

# Monthly Investment & Cash Flows Report

July 2021



**CITY OF SEDONA**

August 16, 2021

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July 2021

## Executive Summary

The fair market value of the City's **total cash and investments as of July 31, 2021 is \$65.3 million**, representing an **increase of approximately \$776,000 (1%) for the month, representing the highest balance held.** The **average yield exceeds the City's benchmark by 1,369%** 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.

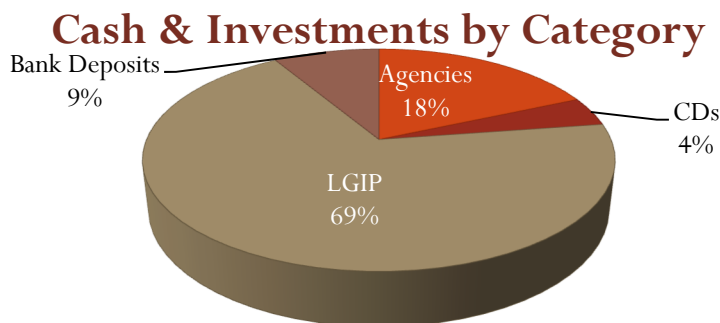
*July 2021 represents highest cash and investments balance held. Average yield exceeds benchmark by 1,369%.*

July 2021 Cash & Investments Summary	
Total Cash & Investments	\$65,329,926
Average Yield	0.882%
Benchmark <sup>1</sup>	0.060%
Average Duration	0.7 years

The **average duration is 0.7 years**. The current goal was to maintain as much liquidity as possible for significant financial needs, 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>



<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.scdonaaz.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 July 2021 resulted in an increase of the City's cash and investments of approximately \$750,000.** The increase was largely the result of decreases in cash disbursements compared to cash basis sales and bed tax receipts. See the Cash Flows section for further discussion.

## Cash Flows

Cash basis **receipts for July 2021 were approximately \$147,000 less than the prior month** while cash basis **disbursements were approximately \$1.2 million less than the prior month.** Changes for July 2021 compared to the prior month include:

- Receipts:
  - Cash basis sales and bed tax receipts for July 2021 were approximately \$1.6 million (35%) less than the prior month. For further discussion, please see the following Cash Basis Sales & Bed Tax Receipts section.
  - Cash basis wastewater monthly receipts for July 2021 were approximately \$13,000 (-3%) less than the prior month. This was largely due to an increase in short-term delinquencies.
  - Cash basis state shared revenue receipts for July 2021 were approximately \$24,000 (8%) more than the prior month due to increases in state shared sales tax and HURF receipts.
  - Quarterly in-lieu fees of approximately \$524,000 were received in June 2021.
  - American Rescue Plan Act (ARPA) funding of \$1.7 million was received in July 2021.
- Disbursements:
  - Capital improvement costs for July 2021 were approximately \$1.8 million (-54%) less than the prior month primarily due to land acquisition.
  - Transfers to the trustee for bond payments due on July 1, 2021 were approximately \$1.2 million (-76%) less than the prior month.<sup>3</sup>
  - Disbursement to the Tourism Bureau for payoff of the Jordan Road property and transfer of title to the City was made during June 2021 for approximately \$291,000.
  - Cash basis road rehabilitation disbursements were approximately \$277,000 for July 2021. Road rehabilitation costs were not incurred in June 2021.
  - Cash basis service contract payments and small grants were approximately \$320,000 for July 2021.
  - Approximately \$1.1 million was prepaid to the Public Safety Personnel Retirement System (PSPRS) for estimated employer and employee contributions for the year during July 2021.

*ARPA funding of \$1.7M received in July 2021.*

*Capital improvement costs were \$1.8M less than prior month.*

*PSPRS prepayment of \$1.1M occurred in July 2021.*

<sup>3</sup> 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.

## Cash Basis Sales & Bed Tax Receipts

Cash basis sales and bed tax receipts for July 2021 were 35% less than the prior month and 67% more than the same month last year.

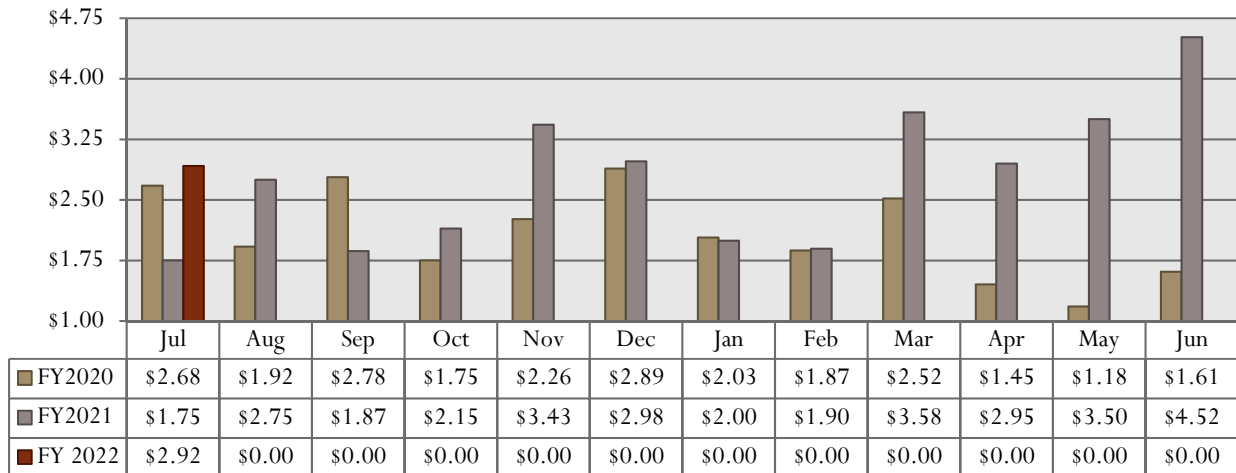
Comparing to pre-COVID-19, cash basis sales and bed tax receipts for July 2021 were 9% more than July 2019. The July 2021 receipts included a portion of May taxes filed in June and a portion of June taxes filed in July, including any delinquent payments that have been filed and paid in those months.

*Comparing to pre-COVID-19, July 2021 cash basis sales and bed tax receipts were 9% higher than July 2019.*

The decrease compared to the prior month is a result of a transition to a slower tourism season. On average (excluding last year's COVID-19 closures), accrual basis May sales and bed tax revenues are approximately 9% less than April, and accrual basis June sales and bed tax revenues are approximately 5% less than May. However, May 2021 accrual basis sales and bed tax revenues were 0.2% higher than April 2021. Accrual basis June 2021 sales and bed tax revenue data is not yet available.

While it can be beneficial to have more timely cash basis information, 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.

## Cash Basis Sales & Bed Tax Receipts

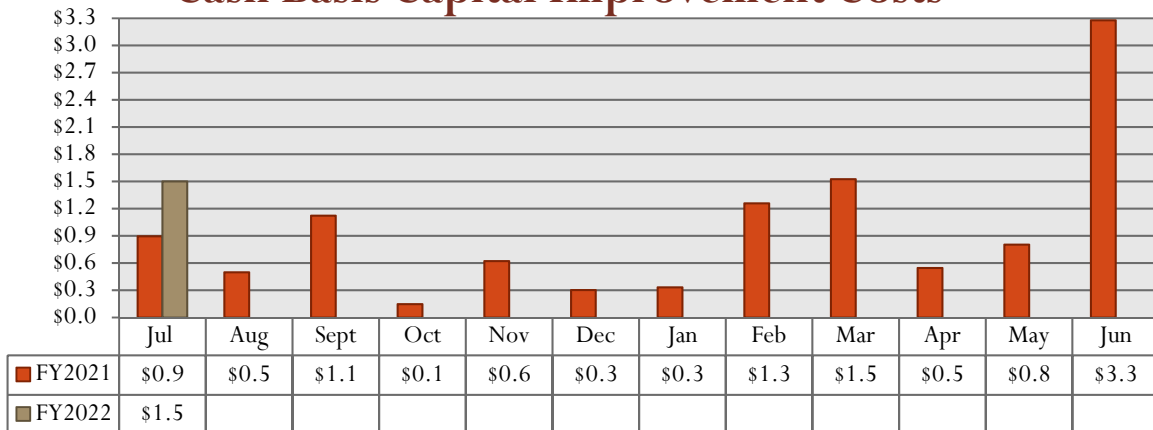


## Capital Improvement Costs

As more capital projects begin and end their construction phases, the capital improvement costs will continue to fluctuate over time. In addition, land acquisitions can significant impact capital improvement costs.<sup>4</sup> Significant increases in capital improvement costs can result in months when monthly cash disbursements exceed monthly cash receipts.

<sup>4</sup> FY 2021 includes land acquisition costs of \$1.0 million in September, \$0.1 million in April, and \$2.1 million in June.

## Cash Basis Capital Improvement Costs

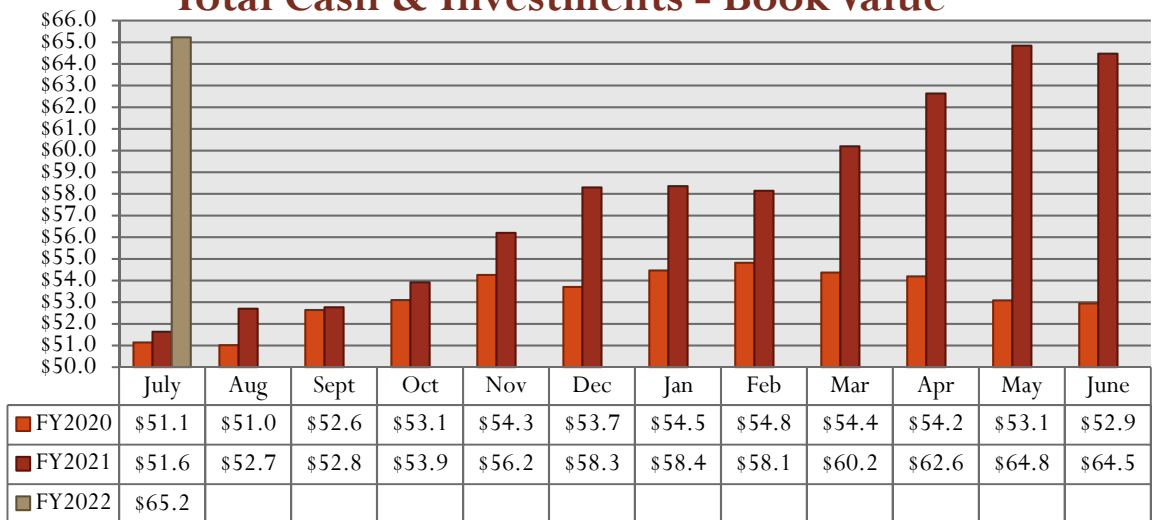


### Analysis

Total cash and investment balances have improved since the low in August 2020 (\$51.0 million) and have significantly exceeded the previous highs occurring before the COVID-19 closures. The City is in a strong financial position to address the many significant priorities and concerns, such as affordability of housing, traffic and transportation needs, impacts of tourism, environmental sustainability concerns, etc.

*July 2021 cash and investments far exceeded both July 2019 and July 2020 when balances tend to be significantly lower than other points in the year.*

## 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+). **July 2021 yield was 0.06%**. 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. **July 2021 yield was 0.01%**. 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. **July 2021 yield was 0.88%**. 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. **July 2021 yield was 0.26%**. 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 July 31, 2021 (In Years)	Remaining Coupon Rates	Yield	Benchmark at Time of Purchase	Par Value	Book Value	Fair Market Value as of July 31, 2021	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>															
3133ELGM0	Federal Farm Credit Bank	1/15/2020	10/8/2021	1.7	0.2	1.600%	1.500%	1.790%	\$ 2,000,000	\$ 2,003,416	\$ 2,005,794	\$ -	\$ 2,378	\$ 9,995	3.07%
3133ELHZ0	Federal Farm Credit Bank	1/17/2020	7/17/2023	3.5	2.0	1.600%	1.540%	1.790%	\$ 2,000,000	\$ 2,004,072	\$ 2,054,618	\$ -	\$ 50,546	\$ 1,227	3.07%
3136G4B77	Federal National Mortgage Association	8/4/2020	8/4/2025	5.0	4.0	0.700%	0.640%	0.200%	\$ 2,000,000	\$ 2,005,896	\$ 1,998,404	\$ -	\$ (7,492)	\$ 6,789	3.08%
3130AKXB7	Federal Home Loan Bank	4/29/2021	2/11/2026	4.8	4.5	0.580%	0.810%	0.090%	\$ 2,000,000	\$ 1,978,446	\$ 1,988,382	\$ -	\$ 9,936	\$ 2,924	3.03%
3130ALZG2	Federal Home Loan Bank	4/29/2021	4/29/2026	5.0	4.7	1.010%	0.950%	0.090%	\$ 2,000,000	\$ 2,005,846	\$ 2,007,406	\$ -	\$ 1,560	\$ 5,092	3.08%
3130AMCL4	Federal Home Loan Bank	5/19/2021	5/19/2026	5.0	4.8	1.020%	1.020%	0.090%	\$ 2,000,000	\$ 2,000,000	\$ 2,001,244	\$ -	\$ 1,244	\$ 5,142	3.07%
<b>Subtotals</b>									<b>\$ 12,000,000</b>	<b>\$ 11,997,676</b>	<b>\$ 12,055,848</b>	<b>\$ -</b>	<b>\$ 58,172</b>	<b>\$ 31,168</b>	<b>18.39%</b>
<b>Negotiable Certificates of Deposit</b>															
1404204E7	Capital One Bank USA NA	8/9/2017	8/9/2021	4.0	0.0	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,951	\$ -	\$ 951	\$ 2,444	0.38%
254673AF3	Discover Bank	8/9/2017	8/9/2021	4.0	0.0	2.100%	2.100%	0.930%	\$ 247,000	\$ 247,000	\$ 247,951	\$ -	\$ 951	\$ 2,444	0.38%
05580AKJ2	BMW Bank North America	9/15/2017	9/15/2021	4.0	0.1	2.100%	2.100%	1.010%	\$ 247,000	\$ 247,000	\$ 248,405	\$ -	\$ 1,405	\$ 1,961	0.38%
88413QBR8	Third Federal Savings & Loan	9/15/2017	9/15/2021	4.0	0.1	2.000%	2.000%	1.010%	\$ 247,000	\$ 247,000	\$ 248,477	\$ -	\$ 1,477	\$ 1,868	0.38%
29266N6P7	EnerBank USA	10/13/2017	10/13/2021	4.0	0.2	2.000%	2.000%	1.100%	\$ 247,000	\$ 247,000	\$ 248,755	\$ -	\$ 1,755	\$ 244	0.38%
02587DV47	American Express Centurion	8/8/2017	8/8/2022	5.0	1.0	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 253,588	\$ -	\$ 6,588	\$ 2,751	0.38%
795450C37	Sallie Mae Bank	8/9/2017	8/9/2022	5.0	1.0	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 253,684	\$ -	\$ 6,684	\$ 2,735	0.38%
87164XSH0	Synchrony Bank	10/6/2017	10/6/2022	5.0	1.2	2.250%	2.250%	1.100%	\$ 247,000	\$ 247,000	\$ 254,241	\$ -	\$ 7,241	\$ 1,766	0.38%
06740KLD7	Barclays Bank	10/18/2017	10/18/2022	5.0	1.2	2.300%	2.300%	1.100%	\$ 247,000	\$ 247,000	\$ 254,586	\$ -	\$ 7,586	\$ 1,619	0.38%
32056GCV0	First Internet Bank of Indiana	12/28/2017	12/28/2022	5.0	1.4	2.400%	2.400%	1.090%	\$ 247,000	\$ 247,000	\$ 255,986	\$ -	\$ 8,986	\$ 49	0.38%
33847E3X3	Flagstar Bank FSB	7/31/2020	7/31/2024	4.0	3.0	0.500%	0.500%	0.340%	\$ 249,000	\$ 249,000	\$ 250,961	\$ -	\$ 1,961	\$ 617	0.38%
<b>Subtotals</b>									<b>\$ 2,719,000</b>	<b>\$ 2,719,000</b>	<b>\$ 2,764,585</b>	<b>\$ -</b>	<b>\$ 45,585</b>	<b>\$ 18,498</b>	<b>4.17%</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	0.060%	N/A	\$ 3,246,471	\$ 3,246,471	\$ 3,246,471	\$ -	\$ -	\$ -	4.98%
N/A	Pool 7	N/A	N/A	N/A	0.0	N/A	0.010%	N/A	\$ 40,432	\$ 40,432	\$ 40,432	\$ -	\$ -	\$ -	0.06%
N/A	Pool 500	N/A	N/A	N/A	0.0	N/A	0.880%	N/A	\$ 41,575,212	\$ 41,575,212	\$ 41,575,212	\$ -	\$ -	\$ -	63.74%
<b>Subtotals</b>									<b>\$ 44,862,114</b>	<b>\$ 44,862,114</b>	<b>\$ 44,862,114</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>68.78%</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	\$ 5,647,379	\$ 5,647,379	\$ 5,647,379	\$ -	\$ -	\$ -	8.66%
<b>Subtotals</b>									<b>\$ 5,647,379</b>	<b>\$ 5,647,379</b>	<b>\$ 5,647,379</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>8.66%</b>
<b>Averages/Grand Totals</b>					<b>0.7</b>		<b>0.882%</b>		<b>\$ 65,228,493</b>	<b>\$ 65,226,169</b>	<b>\$ 65,329,926</b>	<b>\$ -</b>	<b>\$ 103,757</b>	<b>\$ 49,667</b>	<b>100.00%</b>

Benchmark per Policy (LGIP Pool 5) 0.060%

<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. As LGIP Pool 500 rates decrease and rates for other available investment options begin to increase, investment options are being evaluated to enhance portfolio performance. A portion of the checking account balance was also retained based on an anticipated need for capital improvement project costs and affordable housing program costs.

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

CUSIP	Issuer	Transaction Type	July 2021 Activity
<b>Acquisitions</b>			
N/A	Interest-Bearing Checking Accounts	Net Contribution	\$ 653,778
<b>Subtotal</b>			<b>\$ 653,778</b>
<b>Dispositions</b>			
<b>Subtotal</b>			<b>\$ -</b>
<b>Earnings<sup>(2)</sup></b>			
29266N6P7	EnerBank USA	Monthly Interest	\$ 406
32056GCV0	First Internet Bank of Indiana	Monthly Interest	\$ 487
3133ELHZ0	Federal Farm Credit Bank	Semi-annual interest	\$ 16,000
N/A	LGIP Pool 5	Monthly Gain/Loss	\$ 170
N/A	LGIP Pool 500	Monthly Gain/Loss	\$ 79,555
<b>Subtotal</b>			<b>\$ 96,619</b>
<b>Expenses</b>			
N/A	N/A	Wire Fees	\$ 75
<b>Subtotal</b>			<b>\$ 75</b>
<b>Net Transactions for July 2021</b>			<b>\$ 750,322</b>

<sup>(1)</sup> The net reduction to investments was largely a result of decreases in cash disbursements compared to cash basis sales and bed tax receipts. See the Cash Flows section of the Executive Summary for further discussion.

<sup>(2)</sup> Of the total interest earnings for July 2021, \$14,641 was accrued to FY2021 in the accrual basis financial records.



## 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</i></b>							
<b>July 2020</b>	<b>\$ 1,981,350</b>	<b>\$ 3,242,105</b>	<b>\$ (4,568,715)</b>	<b>\$ 4,746,376</b>	<b>\$ 5,401,115</b>	<b>\$ (544,329)</b>	<b>\$ 4,856,786</b>
August 2020	5,401,115	3,892,979	(2,845,134)	(3,264,896)	3,184,065	(60,611)	3,123,454
September 2020	3,184,065	2,870,751	(2,757,650)	494,000	3,791,166	(133,284)	3,657,883
October 2020	3,791,166	3,594,779	(2,440,412)	747,000	5,692,533	(44,465)	5,648,069
November 2020	5,692,533	4,544,411	(2,325,740)	(2,000,000)	5,911,204	(11,767)	5,899,437
December 2020	5,911,204	4,397,494	(2,353,432)	(2,753,000)	5,202,266	(1,014,419)	4,187,847
January 2021	5,202,266	3,197,529	(3,131,374)	1,000,000	6,268,422	(1,109,141)	5,159,280
February 2021	6,268,422	3,130,272	(3,244,804)	(1,500,000)	4,653,889	(672,626)	3,981,263
March 2021	4,653,889	5,570,919	(3,481,343)	(2,000,000)	4,743,465	(16,987)	4,726,478
April 2021	4,743,465	4,908,556	(2,571,790)	(1,986,805)	5,093,426	(5,794)	5,087,632
May 2021	5,093,426	4,834,470	(2,654,000)	(2,000,000)	5,273,896	(11,553)	5,262,342
June 2021	5,273,896	6,313,885	(6,673,340)	-	4,914,440	(14,091)	4,900,349
<b>Total FY 2021</b>		<b>\$ 50,498,151</b>	<b>\$ (39,047,735)</b>	<b>\$ (8,517,326)</b>			
<b>July 2021</b>	<b>\$ 4,914,440</b>	<b>\$ 6,166,830</b>	<b>\$ (5,493,345)</b>	<b>\$ -</b>	<b>\$ 5,587,924</b>	<b>(155,695)</b>	<b>\$ 5,432,230</b>
<b>Total Year-to-Date FY 2022</b>		<b>\$ 6,166,830</b>	<b>\$ (5,493,345)</b>	<b>\$ -</b>			

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