cash flows for the month has been presented with comparison to cash flows of prior months, in addition to bank and cash basis balances.

Available Local Government Investment Pools (LGIP)

The Local Government Investment Pools offered by the Arizona State Treasurer's Office include:

- **LGIP Pool 5** – A diversified short-term fund similar to a prime money market fund. The fund maintains the highest rating from S&P (AAA f/S1+). **July 2020 yield was 0.20%**. The City has traditionally used this fund for all available funds not otherwise invested.
- **LGIP Pool 7** – A short-term fund that invests only in products backed by the full faith and credit of the United States Government. The fund has a AAA weighted average rating. **July 2020 yield was 0.11%**. The City has traditionally used this fund for a secure investment of prepaid wastewater capacity fees.
- **LGIP Pool 500** – A medium-term fund similar to the shorter-term Pool 5. The weighted average rating of all the securities in this pool is AA-2. **July 2020 yield was 1.54%**. The City has traditionally used this fund for longer-term investment of reserve balances.
- **LGIP Pool 700** – A medium-term fund similar to the shorter-term Pool 7. The fund has a AAA weighted average rating. **July 2020 yield was 0.89%**. The City has not traditionally used this fund since yields in Pool 500 are most often higher.

For questions or additional information, contact:

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Investment Holdings Summary

CUSIP	Issuer	Settlement Date	Maturity Date	Initial Duration ⁽¹⁾	Remaining Duration as of July 31, 2020 (In Years)	Remaining Coupon Rates	Yield	Benchmark at Time of Purchase	Par Value	Book Value	Fair Market Value as of July 31, 2020	Realized Gain/Loss	Unrealized Gain/Loss ⁽²⁾	Accrued Interest Not Yet Recorded ⁽³⁾	% of Investment Pool
U.S. Government Agency Securities															
3134GBP89	Federal Home Loan Mortgage Corporation	10/26/2017	4/26/2021	3.5	0.7	1.850%	1.850%	1.100%	\$ 2,000,000	\$ 2,000,000	\$ 2,025,406	\$ -	\$ 25,406	\$ 9,732	3.87%
3133ELGM0	Federal Farm Credit Bank	1/15/2020	10/8/2021	1.7	1.2	1.600%	1.500%	1.790%	\$ 2,000,000	\$ 2,003,416	\$ 2,033,948	\$ -	\$ 30,532	\$ 9,995	3.88%
3134GUR93	Federal Home Loan Mortgage Corporation	1/15/2020	10/13/2022	2.7	2.2	1.720%	1.660%	1.790%	\$ 2,000,000	\$ 2,003,224	\$ 2,003,906	\$ -	\$ 682	\$ 18,661	3.88%
3133ELHZ0	Federal Farm Credit Bank	1/17/2020	7/17/2023	3.5	3.0	1.600%	1.540%	1.790%	\$ 2,000,000	\$ 2,004,072	\$ 2,078,006	\$ -	\$ 73,934	\$ 1,227	3.88%
3134GDVC9	Federal Home Loan Mortgage Corporation	2/27/2020	11/20/2023	3.7	3.3	1.700%	1.630%	1.770%	\$ 2,000,000	\$ 2,005,062	\$ 2,006,460	\$ -	\$ 1,398	\$ 6,707	3.88%
3134GUZ78	Federal Home Loan Mortgage Corporation	1/22/2020	1/22/2024	4.0	3.5	1.800%	1.730%	1.790%	\$ 2,000,000	\$ 2,005,388	\$ 2,012,766	\$ -	\$ 7,378	\$ 18,838	3.88%
Subtotals									\$ 12,000,000	\$ 12,021,162	\$ 12,160,492	\$ -	\$ 139,330	\$ 65,159	23.28%
Negotiable Certificates of Deposit															
20033AVN3	Comenity Capital Bank	8/9/2017	8/10/2020	3.0	0.0	1.950%	1.950%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 277	0.48%
38148PMJ3	Goldman Sachs Bank USA	8/9/2017	8/10/2020	3.0	0.0	1.900%	1.900%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,211	0.48%
02587CGG9	American Express FSB	9/12/2017	9/14/2020	3.0	0.1	1.950%	1.950%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,834	0.48%
319141HQ3	First Bank of Highland Park	9/14/2017	9/14/2020	3.0	0.1	1.800%	1.800%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,693	0.48%
14042RJH5	Capital One, NA	10/12/2017	10/13/2020	3.0	0.2	2.000%	2.000%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,475	0.48%
20786ABY0	ConnectOne Bank	12/28/2017	12/28/2020	3.0	0.4	2.200%	2.200%	1.090%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 45	0.48%
1404204E7	Capital One Bank USA NA	8/9/2017	8/9/2021	4.0	1.0	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,458	0.48%
254673AF3	Discover Bank	8/9/2017	8/9/2021	4.0	1.0	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,458	0.48%
05580AKJ2	BMW Bank North America	9/15/2017	9/15/2021	4.0	1.1	2.100%	2.100%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,961	0.48%
88413QBR8	Third Federal Savings & Loan	9/15/2017	9/15/2021	4.0	1.1	2.000%	2.000%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,868	0.48%
29266N6P7	EnerBank USA	10/13/2017	10/13/2021	4.0	1.2	2.000%	2.000%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 244	0.48%
02587DV47	American Express Centurion	8/8/2017	8/8/2022	5.0	2.0	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,767	0.48%
795450C37	Sallie Mae Bank	8/9/2017	8/9/2022	5.0	2.0	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,751	0.48%
87164XSH0	Synchrony Bank	10/6/2017	10/6/2022	5.0	2.2	2.250%	2.250%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,766	0.48%
06740KLD7	Barclays Bank	10/18/2017	10/18/2022	5.0	2.2	2.300%	2.300%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,619	0.48%
32056GCV0	First Internet Bank of Indiana	12/28/2017	12/28/2022	5.0	2.4	2.400%	2.400%	1.090%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 49	0.48%
33847E3X3	Flagstar Bank FSB	7/31/2020	7/31/2024	4.0	4.0	0.500%	0.500%	0.340%	\$ 249,000	\$ 249,000	\$ 249,000	\$ -	\$ -	\$ -	0.48%
44329MA45	HSBC Bank USA	8/13/2019	8/13/2024	5.0	4.0	2.300%	2.300%	2.300%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,630	0.48%
Subtotals									\$ 4,448,000	\$ 4,448,000	\$ 4,448,000	\$ -	\$ -	\$ 28,108	8.61%
AZ State Treasurer Local Government Investment Pool (LGIP)															
N/A	Pool 5 ⁽⁴⁾	N/A	N/A	N/A	0.0	N/A	0.200%	N/A	\$ 20,241,965	\$ 20,241,965	\$ 20,241,965	\$ -	\$ -	\$ -	39.20%
N/A	Pool 7	N/A	N/A	N/A	0.0	N/A	0.110%	N/A	\$ 40,102	\$ 40,102	\$ 40,102	\$ -	\$ -	\$ -	0.08%
N/A	Pool 500	N/A	N/A	N/A	0.0	N/A	1.540%	N/A	\$ 9,404,756	\$ 9,404,756	\$ 9,404,756	\$ -	\$ -	\$ -	18.21%
Subtotals									\$ 29,686,822	\$ 29,686,822	\$ 29,686,822	\$ -	\$ -	\$ -	57.49%
Bank Deposits															
N/A	Analyzed Checking Accounts ⁽⁵⁾	N/A	N/A	N/A	0.0	N/A	0.400%	N/A	\$ 5,481,114	\$ 5,481,114	\$ 5,481,114	\$ -	\$ -	\$ -	10.61%
Subtotals									\$ 5,481,114	\$ 5,481,114	\$ 5,481,114	\$ -	\$ -	\$ -	10.61%
Averages/Grand Totals					0.7		0.961%		\$ 51,615,937	\$ 51,637,099	\$ 51,776,429	\$ -	\$ 139,330	\$ 93,267	100.00%

Benchmark per Policy (LGIP Pool 5) 0.200%

⁽¹⁾ Arizona Revised Statutes and the City's investment policy limit the maximum investment maturity to 5 years.

⁽²⁾ Unrealized gains and losses would only be realized if the City chose to sell its investments prior to maturity and are based on the fair market value as reported by the City's safekeeping agent. The City plans to hold investments until maturity unless there is a compelling reason to sell.

⁽³⁾ Many of the investments pay interest semi-annually with some investments paying monthly or quarterly. The accrued interest not yet recorded represents the amount earned since the last interest payment date.

⁽⁴⁾ Since the yield for LGIP Pool 5 has dropped significantly, a transfer from LGIP Pool 5 to LGIP Pool 500 of \$15,000,000 was scheduled for August 3, 2020. Deposits and withdrawals for LGIP Pool 500 are only allowed the first business day of each month.

⁽⁵⁾ Due to the significant reduction in LGIP Pool 5 earnings and pending reinvestment early in August for agency bonds called early, a higher balance was maintained in the City's checking account.

Investment Transactions Summary⁽¹⁾

CUSIP	Issuer	Transaction Type	July 2020 Activity
Acquisitions			
33847E3X3	Flagstar Bank FSB	Purchase	\$ 249,000
N/A	LGIP Pool 5	Purchase	\$ 1,000,000
N/A	LGIP Pool 7	Purchase	\$ 4,624
N/A	Analyzed Checking Accounts	Net Contribution	\$ 3,409,603
		Subtotal	\$ 4,663,227
Dispositions			
3134GUS43	Federal Home Loan Mortgage Corporation	Early Call	\$ 2,000,000
3133EKWZ5	Federal Farm Credit Bank	Early Call	\$ 2,000,000
3134GTR96	Federal Home Loan Mortgage Corporation	Early Call	\$ 2,000,000
		Subtotal	\$ 6,000,000
Earnings			
20033AVN3	Comenity Capital Bank	Monthly Interest	\$ 396
20033AVN3	Comenity Capital Bank	Interest Accrued to FY2020	\$ (264)
29266N6P7	EnerBank USA	Monthly Interest	\$ 406
29266N6P7	EnerBank USA	Interest Accrued to FY2020	\$ (230)
32056GCV0	First Internet Bank of Indiana	Monthly Interest	\$ 487
32056GCV0	First Internet Bank of Indiana	Interest Accrued to FY2020	\$ (32)
20786ABY0	ConnectOne Bank	Monthly Interest	\$ 447
20786ABY0	ConnectOne Bank	Interest Accrued to FY2020	\$ (30)
3134GUS43	Federal Home Loan Mortgage Corporation	Semi-annual interest	\$ 18,000
3134GUS43	Federal Home Loan Mortgage Corporation	Interest Accrued to FY2020	\$ (16,570)
3133ELHZ0	Federal Farm Credit Bank	Semi-annual interest	\$ 16,000
3133EH4R1	Federal Farm Credit Bank	Interest Accrued to FY2020	\$ (14,378)
3133EKWZ5	Federal Farm Credit Bank	Semi-annual interest	\$ 22,000
3133EKWZ5	Federal Farm Credit Bank	Interest Accrued to FY2020	\$ (18,926)
3134GTR96	Federal Home Loan Mortgage Corporation	Semi-annual interest	\$ 23,000
3134GTR96	Federal Home Loan Mortgage Corporation	Interest Accrued to FY2020	\$ (19,030)
N/A	LGIP Pool 5	Monthly Gain/Loss	\$ 3,471
N/A	LGIP Pool 7	Monthly Gain/Loss	\$ 4
N/A	LGIP Pool 500	Monthly Gain/Loss	\$ 27,080
		Subtotal	\$ 41,829
Expenses			
N/A	N/A	Custody Charges	\$ 93
N/A	N/A	Wire Fees	\$ 189
		Subtotal	\$ 282
Net Transactions for July 2020			\$ (1,295,226)

⁽¹⁾ The drawdown of the investments covered the significant capital improvement costs for the month of approximately \$0.9 million, the semiannual payment to the SCCT&B of approximately \$1.2 million, and the prepayment to PSPRS of approximately \$0.8 million.

Cash Flows Report⁽¹⁾

Month	Beginning Bank Balance	Cash Basis Receipts	Cash Basis Disbursements	Net Account Transfers	Ending Bank Balance	Outstanding Checks	Ending Cash Basis Balance
<i>Cash Basis Transactions by Month⁽²⁾</i>							
April 2020	\$ 2,062,507	\$ 3,248,560	\$ (3,557,075)	\$ -	\$ 1,753,991	\$ (97,078)	\$ 1,656,913
May 2020	1,753,991	2,176,168	(3,355,137)	1,000,000	1,575,021	(96,058)	1,478,963
June 2020	1,575,021	4,692,387	(4,909,467)	623,409	1,981,350	(33,117)	1,948,233
Total FY 2020		\$ 10,117,115	\$ (11,821,680)	\$ 1,623,409			
July 2020	\$ 1,981,350	\$ 3,242,145	\$ (4,568,755)	\$ 4,746,376	\$ 5,401,115	\$ (877,380)	\$ 4,523,736
Total Year-to-Date FY 2021		\$ 3,242,145	\$ (4,568,755)	\$ 4,746,376			

⁽¹⁾ This report reflects the activity of the City's cash accounts, excluding a separate account maintained by the Court.

⁽²⁾ Tracking of cash basis transactions in this manner began in April 2020.