

# Monthly Investment & Cash Flows Report

October 2021



**CITY OF SEDONA**

November 9, 2021

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## Executive Summary

The fair market value of the City's **total cash and investments as of October 31, 2021 is \$66.2 million**, representing an **increase of approximately \$1.5 million (2%) for the month, representing the highest balance held**. The **average yield exceeds the City's benchmark by 1,542%** 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 as well as drops in interest rates.

*October 2021 represents highest cash and investments balance held.*

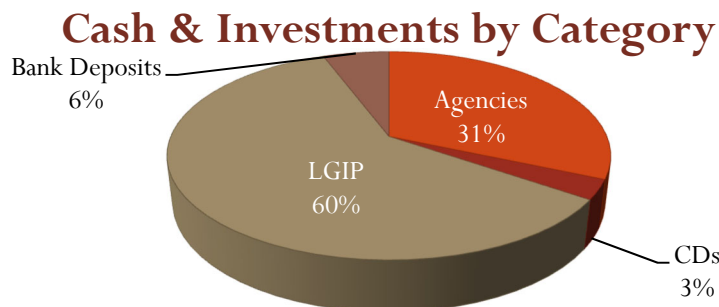
*Average yield exceeds benchmark by 1,542%.*

October 2021 Cash & Investments Summary	
Total Cash & Investments	\$66,188,554
Average Yield	0.821%
Benchmark <sup>1</sup>	0.050%
Average Duration	1.4 years

The **average duration is 1.4 years**. The current goal is to maintain as much liquidity as possible for significant financial needs, as well as limiting investment purchases to those with a sufficient return to justify tying up funds for 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.<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.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 October 2021 resulted in an increase of the City's cash and investments of approximately \$1.7 million.** The increase was largely the result of the shift into a time period of higher cash receipts. See the Cash Flows section for further discussion.

## Cash Flows

Cash basis **receipts for October 2021 were approximately \$677,000 more than the prior month** while cash basis **disbursements were approximately \$167,000 less than the prior month.** Changes for October 2021 compared to the prior month include:

- Receipts:
  - Cash basis sales and bed tax receipts for October 2021 were approximately \$457,000 (18%) 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 October 2021 were approximately \$24,000 (-5%) less than the prior month. The decrease was largely due to collections of delinquencies in the prior month and an increase in short-term delinquencies in the current month.
  - Cash basis state shared revenue receipts for October 2021 were approximately \$9,000 (3%) more than the prior month due to an increase in state shared sales taxes.
  - Quarterly franchise fees of approximately \$115,000 were received in October 2021.
- Disbursements:
  - Capital improvement costs for October 2021 were approximately \$30,000 (8%) more than the prior month primarily due to land acquisition for the Forest Road extension project in October 2021.
  - Payroll and benefit costs for October 2021 were approximately \$301,000 (-24%) less than the prior month due to the difference in number of pay periods. September 2021 had 3 pay periods, while October 2021 had 2 pay periods.

*Cash basis sales and bed tax receipts were \$457,000 more than the prior month.*

*Payroll and benefit costs were \$301,000 less than prior month.*

## Cash Basis Sales & Bed Tax Receipts

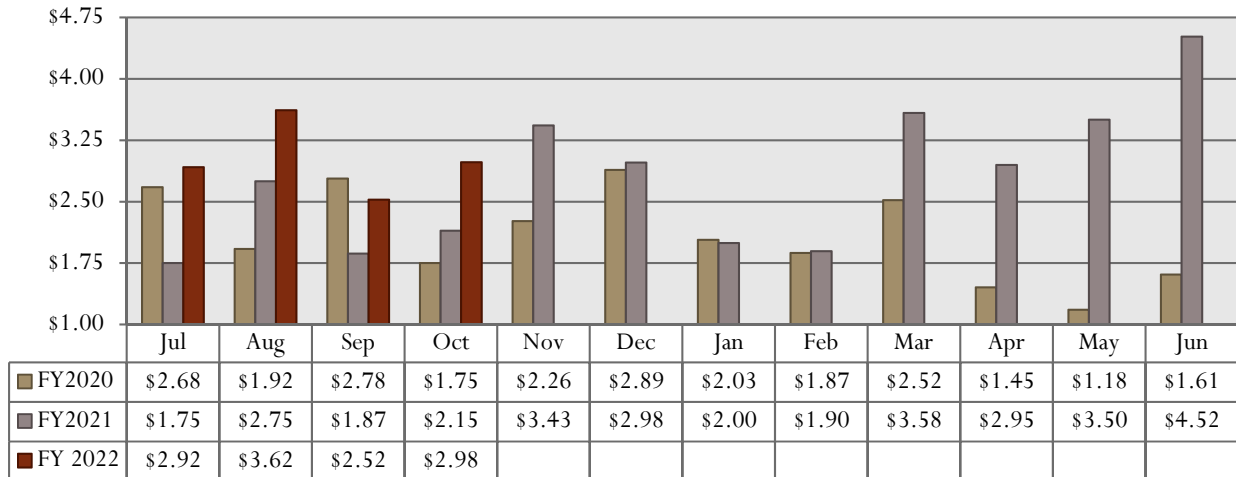
**Cash basis sales and bed tax receipts for October 2021 were 18% more than the prior month and 39% more than the same month last year.** Comparing to pre-COVID-19, **cash basis sales and bed tax receipts for October 2021 were 70% more than October 2019.** The October 2021 receipts included a portion of August taxes filed in September and a portion of September taxes filed in October, including any delinquent payments that have been filed and paid in those months.

*Comparing to pre-COVID-19, October 2021 cash basis sales and bed tax receipts were 70% higher than October 2019.*

The increase compared to the prior month is a result of moving into a busier tourism season. On average, accrual basis August sales and bed tax revenues are approximately 6% less than July, and accrual basis September sales and bed tax revenues are approximately 15% more than August. August 2021 accrual basis sales and bed tax revenues were 14% more than July 2021. Accrual basis September 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.

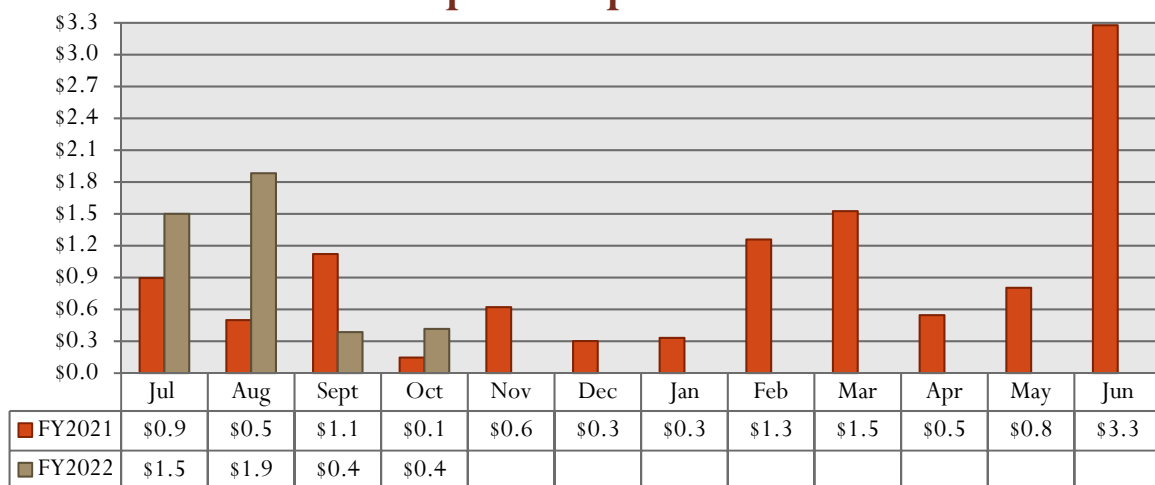
## Cash Basis Sales & Bed Tax Receipts



## Capital Improvement Costs

As capital projects begin and end their construction phases, the capital improvement costs will fluctuate over time. In addition, land acquisitions can significantly impact capital improvement costs.<sup>3</sup> Significant increases in capital improvement costs can result in months when monthly cash disbursements exceed monthly cash receipts.

## Cash Basis Capital Improvement Costs



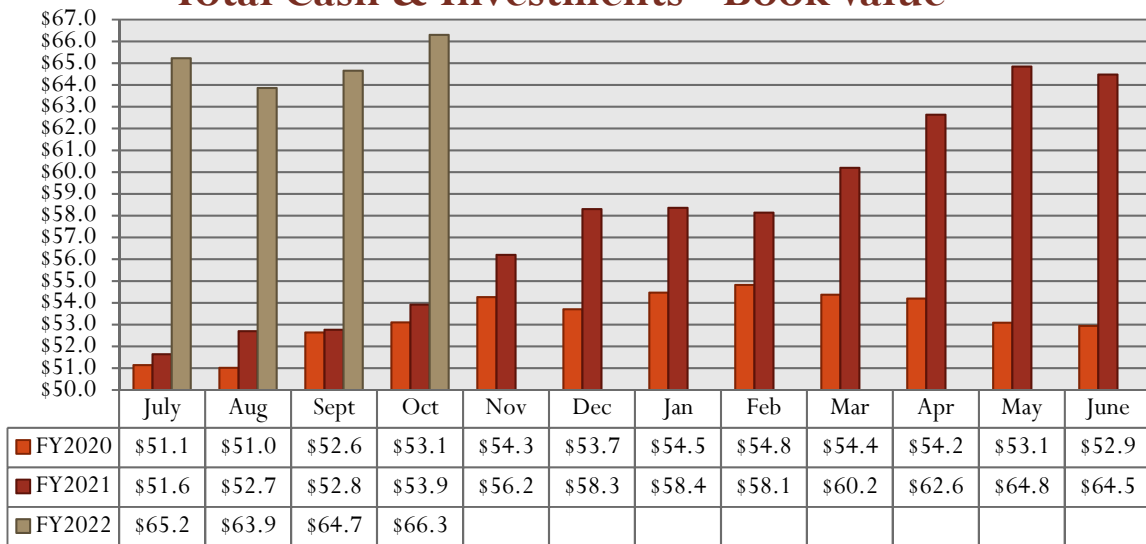
<sup>3</sup> FY 2021 includes land acquisition costs of \$1.0 million in September, \$0.1 million in April, and \$2.1 million in June. FY 2022 includes land acquisition costs of \$1.7 million in August and \$0.2 million in October.

## Analysis

Total cash and investment balances have increased significantly 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.

*October 2021 cash and investments far exceeded both October 2019 and October 2020 when balances tend to be 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+). **October 2021 yield was 0.05%**. 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. **October 2021 yield was 0.02%**. 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. **October 2021 yield was 0.77%**. 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. **October 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.

*For questions or additional information, contact:*

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## Investment Holdings Summary

CUSIP	Issuer	Settlement Date	Maturity Date	Initial Duration <sup>(1)</sup>	Remaining Duration as of October 31, 2021 (In Years)	Remaining Coupon Rates	Yield	Benchmark at Time of Purchase	Par Value	Book Value	Fair Market Value as of October 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>															
3133ELHZ0	Federal Farm Credit Bank	1/17/2020	7/17/2023	3.5	1.7	1.600%	1.540%	1.790%	\$ 2,000,000	\$ 2,004,072	\$ 2,039,298	\$ -	\$ 35,226	\$ 9,293	3.02%
3136G4B77	Federal National Mortgage Association	8/4/2020	8/4/2025	5.0	3.8	0.700%	0.640%	0.200%	\$ 2,000,000	\$ 2,005,896	\$ 1,983,028	\$ -	\$ (22,868)	\$ 3,375	3.03%
3130AKXB7	Federal Home Loan Bank	4/29/2021	2/11/2026	4.8	4.3	0.580%	0.810%	0.090%	\$ 2,000,000	\$ 1,978,446	\$ 1,952,330	\$ -	\$ (26,116)	\$ 2,574	2.98%
3130ALZG2	Federal Home Loan Bank	4/29/2021	4/29/2026	5.0	4.5	1.010%	0.950%	0.090%	\$ 2,000,000	\$ 2,005,846	\$ 1,987,290	\$ -	\$ (18,556)	\$ 55	3.03%
3130AMCL4	Federal Home Loan Bank	5/19/2021	5/19/2026	5.0	4.6	1.020%	1.020%	0.090%	\$ 2,000,000	\$ 2,000,000	\$ 1,984,972	\$ -	\$ (15,028)	\$ 10,284	3.02%
3133ELK52	Federal Farm Credit Bank	10/5/2021	6/15/2026	4.7	4.6	0.950%	1.010%	0.060%	\$ 3,000,000	\$ 2,994,000	\$ 2,978,280	\$ -	\$ (15,720)	\$ 2,030	4.52%
3133EM6E7	Federal Farm Credit Bank	9/28/2021	9/28/2026	5.0	4.9	0.940%	0.940%	0.060%	\$ 2,000,000	\$ 2,000,000	\$ 1,970,850	\$ -	\$ (29,150)	\$ 1,700	3.02%
3130APCH6	Federal Home Loan Bank	9/29/2021	9/29/2026	5.0	4.9	1.125%	1.125%	0.060%	\$ 2,000,000	\$ 2,000,000	\$ 1,988,446	\$ -	\$ (11,554)	\$ 1,973	3.02%
3130AP6B6	Federal Home Loan Bank	9/30/2021	9/30/2026	5.0	4.9	0.950%	0.900%	0.060%	\$ 2,000,000	\$ 2,004,878	\$ 1,975,754	\$ -	\$ (29,124)	\$ 1,614	3.02%
3130APGT6	Federal Home Loan Bank	10/28/2021	10/28/2026	5.0	5.0	1.150%	1.150%	0.050%	\$ 2,000,000	\$ 1,999,516	\$ 1,988,678	\$ -	\$ (10,838)	\$ 189	3.02%
<b>Subtotals</b>									<b>\$ 21,000,000</b>	<b>\$ 20,992,654</b>	<b>\$ 20,848,926</b>	<b>\$ -</b>	<b>\$ (143,728)</b>	<b>\$ 33,087</b>	<b>31.66%</b>
<b>Negotiable Certificates of Deposit</b>															
02587DV47	American Express Centurion	8/8/2017	8/8/2022	5.0	0.8	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 251,481	\$ -	\$ 4,481	\$ 1,336	0.37%
795450C37	Sallie Mae Bank	8/9/2017	8/9/2022	5.0	0.8	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 251,497	\$ -	\$ 4,497	\$ 1,320	0.37%
87164XSH0	Synchrony Bank	10/6/2017	10/6/2022	5.0	0.9	2.250%	2.250%	1.100%	\$ 247,000	\$ 247,000	\$ 252,184	\$ -	\$ 5,184	\$ 381	0.37%
06740KLD7	Barclays Bank	10/18/2017	10/18/2022	5.0	1.0	2.300%	2.300%	1.100%	\$ 247,000	\$ 247,000	\$ 252,485	\$ -	\$ 5,485	\$ 202	0.37%
32056GCV0	First Internet Bank of Indiana	12/28/2017	12/28/2022	5.0	1.2	2.400%	2.400%	1.090%	\$ 247,000	\$ 247,000	\$ 255,986	\$ -	\$ 8,986	\$ 49	0.37%
33847E3X3	Flagstar Bank FSB	7/31/2020	7/31/2024	4.0	2.8	0.500%	0.500%	0.340%	\$ 249,000	\$ 249,000	\$ 250,961	\$ -	\$ 1,961	\$ 314	0.38%
38149MA94	Goldman Sachs Bank USA	9/29/2021	9/29/2026	5.0	4.9	1.050%	1.050%	0.060%	\$ 248,000	\$ 248,000	\$ 248,000	\$ -	\$ -	\$ 228	0.37%
856283U79	State Bank of India Chicago	9/29/2021	9/29/2026	5.0	4.9	1.100%	1.100%	0.060%	\$ 248,000	\$ 248,000	\$ 248,000	\$ -	\$ -	\$ 239	0.37%
<b>Subtotals</b>									<b>\$ 1,980,000</b>	<b>\$ 1,980,000</b>	<b>\$ 2,010,595</b>	<b>\$ -</b>	<b>\$ 30,595</b>	<b>\$ 4,069</b>	<b>2.99%</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	0.050%	N/A	\$ 3,046,864	\$ 3,046,864	\$ 3,046,864	\$ -	\$ -	\$ -	4.60%
N/A	Pool 7	N/A	N/A	N/A	0.0	N/A	0.020%	N/A	\$ 40,433	\$ 40,433	\$ 40,433	\$ -	\$ -	\$ -	0.06%
N/A	Pool 500	N/A	N/A	N/A	0.0	N/A	0.770%	N/A	\$ 36,440,070	\$ 36,440,070	\$ 36,440,070	\$ -	\$ -	\$ -	54.96%
<b>Subtotals</b>									<b>\$ 39,527,367</b>	<b>\$ 39,527,367</b>	<b>\$ 39,527,367</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>59.62%</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	\$ 3,801,666	\$ 3,801,666	\$ 3,801,666	\$ -	\$ -	\$ -	5.73%
<b>Subtotals</b>									<b>\$ 3,801,666</b>	<b>\$ 3,801,666</b>	<b>\$ 3,801,666</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>5.73%</b>
<b>Averages/Grand Totals</b>					<b>1.4</b>		<b>0.821%</b>		<b>\$ 66,309,033</b>	<b>\$ 66,301,687</b>	<b>\$ 66,188,554</b>	<b>\$ -</b>	<b>\$ (113,133)</b>	<b>\$ 37,156</b>	<b>100.00%</b>

Benchmark per Policy (LGIP Pool 5) 0.050%

<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 and purchased to enhance portfolio performance.

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

CUSIP	Issuer	Transaction Type	October 2021 Activity
<b>Acquisitions</b>			
3133ELK52	Federal Farm Credit Bank	Purchase	\$ 2,994,000
3133ELK52	Federal Farm Credit Bank	Accrued Interest Paid w/Purchase	\$ 8,708
3130APGT6	Federal Home Loan Bank	Purchase	\$ 1,999,516
N/A	LGIP Pool 5	Deposit	\$ 1,800,000
N/A	Analyzed Checking Accounts	Net Contribution	\$ 2,157,617
		<b>Subtotal</b>	<b>\$ 8,959,841</b>
<b>Dispositions</b>			
29266N6P7	EnerBank USA	Maturity	\$ 247,000
3133ELGM0	Federal Farm Credit Bank	Maturity	\$ 2,000,000
N/A	LGIP Pool 500	Withdrawal	\$ 5,000,000
		<b>Subtotal</b>	<b>\$ 7,247,000</b>
<b>Earnings<sup>(2)</sup></b>			
29266N6P7	EnerBank USA	Monthly Interest	\$ 406
32056GCV0	First Internet Bank of Indiana	Monthly Interest	\$ 487
87164XSH0	Synchrony Bank	Semi-annual interest	\$ 2,786
06740KLD7	Barclays Bank	Semi-annual interest	\$ 2,848
3133ELGM0	Federal Farm Credit Bank	Semi-annual interest	\$ 16,000
3130ALZG2	Federal Home Loan Bank	Semi-annual interest	\$ 10,100
N/A	LGIP Pool 5	Monthly Gain/Loss	\$ 104
N/A	LGIP Pool 7	Monthly Gain/Loss	\$ 1
N/A	LGIP Pool 500	Monthly Gain/Loss	\$ (85,558)
		<b>Subtotal</b>	<b>\$ (52,825)</b>
<b>Expenses</b>			
N/A	N/A	Quarterly Custody Charges	\$ 396
N/A	N/A	Wire Fees	\$ 156
		<b>Subtotal</b>	<b>\$ 552</b>
<b>Net Transactions for October 2021</b>			<b>\$ 1,659,464</b>

<sup>(1)</sup> The net increase to investments was largely a result of the shift into a time period of higher cash receipts. See the Cash Flows section of the Executive Summary for further discussion.

<sup>(2)</sup> Of the total interest earnings for October 2021, \$13,138 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>							
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
<b>October 2020</b>	<b>3,791,166</b>	<b>3,594,779</b>	<b>(2,440,412)</b>	<b>747,000</b>	<b>5,692,533</b>	<b>(44,465)</b>	<b>5,648,069</b>
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	(1,014,296)	4,187,970
January 2021	5,202,266	3,197,529	(3,131,374)	1,000,000	6,268,422	(1,108,910)	5,159,511
February 2021	6,268,422	3,130,272	(3,244,804)	(1,500,000)	4,653,889	(672,395)	3,981,494
March 2021	4,653,889	5,570,919	(3,481,343)	(2,000,000)	4,743,465	(16,756)	4,726,709
April 2021	4,743,465	4,908,556	(2,571,790)	(1,986,805)	5,093,426	(5,563)	5,087,862
May 2021	5,093,426	4,834,470	(2,654,000)	(2,000,000)	5,273,896	(11,323)	5,262,573
June 2021	5,273,896	6,313,885	(6,673,340)	-	4,914,440	(13,848)	4,900,592
<b>Total FY 2021</b>		<b>\$ 50,498,151</b>	<b>\$ (39,047,735)</b>	<b>\$ (8,517,326)</b>			
July 2021	\$ 4,914,440	\$ 6,166,830	\$ (5,493,345)	\$ -	\$ 5,587,924	\$ (187,593)	\$ 5,400,332
August 2021	5,587,924	4,860,210	(6,244,165)	494,000	4,697,970	(84,732)	4,613,238
September 2021	4,697,970	3,726,353	(2,840,278)	(4,006,878)	1,577,167	(56,078)	1,521,089
<b>October 2021</b>	<b>1,577,167</b>	<b>4,403,543</b>	<b>(2,673,123)</b>	<b>445,248</b>	<b>3,752,835</b>	<b>(25,954)</b>	<b>3,726,881</b>
<b>Total Year-to-Date FY 2022</b>		<b>\$ 19,156,936</b>	<b>\$ (17,250,911)</b>	<b>\$ (3,067,630)</b>			

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