

Monthly Investment & Cash Flows Report

August 2021



CITY OF SEDONA

September 15, 2021

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Executive Summary

The fair market value of the City's **total cash and investments as of August 31, 2021 is \$63.9 million**, representing a **decrease of approximately \$1.4 million (-2%) for the month**. The **average yield exceeds the City's benchmark by 1,332%** 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.

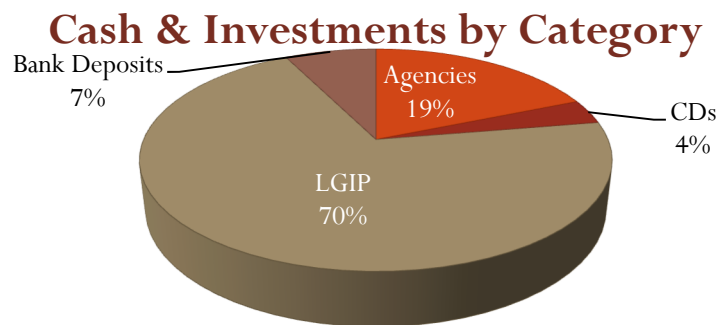
August 2021 cash and investments are \$63.9M.
Average yield exceeds benchmark by 1,332%.

| August 2021 Cash & Investments Summary | |
|---|--------------|
| Total Cash & Investments | \$63,946,193 |
| Average Yield | 0.859% |
| Benchmark ¹ | 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.²



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 2021 resulted in a decrease of the City's cash and investments of approximately \$1.4 million. The decrease was largely the result of increases 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 August 2021 were approximately \$1.3 million less than the prior month** while cash basis **disbursements were approximately \$751,000 more than the prior month.** Changes for August 2021 compared to the prior month include:

- Receipts:
 - Cash basis sales and bed tax receipts for August 2021 were approximately \$696,000 (24%) 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 August 2021 were approximately \$16,000 (3%) more than the prior month. This was largely due to an increase in short-term delinquencies in the prior month.
 - Cash basis state shared revenue receipts for August 2021 were approximately \$10,000 (-3%) less than the prior month due to a decrease in state shared sales tax receipts.
 - American Rescue Plan Act (ARPA) funding of \$1.7 million was received in July 2021.
 - A dividend of approximately \$165,000 was received in July 2021 from the Arizona Municipal Risk Retention Pool.
- Disbursements:
 - Capital improvement costs for August 2021 were approximately \$383,000 (26%) more than the prior month primarily due to land acquisition for an affordable workforce housing project.
 - Cash basis road rehabilitation disbursements were approximately \$420,000 (152%) more than the prior month.
 - Approximately \$1.0 million was paid during August 2021 for the Tourism Bureau contract.
 - 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 was received in the prior month.

Capital improvement and road rehabilitation costs were \$0.8M more than prior month.

Tourism Bureau contract payment of \$1.0M occurred in August 2021.

Cash Basis Sales & Bed Tax Receipts

Cash basis sales and bed tax receipts for August 2021 were 24% more than the prior month and 32% more than the same month last year.

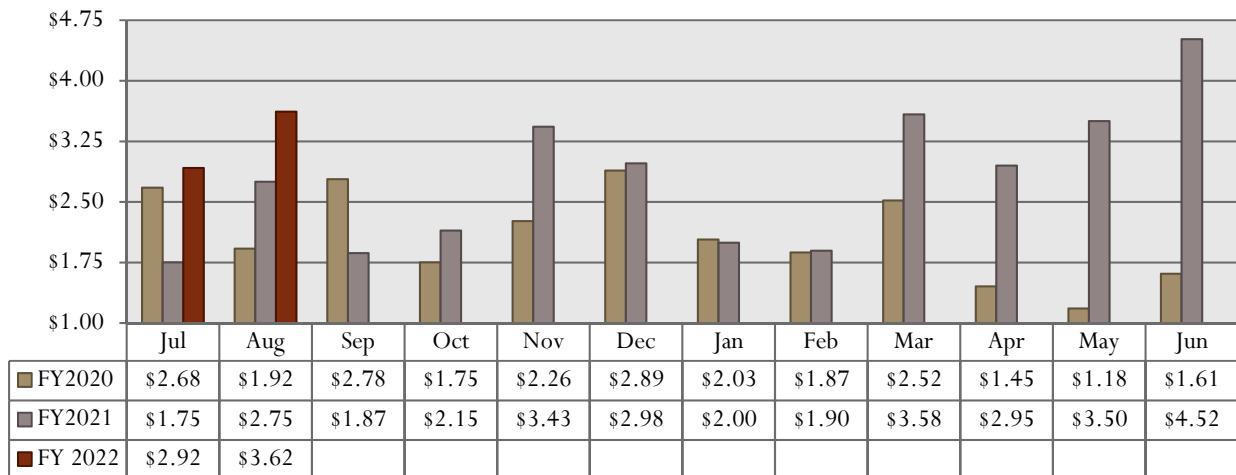
Comparing to pre-COVID-19, cash basis sales and bed tax receipts for August 2021 were 88% more than August 2019. The August 2021 receipts included a portion of June taxes filed in July and a portion of July taxes filed in August, including any delinquent payments that have been filed and paid in those months.

Comparing to pre-COVID-19, August 2021 cash basis sales and bed tax receipts were 88% higher than August 2019.

The increase compared to the prior month is a result of continued strong tourism levels and potentially related to impacts of higher inflation levels. On average, accrual basis June sales and bed tax revenues are approximately 5% less than May (excluding last year's COVID-19 closures), and accrual basis July sales and bed tax revenues are approximately 15% less than June. June 2021 accrual basis sales and bed tax revenues were 15% less than May 2021. Accrual basis July 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

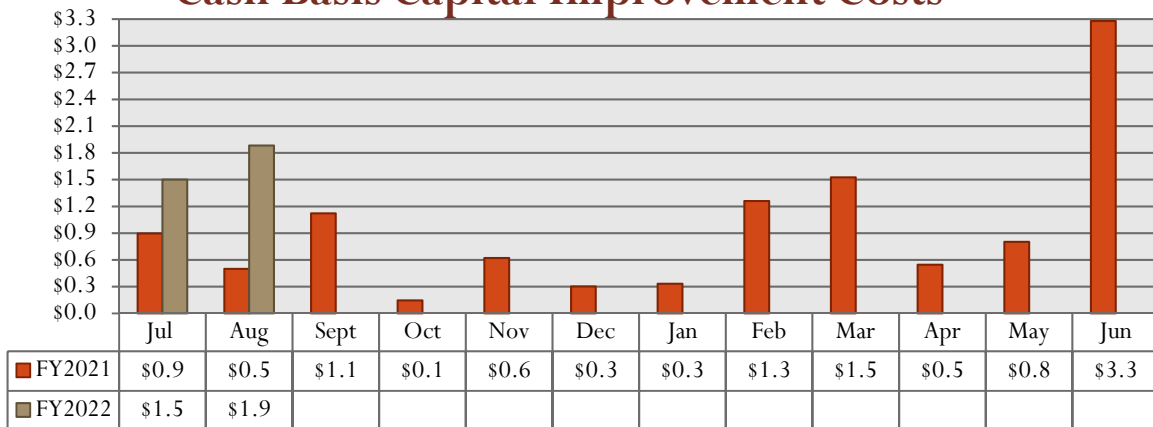


Capital Improvement Costs

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.³ Significant increases in capital improvement costs can result in months when monthly cash disbursements exceed monthly cash receipts.

³ FY 2021 includes land acquisition costs of \$1.0 million in September, \$0.1 million in April, and \$2.1 million in June. FY 2022 includes land acquisition costs of \$1.7 million in August.

Cash Basis Capital Improvement Costs

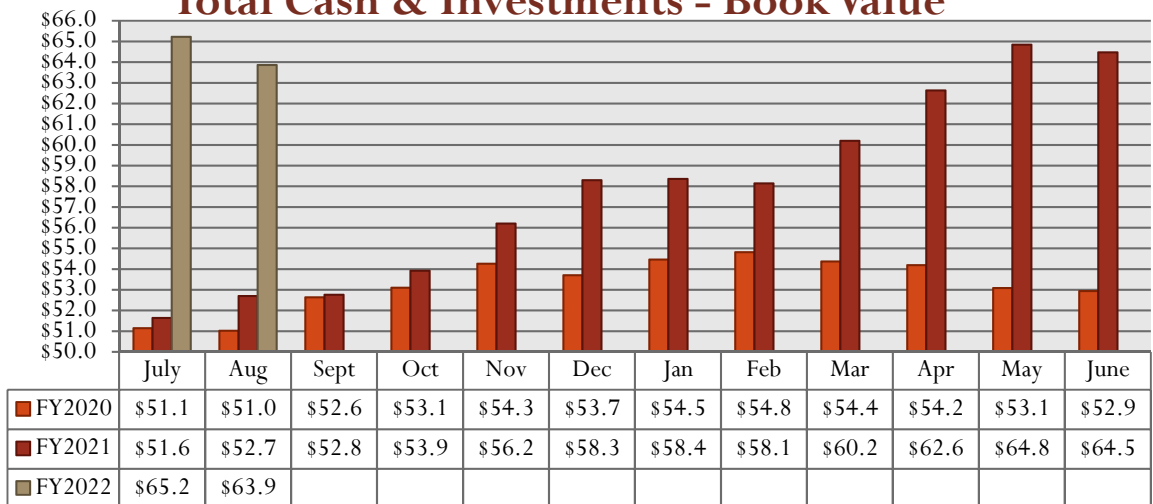


Analysis

Total cash and investment balances have improved since the low in August 2019 (\$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.

August 2021 cash and investments far exceeded both August 2019 and August 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+). **August 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. **August 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. **August 2021 yield was 0.85%**. 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 2021 yield was 0.29%**. 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, 2021 (In Years) | Remaining Coupon Rates | Yield | Benchmark at Time of Purchase | Par Value | Book Value | Fair Market Value as of August 31, 2021 | Realized Gain/Loss | Unrealized Gain/Loss ⁽²⁾ | Accrued Interest Not Yet Recorded ⁽³⁾ | % of Investment Pool |
|---|---|-----------------|---------------|---------------------------------|---|------------------------|---------------|-------------------------------|----------------------|----------------------|---|--------------------|-------------------------------------|--|----------------------|
| U.S. Government Agency Securities | | | | | | | | | | | | | | | |
| 3133ELGM0 | Federal Farm Credit Bank | 1/15/2020 | 10/8/2021 | 1.7 | 0.1 | 1.600% | 1.500% | 1.790% | \$ 2,000,000 | \$ 2,003,416 | \$ 2,003,088 | \$ - | \$ (328) | \$ 12,712 | 3.14% |
| 3133ELHZ0 | Federal Farm Credit Bank | 1/17/2020 | 7/17/2023 | 3.5 | 1.9 | 1.600% | 1.540% | 1.790% | \$ 2,000,000 | \$ 2,004,072 | \$ 2,050,888 | \$ - | \$ 46,816 | \$ 3,945 | 3.14% |
| 3136G4B77 | Federal National Mortgage Association | 8/4/2020 | 8/4/2025 | 5.0 | 3.9 | 0.700% | 0.640% | 0.200% | \$ 2,000,000 | \$ 2,005,896 | \$ 1,997,112 | \$ - | \$ (8,784) | \$ 1,036 | 3.14% |
| 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 | \$ 1,986,158 | \$ - | \$ 7,712 | \$ 636 | 3.10% |
| 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 | \$ 2,005,196 | \$ - | \$ (650) | \$ 6,807 | 3.14% |
| 3130AMCL4 | Federal Home Loan Bank | 5/19/2021 | 5/19/2026 | 5.0 | 4.7 | 1.020% | 1.020% | 0.090% | \$ 2,000,000 | \$ 2,000,000 | \$ 1,999,514 | \$ - | \$ (486) | \$ 6,875 | 3.13% |
| Subtotals | | | | | | | | | \$ 12,000,000 | \$ 11,997,676 | \$ 12,041,956 | \$ - | \$ 44,280 | \$ 32,010 | 18.79% |
| Negotiable Certificates of Deposit | | | | | | | | | | | | | | | |
| 05580AKJ2 | BMW Bank North America | 9/15/2017 | 9/15/2021 | 4.0 | 0.0 | 2.100% | 2.100% | 1.010% | \$ 247,000 | \$ 247,000 | \$ 248,405 | \$ - | \$ 1,405 | \$ 2,402 | 0.39% |
| 88413QBR8 | Third Federal Savings & Loan | 9/15/2017 | 9/15/2021 | 4.0 | 0.0 | 2.000% | 2.000% | 1.010% | \$ 247,000 | \$ 247,000 | \$ 248,477 | \$ - | \$ 1,477 | \$ 2,287 | 0.39% |
| 29266N6P7 | EnerBank USA | 10/13/2017 | 10/13/2021 | 4.0 | 0.1 | 2.000% | 2.000% | 1.100% | \$ 247,000 | \$ 247,000 | \$ 248,755 | \$ - | \$ 1,755 | \$ 244 | 0.39% |
| 02587DV47 | American Express Centurion | 8/8/2017 | 8/8/2022 | 5.0 | 0.9 | 2.350% | 2.350% | 0.930% | \$ 247,000 | \$ 247,000 | \$ 253,588 | \$ - | \$ 6,588 | \$ 366 | 0.39% |
| 795450C37 | Sallie Mae Bank | 8/9/2017 | 8/9/2022 | 5.0 | 0.9 | 2.350% | 2.350% | 0.930% | \$ 247,000 | \$ 247,000 | \$ 253,684 | \$ - | \$ 6,684 | \$ 350 | 0.39% |
| 87164XSH0 | Synchrony Bank | 10/6/2017 | 10/6/2022 | 5.0 | 1.1 | 2.250% | 2.250% | 1.100% | \$ 247,000 | \$ 247,000 | \$ 254,241 | \$ - | \$ 7,241 | \$ 2,238 | 0.39% |
| 06740KLD7 | Barclays Bank | 10/18/2017 | 10/18/2022 | 5.0 | 1.1 | 2.300% | 2.300% | 1.100% | \$ 247,000 | \$ 247,000 | \$ 254,586 | \$ - | \$ 7,586 | \$ 2,101 | 0.39% |
| 32056GCV0 | First Internet Bank of Indiana | 12/28/2017 | 12/28/2022 | 5.0 | 1.3 | 2.400% | 2.400% | 1.090% | \$ 247,000 | \$ 247,000 | \$ 255,986 | \$ - | \$ 8,986 | \$ 49 | 0.39% |
| 33847E3X3 | Flagstar Bank FSB | 7/31/2020 | 7/31/2024 | 4.0 | 2.9 | 0.500% | 0.500% | 0.340% | \$ 249,000 | \$ 249,000 | \$ 250,961 | \$ - | \$ 1,961 | \$ 106 | 0.39% |
| Subtotals | | | | | | | | | \$ 2,225,000 | \$ 2,225,000 | \$ 2,268,683 | \$ - | \$ 43,683 | \$ 10,142 | 3.48% |
| AZ State Treasurer Local Government Investment Pool (LGIP) | | | | | | | | | | | | | | | |
| N/A | Pool 5 | N/A | N/A | N/A | 0.0 | N/A | 0.060% | N/A | \$ 3,246,631 | \$ 3,246,631 | \$ 3,246,631 | \$ - | \$ - | \$ - | 5.08% |
| 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 | 0.850% | N/A | \$ 41,580,289 | \$ 41,580,289 | \$ 41,580,289 | \$ - | \$ - | \$ - | 65.11% |
| Subtotals | | | | | | | | | \$ 44,867,352 | \$ 44,867,352 | \$ 44,867,352 | \$ - | \$ - | \$ - | 70.26% |
| Bank Deposits | | | | | | | | | | | | | | | |
| N/A | Analyzed Checking Accounts ⁽⁴⁾ | N/A | N/A | N/A | 0.0 | N/A | 0.400% | N/A | \$ 4,768,202 | \$ 4,768,202 | \$ 4,768,202 | \$ - | \$ - | \$ - | 7.47% |
| Subtotals | | | | | | | | | \$ 4,768,202 | \$ 4,768,202 | \$ 4,768,202 | \$ - | \$ - | \$ - | 7.47% |
| Averages/Grand Totals | | | | | 0.7 | | 0.859% | | \$ 63,860,554 | \$ 63,858,230 | \$ 63,946,193 | \$ - | \$ 87,963 | \$ 42,152 | 100.00% |

Benchmark per Policy (LGIP Pool 5) 0.060%

⁽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. The accrued interest not yet recorded represents the amount earned since the last interest payment date.

⁽⁴⁾ 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⁽¹⁾

| CUSIP | Issuer | Transaction Type | August 2021 Activity |
|---|---------------------------------------|----------------------|-----------------------|
| Acquisitions | | | |
| Subtotal | | | \$ - |
| Dispositions | | | |
| 1404204E7 | Capital One Bank USA NA | Maturity | \$ 247,000 |
| 254673AF3 | Discover Bank | Maturity | \$ 247,000 |
| N/A | Analyzed Checking Accounts | Net Withdrawal | \$ 904,269 |
| Subtotal | | | \$ 1,398,269 |
| Earnings⁽²⁾ | | | |
| 29266N6P7 | EnerBank USA | Monthly Interest | \$ 420 |
| 32056GCV0 | First Internet Bank of Indiana | Monthly Interest | \$ 503 |
| 33847E3X3 | Flagstar Bank FSB | Semi-annual interest | \$ 617 |
| 02587DV47 | American Express Centurion | Semi-annual interest | \$ 2,878 |
| 1404204E7 | Capital One Bank USA NA | Semi-annual interest | \$ 2,572 |
| 795450C37 | Sallie Mae Bank | Semi-annual interest | \$ 2,878 |
| 254673AF3 | Discover Bank | Semi-annual interest | \$ 2,572 |
| 3136G4B77 | Federal National Mortgage Association | Semi-annual interest | \$ 7,000 |
| 3130AKXB7 | Federal Home Loan Bank | Semi-annual interest | \$ 5,800 |
| N/A | LGIP Pool 5 | Monthly Gain/Loss | \$ 160 |
| N/A | LGIP Pool 500 | Monthly Gain/Loss | \$ 5,077 |
| Subtotal | | | \$ 30,479 |
| Expenses | | | |
| N/A | N/A | Wire Fees | \$ 150 |
| Subtotal | | | \$ 150 |
| Net Transactions for August 2021 | | | \$ (1,367,940) |

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

⁽²⁾ Of the total interest earnings for August 2021, \$17,162 was accrued to FY2021 in the accrual basis financial records.

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</i> | | | | | | | |
| July 2020 | \$ 1,981,350 | \$ 3,242,105 | \$ (4,568,715) | \$ 4,746,376 | \$ 5,401,115 | \$ (544,329) | \$ 4,856,786 |
| 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 |
| Total FY 2021 | | \$ 50,498,151 | \$ (39,047,735) | \$ (8,517,326) | | | |
| July 2021 | \$ 4,914,440 | \$ 6,166,830 | \$ (5,493,345) | \$ - | \$ 5,587,924 | (155,695) | \$ 5,432,230 |
| August 2021 | 5,587,924 | 4,860,210 | (6,244,165) | 494,000 | 4,697,970 | (52,835) | 4,645,135 |
| Total Year-to-Date FY 2022 | | \$ 11,027,040 | \$ (11,737,510) | \$ 494,000 | | | |

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