

# Monthly Investment & Cash Flows Report

November 2020



**CITY OF SEDONA**

January 12, 2021

# Monthly Investment & Cash Flows Report

November 2020

## Executive Summary

The fair market value of the City's **total cash and investments as of November 30, 2020 is \$56.3 million**, representing an **increase of approximately \$2.3 million (4%) for the month**. The **average yield exceeds the City's benchmark by 827%** 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.

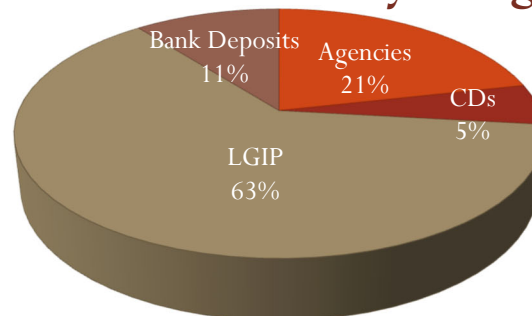
November 2020 Cash & Investments Summary	
Total Cash & Investments	\$56,293,589
Average Yield	1.113%
Benchmark <sup>1</sup>	0.120%
Average Duration	0.7 years

The **average duration is 0.7 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 to justify tying up funds in investments with terms of 3-5 years that currently offer extremely low yields.

## 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.<sup>2</sup>

## Cash & Investments by Category



<sup>1</sup> 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>.

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

## Investments Transactions

**Net transactions for November 2020 resulted in an increase of the City's cash and investments of approximately \$2.3 million.** The net positive result is largely due to the slowdown in capital improvement costs and increases in cash basis sales and bed tax receipts. See the Analysis section for further discussion.

## Cash Flows

Cash basis **receipts for November 2020 were approximately \$950,000 more than the prior month** while cash basis **disbursements were approximately \$115,000 less than the prior month.** Changes for November 2020 compared to the prior month include:

- Receipts:
  - Cash basis sales and bed tax receipts for November 2020 were approximately \$1.3 million (60%) more than the prior month. For further discussion, please see the following Cash Basis Sales & Bed Tax Receipts section.
  - Cash basis wastewater monthly receipts for November 2020 were approximately \$16,000 (<-3%) less than the prior month.
  - Cash basis state shared revenue receipts for November 2020 were approximately \$29,000 (-9%) less than the prior month primarily due to decreases in state shared sales tax.
  - Cash basis interest receipts for November 2020 were approximately \$43,000 (-70%) less than the prior month.
  - Quarterly franchise fees of approximately \$220,000 were received in October 2020.
- Disbursements: November 2020
  - Capital improvement costs for November 2020 were approximately \$622,000 (324%) more than the prior month primarily due to construction costs related to the SR 179 sewer main replacement project.
  - There were 3 pay periods in October 2020 resulting in a decrease in cash basis payroll costs of approximately \$383,000.

## Cash Basis Sales & Bed Tax Receipts

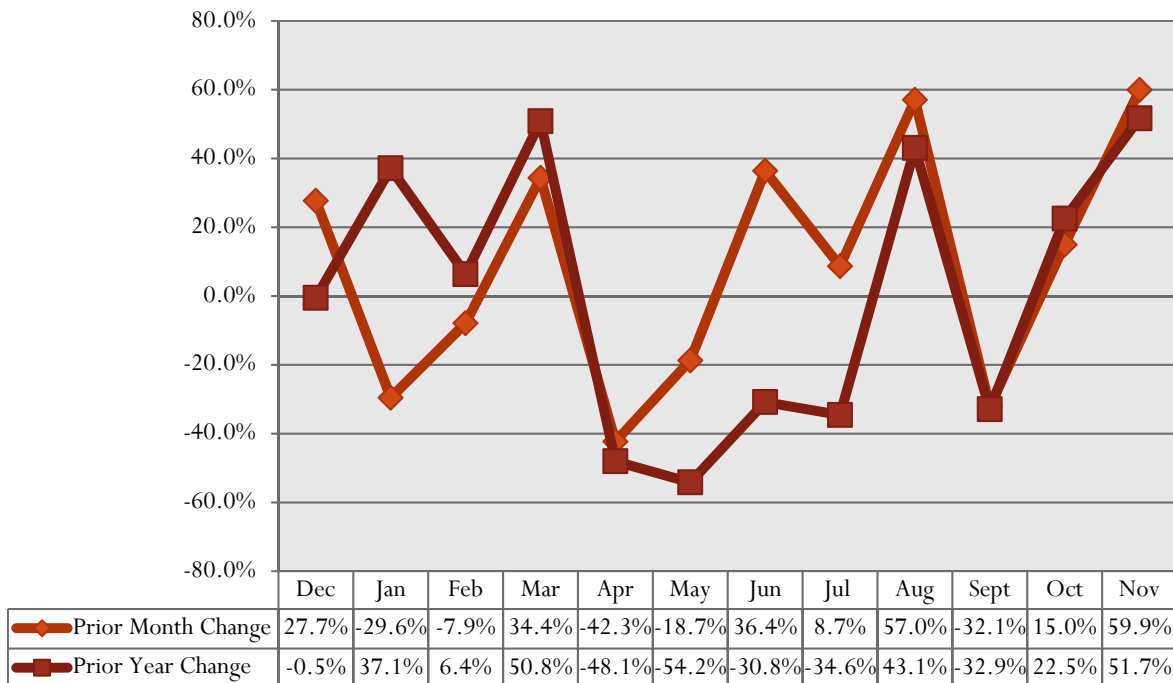
**Cash basis sales and bed tax receipts were 60% more than the prior month and 52% greater than the same month last year.** The November 2020 receipts included a portion of September taxes filed in October and a portion of October taxes filed in November, including any delinquent payments that have been filed and paid in those months.

The increase compared to the prior month is a result of moving into a busier tourism season. On average, accrual basis October sales and bed tax revenues are approximately 15% higher than September.

The significant increase compared to the prior year is due to the number of Mondays during the month of November. We receive our weekly distributions from ADOR on Mondays based on the tax returns processed during the prior week. In November 2019, there were 4 Mondays (weeks 45-48). In November 2020, there were 5 Mondays (weeks 45-49). The tax distribution on November 30, 2020 was approximately \$1.3 million.

For a slightly better apples-to-apples comparison, weeks 45-49 in 2020 were 1% more than weeks 45-49 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 approximately \$1.5 million more than cumulative cash basis disbursements.** Cash basis receipts were less than cash basis disbursements during the COVID-19 closures through July 2020. 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.<sup>3</sup>

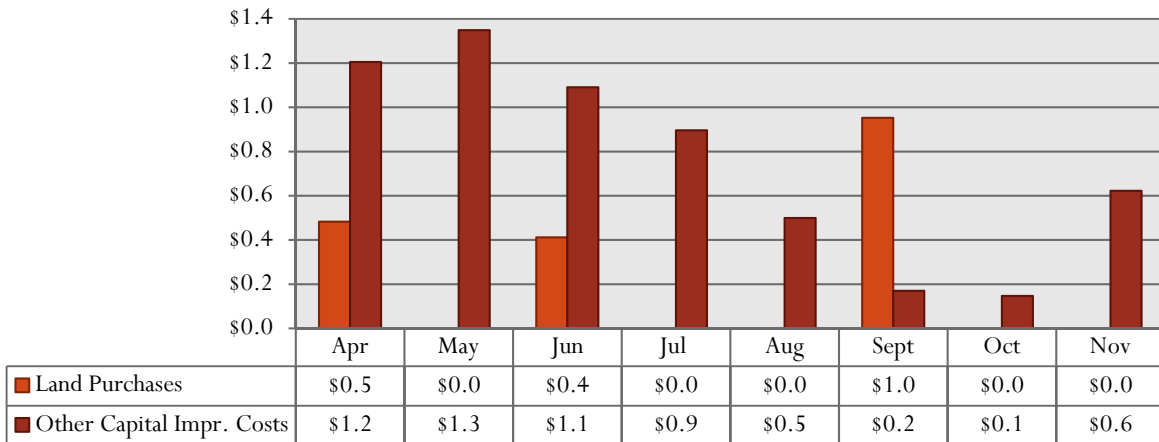
<sup>3</sup> The prepayment to PSPRS was approximately \$303,000 less than would have been paid if the level payment of \$1,000,000 employer contributions had not been suspended for fiscal year 2020-21.

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

Total Net Cash Basis Receipts (Disbursements)	\$ 1,502,809
Certain Cash Basis Receipts (Disbursements):	
One-Time Receipts	1,975,882
Capital Improvement Costs	(7,827,754)
Road Rehabilitation	(872,776)
Transfers to Bond Payment Trustee	(4,015,799)
PSPRS Prepayment	(766,299)
Semiannual Contract Payments	(1,701,311)

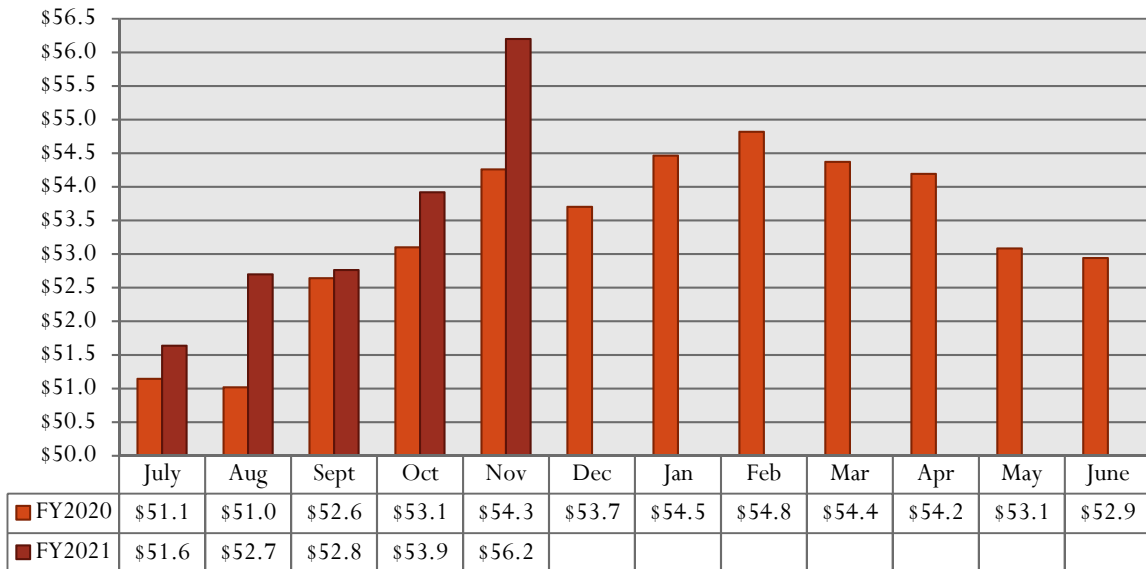
Capital improvement costs related to construction have slowed dramatically the past few months as construction on certain projects have either completed or been delayed. **As other capital projects begin their construction phases, the capital improvement costs will again increase and possibly return to levels where monthly cash disbursements exceed monthly cash receipts.** Land purchases have been separately identified in the table below to better see the trend in construction costs.

### Cash Basis Capital Improvement Costs



Total cash and investment balances have improved since the low in July 2020 (\$51.6 million) and have exceeded the previous highs occurring before the COVID-19 closures.

## Total Cash & Investments - Book Value



### 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+). **November 2020 yield was 0.12%**. 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. **November 2020 yield was 0.05%**. 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. **November 2020 yield was 1.18%**. 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. **November 2020 yield was 0.37%**. 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.

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## Investment Holdings Summary

CUSIP	Issuer	Settlement Date	Maturity Date	Initial Duration <sup>(1)</sup>	Remaining Duration as of November 30, 2020 (In Years)	Remaining Coupon Rates	Yield	Benchmark at Time of Purchase	Par Value	Book Value	Fair Market Value as of November 30, 2020	Realized Gain/Loss	Unrealized Gain/Loss <sup>(2)</sup>	Accrued Interest Not Yet Recorded <sup>(3)</sup>	% of Investment Pool
<b>U.S. Government Agency Securities</b>															
3134GBP89	Federal Home Loan Mortgage Corporation	10/26/2017	4/26/2021	3.5	0.4	1.850%	1.850%	1.100%	\$ 2,000,000	\$ 2,000,000	\$ 2,014,246	\$ -	\$ 14,246	\$ 3,548	3.56%
3133ELGM0	Federal Farm Credit Bank	1/15/2020	10/8/2021	1.7	0.9	1.600%	1.500%	1.790%	\$ 2,000,000	\$ 2,003,416	\$ 2,025,930	\$ -	\$ 22,514	\$ 4,647	3.56%
3133ELHZ0	Federal Farm Credit Bank	1/17/2020	7/17/2023	3.5	2.6	1.600%	1.540%	1.790%	\$ 2,000,000	\$ 2,004,072	\$ 2,072,378	\$ -	\$ 68,306	\$ 11,923	3.57%
3134GUZ78	Federal Home Loan Mortgage Corporation	1/22/2020	1/22/2024	4.0	3.1	1.800%	1.730%	1.790%	\$ 2,000,000	\$ 2,005,388	\$ 2,003,976	\$ -	\$ (1,412)	\$ 30,871	3.57%
3136G4B77	Federal National Mortgage Association	8/4/2020	8/4/2025	5.0	4.7	0.700%	0.640%	0.200%	\$ 2,000,000	\$ 2,005,896	\$ 1,997,444	\$ -	\$ (8,452)	\$ 4,526	3.57%
3134GWHU3	Federal Home Loan Mortgage Corporation	8/18/2020	8/18/2025	5.0	4.7	0.700%	0.700%	0.200%	\$ 2,000,000	\$ 2,000,000	\$ 2,000,320	\$ -	\$ 320	\$ 3,989	3.56%
<b>Subtotals</b>									<b>\$ 12,000,000</b>	<b>\$ 12,018,772</b>	<b>\$ 12,114,294</b>	<b>\$ -</b>	<b>\$ 95,522</b>	<b>\$ 59,504</b>	<b>21.39%</b>
<b>Negotiable Certificates of Deposit</b>															
20786ABY0	ConnectOne Bank	12/28/2017	12/28/2020	3.0	0.1	2.200%	2.200%	1.090%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 30	0.44%
1404204E7	Capital One Bank USA NA	8/9/2017	8/9/2021	4.0	0.7	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,606	0.44%
254673AF3	Discover Bank	8/9/2017	8/9/2021	4.0	0.7	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,606	0.44%
05580AKJ2	BMW Bank North America	9/15/2017	9/15/2021	4.0	0.8	2.100%	2.100%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,080	0.44%
88413QBR8	Third Federal Savings & Loan	9/15/2017	9/15/2021	4.0	0.8	2.000%	2.000%	1.010%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,029	0.44%
29266N6P7	EnerBank USA	10/13/2017	10/13/2021	4.0	0.9	2.000%	2.000%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 230	0.44%
02587DV47	American Express Centurion	8/8/2017	8/8/2022	5.0	1.7	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,813	0.44%
795450C37	Sallie Mae Bank	8/9/2017	8/9/2022	5.0	1.7	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 1,797	0.44%
87164XSH0	Synchrony Bank	10/6/2017	10/6/2022	5.0	1.8	2.250%	2.250%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 837	0.44%
06740KLD7	Barclays Bank	10/18/2017	10/18/2022	5.0	1.9	2.300%	2.300%	1.100%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 669	0.44%
32056GCV0	First Internet Bank of Indiana	12/28/2017	12/28/2022	5.0	2.1	2.400%	2.400%	1.090%	\$ 247,000	\$ 247,000	\$ 247,000	\$ -	\$ -	\$ 32	0.44%
33847E3X3	Flagstar Bank FSB	7/31/2020	7/31/2024	4.0	3.7	0.500%	0.500%	0.340%	\$ 249,000	\$ 249,000	\$ 249,000	\$ -	\$ -	\$ 416	0.44%
<b>Subtotals</b>									<b>\$ 2,966,000</b>	<b>\$ 2,966,000</b>	<b>\$ 2,966,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 11,145</b>	<b>5.28%</b>
<b>AZ State Treasurer Local Government Investment Pool (LGIP)</b>															
N/A	Pool 5	N/A	N/A	N/A	0.0	N/A	0.120%	N/A	\$ 3,243,795	\$ 3,243,795	\$ 3,243,795	\$ -	\$ -	\$ -	5.77%
N/A	Pool 7	N/A	N/A	N/A	0.0	N/A	0.050%	N/A	\$ 40,111	\$ 40,111	\$ 40,111	\$ -	\$ -	\$ -	0.07%
N/A	Pool 500	N/A	N/A	N/A	0.0	N/A	1.180%	N/A	\$ 31,954,929	\$ 31,954,929	\$ 31,954,929	\$ -	\$ -	\$ -	56.86%
<b>Subtotals</b>									<b>\$ 35,238,835</b>	<b>\$ 35,238,835</b>	<b>\$ 35,238,835</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>62.70%</b>
<b>Bank Deposits</b>															
N/A	Analyzed Checking Accounts <sup>(4)</sup>	N/A	N/A	N/A	0.0	N/A	0.400%	N/A	\$ 5,974,460	\$ 5,974,460	\$ 5,974,460	\$ -	\$ -	\$ -	10.63%
<b>Subtotals</b>									<b>\$ 5,974,460</b>	<b>\$ 5,974,460</b>	<b>\$ 5,974,460</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>10.63%</b>
<b>Averages/Grand Totals</b>					<b>0.7</b>		<b>1.113%</b>		<b>\$ 56,179,295</b>	<b>\$ 56,198,067</b>	<b>\$ 56,293,589</b>	<b>\$ -</b>	<b>\$ 95,522</b>	<b>\$ 70,650</b>	<b>100.00%</b>

Benchmark per Policy (LGIP Pool 5) 0.120%

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

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Due to the significant reduction in LGIP Pool 5 earnings, a higher balance was maintained in the City's checking account. A transfer of \$3,000,000 to LGIP Pool 500 was scheduled for December 1, 2020. Deposits and withdrawals for LGIP Pool 500 are only allowed the first business day of each month.



## Investment Transactions Summary<sup>(1)</sup>

CUSIP	Issuer	Transaction Type	November 2020 Activity
<b>Acquisitions</b>			
N/A	LGIP Pool 500	Deposit	\$ 4,000,000
N/A	Analyzed Checking Accounts	Net Contribution	\$ 218,981
<b>Subtotal</b>			<b>\$ 4,218,981</b>
<b>Dispositions</b>			
3134GDVC9	Federal Home Loan Mortgage Corporation	Early Call	\$ 2,000,000
<b>Subtotal</b>			<b>\$ 2,000,000</b>
<b>Earnings</b>			
29266N6P7	EnerBank USA	Monthly Interest	\$ 420
32056GCV0	First Internet Bank of Indiana	Monthly Interest	\$ 503
20786ABY0	ConnectOne Bank	Monthly Interest	\$ 462
3134GDVC9	Federal Home Loan Mortgage Corporation	Semi-annual interest	\$ 17,000
3134GDVC9	Federal Home Loan Mortgage Corporation	Interest Accrued to FY2020	\$ (3,819)
N/A	LGIP Pool 5	Monthly Gain/Loss	\$ 324
N/A	LGIP Pool 7	Monthly Gain/Loss	\$ 2
N/A	LGIP Pool 500	Monthly Gain/Loss	\$ 50,431
<b>Subtotal</b>			<b>\$ 65,321</b>
<b>Expenses</b>			
N/A	N/A	Custody Charges	\$ 78
N/A	N/A	Wire Fees	\$ 82
<b>Subtotal</b>			<b>\$ 160</b>
<b>Net Transactions for November 2020</b>			<b>\$ 2,284,142</b>

<sup>(1)</sup> The net addition to investments was a result of a slowdown in capital improvement costs and an increase in cash basis sales and bed tax receipts. See the Analysis section of the Executive Summary for further discussion.

## Cash Flows Report<sup>(1)</sup>

Month	Beginning Bank Balance	Cash Basis Receipts	Cash Basis Disbursements	Net Account Transfers	Ending Bank Balance	Outstanding Checks	Ending Cash Basis Balance
<b><i>Cash Basis Transactions by Month<sup>(2)</sup></i></b>							
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
<b>Total FY 2020</b>		<b>\$ 10,117,115</b>	<b>\$ (11,821,680)</b>	<b>\$ 1,623,409</b>			
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
September 2020	3,184,065	2,870,751	(2,757,650)	494,000	3,791,166	(466,334)	3,324,832
October 2020	3,791,166	3,594,779	(2,440,412)	747,000	5,692,533	(376,882)	5,315,651
<b>November 2020</b>	<b>5,692,533</b>	<b>4,544,411</b>	<b>(2,325,740)</b>	<b>(2,000,000)</b>	<b>5,911,204</b>	<b>(352,605)</b>	<b>5,558,598</b>
<b>Total Year-to-Date FY 2021</b>		<b>\$ 18,145,025</b>	<b>\$ (14,937,651)</b>	<b>\$ 722,480</b>			

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

<sup>(2)</sup> Tracking of cash basis transactions in this manner began in April 2020.