

Monthly Investment & Cash Flows Report

August 2020



CITY OF SEDONA

September 22, 2020

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Executive Summary

The fair market value of the City's **total cash and investments as of August 31, 2020 is \$52.8 million**, representing an **increase of approximately \$1.0 million (2%) for the month**. The **average yield exceeds the City's benchmark by 575%** 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.

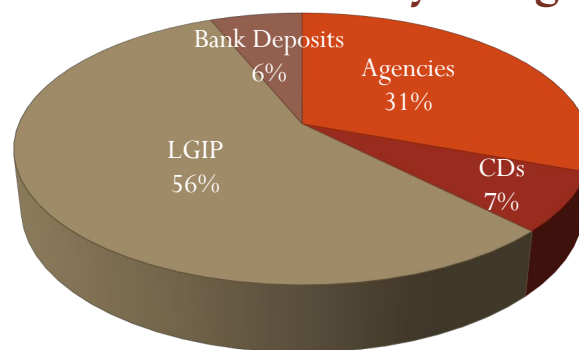
August 2020 Cash & Investments Summary	
Total Cash & Investments	\$52,816,749
Average Yield	1.215%
Benchmark ¹	0.180%
Average Duration	1.0 years

The **average duration is 1.0 years**. 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.

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.²

Cash & Investments by Category



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.scdonaaz.gov/your-government/departments/financial-services/financial-policies>.

² All investments are allowable under Arizona Revised Statutes and the City's investment policy.

Investments Transactions

Net transactions for August 2020 resulted in an increase of the City's cash and investments of approximately \$1.0 million. This was largely the result of an increase in cash basis sales and bed tax receipts for the month of \$1.0 million. See the Cash Basis Sales & Bed Tax Receipts section for further discussion.

Cash Flows

Cash basis **receipts for August 2020 were approximately \$651,000 more than the prior month** while cash basis **disbursements were approximately \$1.7 million less than the prior month.** Changes for August 2020 compared to the prior month include:

- Receipts:
 - Cash basis sales and bed tax receipts for August 2020 were approximately \$1.0 million (57%) greater than the prior month. For further discussion, please see the following Cash Basis Sales & Bed Tax Receipts section.
 - Cash basis wastewater monthly receipts for August 2020 were approximately \$13,000 (3%) greater than the prior month due primarily to customers catching up on delinquencies.
 - Approximately \$210,000 of one-time CDBG reimbursements were received in July 2020.
 - Cash basis state shared revenue receipts for August 2020 were approximately \$18,000 (-10%) less than the prior month.
 - Cash basis interest receipts for August 2020 were approximately \$80,000 (-4616%) less than the prior month.
- Disbursements:
 - Capital improvement costs for August 2020 were approximately \$398,000 (-44%) less than the prior month.
 - Approximately \$766,000 was prepaid to the Public Safety Personnel Retirement System (PSPRS) for estimated employer and employee contributions for the year in July 2020.
 - The semiannual payment to the SCC&TB of approximately \$1.2 million was made in July 2020.
 - The semiannual payments for service contracts of approximately \$478,000 were made in August 2020.

Cash Basis Sales & Bed Tax Receipts

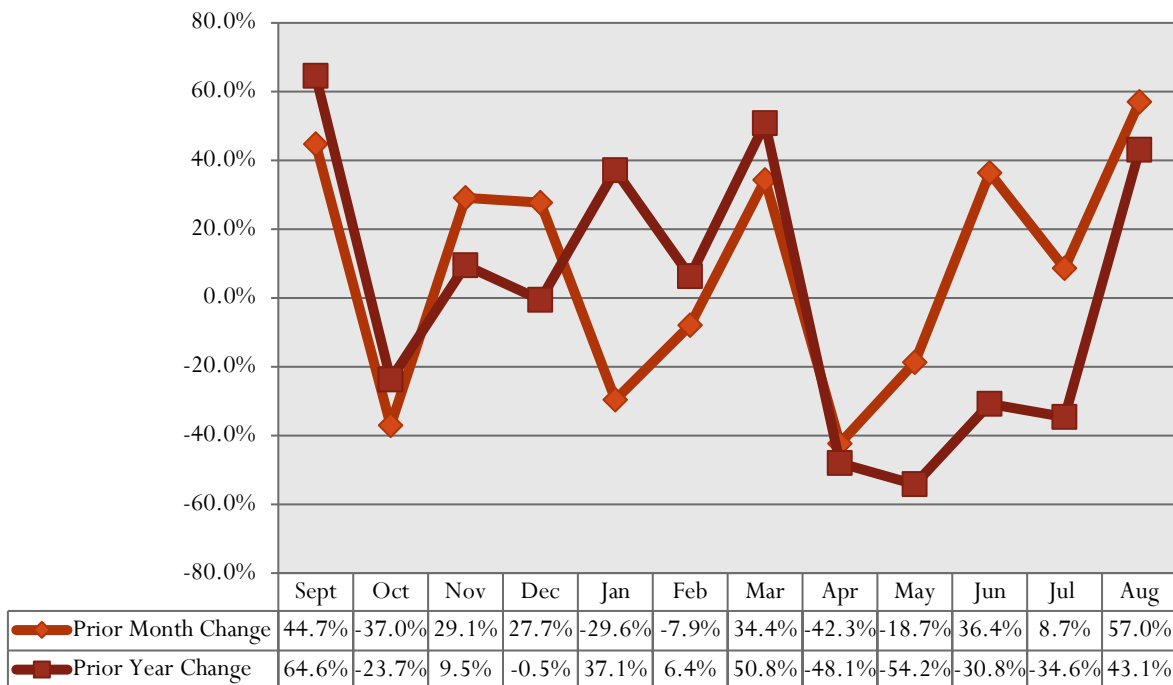
Cash basis sales and bed tax receipts were 57% greater than the prior month and 43% greater than the same month last year. The August 2020 receipts included a portion of June taxes filed in July and a portion of July taxes filed in August, including any delinquent payments that have been filed and paid in those months.

The significant increase compared to the prior month is a result of the start of business reopenings mid-May. July cash basis receipts, which included a portion of May taxes, was significantly impacted by the closures due to COVID-19.

The significant increase compared to the prior year is due to the number of Mondays during the month of August. We receive our weekly distributions from ADOR on Mondays based on the tax returns processed during the prior week. In August 2019, there were 4 Mondays (weeks 32-35). In August 2020, there were 5 Mondays (weeks 32-36). The tax distribution on August 31, 2020 was approximately \$1.0 million.

For a slightly better apples-to-apples comparison, weeks 32-36 in 2020 were 2% less than weeks 32-36 in 2019. While it can be beneficial to have more timely cash basis comparisons, there are still flaws in these comparisons. The accrual basis amounts that will be included in the monthly financial reports will be the best comparisons.

Changes in Cash Basis Sales & Bed Tax Receipts



Analysis

Cumulative cash basis receipts since April 2020 were \$2.0 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 and August cash basis disbursements to include the first semiannual payments for the SCC&TB and the various service contracts, as well as the prepayment of Public Safety Personnel Retirement System (PSPRS) contributions.³

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 over 80% of the capital improvement, debt, and other costs not related to routine monthly operations.

³ 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.

**April 2020 - August 2020
Cash Basis Receipts & Disbursements Summary**

Total Net Cash Basis Receipts (Disbursements)	\$(1,983,330)
Certain Cash Basis Receipts (Disbursements):	
One-Time Receipts	1,975,882
Capital Improvement Costs	(5,936,343)
Road Rehabilitation	(725,115)
Transfers to Bond Payment Trustee	(2,941,061)
PSPRS Prepayment	(766,299)
Semiannual Contract Payments	(1,701,311)

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+). **August 2020 yield was 0.18%**. There are no restrictions on deposits or withdrawals. The City has traditionally used this fund for all available funds not otherwise invested; however, since the yield has dropped below the earnings rate on the checking account, the balance in this account has been drastically reduced.
- **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. **August 2020 yield was 0.09%**. There are no restrictions on deposits or withdrawals. 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. **August 2020 yield was 1.30%**. Deposits and withdrawals are only allowed on the first business day of the month. The City has traditionally used this fund for longer-term investment of reserve balances; however, since the yield for Pool 5 has dropped below the earnings rate on the checking account, surplus balance from Pool 5 have been transferred to Pool 500. Cash flow needs are analyzed each month to determine deposit or withdrawal needs in accordance with the restrictions on this Pool.
- **LGIP Pool 700** – A medium-term fund similar to the shorter-term Pool 7. The fund has a AAA weighted average rating. **August 2020 yield was 0.80%**. Deposits and withdrawals are only allowed on the first business day of the month. 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 August 31, 2020 (In Years)	Remaining Coupon Rates	Yield	Benchmark at Time of Purchase	Par Value	Book Value	Fair Market Value as of August 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	\$ 2,022,622	\$ -	\$ 22,622	\$ 12,874	3.80%
3133ELGM0	Federal Farm Credit Bank	1/15/2020	10/8/2021	1.7	1.1	1.600%	1.500%	1.790%	\$ 2,000,000	\$ 2,003,416	\$ 2,031,884	\$ -	\$ 28,468	\$ 12,712	3.80%
3134GUR93	Federal Home Loan Mortgage Corporation	1/15/2020	10/13/2022	2.7	2.1	1.720%	1.660%	1.790%	\$ 2,000,000	\$ 2,003,224	\$ 2,002,290	\$ -	\$ (934)	\$ 21,582	3.80%
3133ELHZ0	Federal Farm Credit Bank	1/17/2020	7/17/2023	3.5	2.9	1.600%	1.540%	1.790%	\$ 2,000,000	\$ 2,004,072	\$ 2,077,640	\$ -	\$ 73,568	\$ 3,945	3.80%
3134GDVC9	Federal Home Loan Mortgage Corporation	2/27/2020	11/20/2023	3.7	3.2	1.700%	1.630%	1.770%	\$ 2,000,000	\$ 2,005,062	\$ 2,004,674	\$ -	\$ (388)	\$ 9,595	3.80%
3134GUZ78	Federal Home Loan Mortgage Corporation	1/22/2020	1/22/2024	4.0	3.4	1.800%	1.730%	1.790%	\$ 2,000,000	\$ 2,005,388	\$ 2,010,124	\$ -	\$ 4,736	\$ 21,896	3.81%
3136G4B77	Federal National Mortgage Association	8/4/2020	8/4/2025	5.0	4.9	0.700%	0.640%	0.200%	\$ 2,000,000	\$ 2,005,896	\$ 2,000,072	\$ -	\$ (5,824)	\$ 1,036	3.81%
3134GWHU3	Federal Home Loan Mortgage Corporation	8/18/2020	8/18/2025	5.0	5.0	0.700%	0.700%	0.200%	\$ 2,000,000	\$ 2,000,000	\$ 1,996,524	\$ -	\$ (3,476)	\$ 499	3.80%
Subtotals									\$ 16,000,000	\$ 16,027,058	\$ 16,145,830	\$ -	\$ 118,772	\$ 84,139	30.41%
Negotiable Certificates of Deposit															
02587CGG9	American Express FSB	9/12/2017	9/14/2020	3.0	0.0	1.950%	1.950%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,243	0.47%
319141HQ3	First Bank of Highland Park	9/14/2017	9/14/2020	3.0	0.0	1.800%	1.800%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,071	0.47%
14042RJH5	Capital One, NA	10/12/2017	10/13/2020	3.0	0.1	2.000%	2.000%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,895	0.47%
20786ABY0	ConnectOne Bank	12/28/2017	12/28/2020	3.0	0.3	2.200%	2.200%	1.090%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 45	0.47%
1404204E7	Capital One Bank USA NA	8/9/2017	8/9/2021	4.0	0.9	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 313	0.47%
254673AF3	Discover Bank	8/9/2017	8/9/2021	4.0	0.9	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 313	0.47%
05580AKJ2	BMW Bank North America	9/15/2017	9/15/2021	4.0	1.0	2.100%	2.100%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,402	0.47%
88413QBR8	Third Federal Savings & Loan	9/15/2017	9/15/2021	4.0	1.0	2.000%	2.000%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,287	0.47%
29266N6P7	EnerBank USA	10/13/2017	10/13/2021	4.0	1.1	2.000%	2.000%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 244	0.47%
02587DV47	American Express Centurion	8/8/2017	8/8/2022	5.0	1.9	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 366	0.47%
795450C37	Sallie Mae Bank	8/9/2017	8/9/2022	5.0	1.9	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 350	0.47%
87164XSH0	Synchrony Bank	10/6/2017	10/6/2022	5.0	2.1	2.250%	2.250%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,238	0.47%
06740KLD7	Barclays Bank	10/18/2017	10/18/2022	5.0	2.1	2.300%	2.300%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 2,101	0.47%
32056GCV0	First Internet Bank of Indiana	12/28/2017	12/28/2022	5.0	2.3	2.400%	2.400%	1.090%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 49	0.47%
33847E3X3	Flagstar Bank FSB	7/31/2020	7/31/2024	4.0	3.9	0.500%	0.500%	0.340%	\$ 249,000	\$ 249,000	\$ 249,000	\$ -	\$ -	\$ 106	0.47%
Subtotals									\$ 3,707,000	\$ 3,707,000	\$ 3,707,000	\$ -	\$ -	\$ 17,021	7.03%
AZ State Treasurer Local Government Investment Pool (LGIP)															
N/A	Pool 5	N/A	N/A	N/A	0.0	N/A	0.180%	N/A	\$ 5,242,757	\$ 5,242,757	\$ 5,242,757	\$ -	\$ -	\$ -	9.95%
N/A	Pool 7	N/A	N/A	N/A	0.0	N/A	0.090%	N/A	\$ 40,105	\$ 40,105	\$ 40,105	\$ -	\$ -	\$ -	0.08%
N/A	Pool 500	N/A	N/A	N/A	0.0	N/A	1.300%	N/A	\$ 24,419,447	\$ 24,419,447	\$ 24,419,447	\$ -	\$ -	\$ -	46.34%
Subtotals									\$ 29,702,310	\$ 29,702,310	\$ 29,702,310	\$ -	\$ -	\$ -	56.36%
Bank Deposits															
N/A	Analyzed Checking Accounts ⁽⁵⁾	N/A	N/A	N/A	0.0	N/A	0.400%	N/A	\$ 3,261,609	\$ 3,261,609	\$ 3,261,609	\$ -	\$ -	\$ -	6.19%
Subtotals									\$ 3,261,609	\$ 3,261,609	\$ 3,261,609	\$ -	\$ -	\$ -	6.19%
Averages/Grand Totals					1.0		1.215%		\$ 52,670,919	\$ 52,697,977	\$ 52,816,749	\$ -	\$ 118,772	\$ 101,159	100.00%

Benchmark per Policy (LGIP Pool 5) 0.180%

⁽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.

⁽⁵⁾ Due to the significant reduction in LGIP Pool 5 earnings, a higher balance was maintained in the City's checking account.

Investment Transactions Summary⁽¹⁾

CUSIP	Issuer	Transaction Type	August 2020 Activity
Acquisitions			
3136G4B77	Federal National Mortgage Association	Purchase	\$ 2,005,896
3134GWHU3	Federal Home Loan Mortgage Corporation	Purchase	\$ 2,000,000
N/A	LGIP Pool 500	Purchase	\$ 15,000,000
		Subtotal	\$ 19,005,896
Dispositions			
20033AVN3	Comenity Capital Bank	Maturity	\$ 247,000
38148PMJ3	Goldman Sachs Bank USA	Maturity	\$ 247,000
44329MA45	HSBC Bank USA	Early Call	\$ 247,000
N/A	LGIP Pool 5	Withdrawal	\$ 15,000,000
N/A	Analyzed Checking Accounts	Net Withdrawal	\$ 2,224,310
		Subtotal	\$ 17,965,310
Earnings			
20033AVN3	Comenity Capital Bank	Monthly Interest	\$ 422
29266N6P7	EnerBank USA	Monthly Interest	\$ 420
32056GCV0	First Internet Bank of Indiana	Monthly Interest	\$ 503
20786ABY0	ConnectOne Bank	Monthly Interest	\$ 462
02587DV47	American Express Centurion	Semi-annual interest	\$ 2,894
02587DV47	American Express Centurion	Interest Accrued to FY2020	\$ (2,258)
1404204E7	Capital One Bank USA NA	Semi-annual interest	\$ 2,586
1404204E7	Capital One Bank USA NA	Interest Accrued to FY2020	\$ (2,004)
795450C37	Sallie Mae Bank	Semi-annual interest	\$ 2,894
795450C37	Sallie Mae Bank	Interest Accrued to FY2020	\$ (2,242)
38148PMJ3	Goldman Sachs Bank USA	Semi-annual interest	\$ 2,353
38148PMJ3	Goldman Sachs Bank USA	Interest Accrued to FY2020	\$ (1,800)
254673AF3	Discover Bank	Semi-annual interest	\$ 2,586
254673AF3	Discover Bank	Interest Accrued to FY2020	\$ (2,004)
44329MA45	HSBC Bank USA	Semi-annual interest	\$ 2,833
44329MA45	HSBC Bank USA	Interest Accrued to FY2020	\$ (2,615)
N/A	LGIP Pool 5	Monthly Gain/Loss	\$ 793
N/A	LGIP Pool 7	Monthly Gain/Loss	\$ 3
N/A	LGIP Pool 500	Monthly Gain/Loss	\$ 14,691
		Subtotal	\$ 20,518
Expenses			
N/A	N/A	Custody Charges	\$ 137
N/A	N/A	Wire Fees	\$ 89
		Subtotal	\$ 226
Net Transactions for August 2020			\$ 1,060,878

⁽¹⁾ The net addition to investments was a result of an increase in cash basis sales and bed tax receipts. See the Cash Basis Sales & Bed Tax Receipts section of the Executive Summary for further discussion.

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	\$ 3,242,105	\$ (4,568,715)	\$ 4,746,376	\$ 5,401,115	\$ (877,380)	\$ 4,523,736
August 2020	5,401,115	3,892,979	(2,845,134)	(3,264,896)	3,184,065	(393,662)	2,790,403
Total Year-to-Date FY 2021		\$ 7,135,085	\$ (7,413,849)	\$ 1,481,480			

⁽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.