

Monthly Investment & Cash Flows Report

January 2022



CITY OF SEDONA

February 7, 2022

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Executive Summary

The fair market value of the City's **total cash and investments as of January 31, 2022 is \$73.7 million**, representing an **increase of approximately \$1.4 million (2%) for the month, representing the highest balance held**. The **average yield exceeds the City's benchmark by 705%** 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; however, they recently resumed their typically investment strategy and expect to begin seeing yields increase in the next several months.

January 2022 represents highest cash and investments balance held.

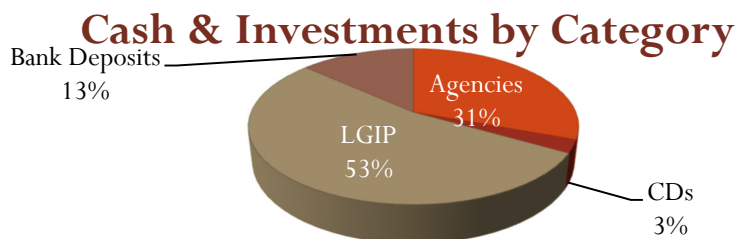
Average yield exceeds benchmark by 705%.

January 2022 Cash & Investments Summary	
Total Cash & Investments	\$72,270,580
Average Yield	0.805%
Benchmark ¹	0.100%
Average Duration	1.3 years

The **average duration is 1.3 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.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.secdonaaz.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 January 2022 resulted in an increase of the City's cash and investments of approximately \$1.7 million. The increase was largely the result of the higher cash receipts compared to cash disbursements particularly due to cash basis sales and bed taxes. See the Cash Flows section for further discussion.

Cash Flows

Cash basis receipts for January 2022 were approximately \$392,000 more than the prior month while cash basis disbursements were approximately \$931,000 more than the prior month. Changes for January 2022 compared to the prior month include:

- Receipts:
 - Cash basis sales and bed tax receipts for January 2022 were approximately \$608,000 (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 January 2022 were approximately \$7,000 (1%) more than the prior month.
 - Cash basis state shared revenue receipts for January 2022 were approximately \$8,000 (-2%) less than the prior month due to a decrease in state shared sales taxes.
 - Quarterly franchise fees were approximately \$158,000 in January 2022.
 - One-time grant funding was approximately \$429,000 less than December 2021.
- Disbursements:
 - Capital improvement costs for January 2022 were approximately \$69,000 (-16%) less than the prior month primarily due to costs for the Posse Grounds parking improvements and Soldiers Pass shared-use path and the Dry Creek Road shared-use path projects.
 - The semiannual payment for the Tourism Bureau contract of approximately \$1.0 million was made in January 2021

Cash basis sales and bed tax receipts were \$608,000 more than the prior month.

Cash Basis Sales & Bed Tax Receipts

Cash basis sales and bed tax receipts for January 2022 were 18% more than the prior month and 101% more than the same month last year.

The January 2022 receipts included a portion of November taxes filed in December and a portion of December taxes filed in January, including any delinquent payments that have been filed and paid in those months.

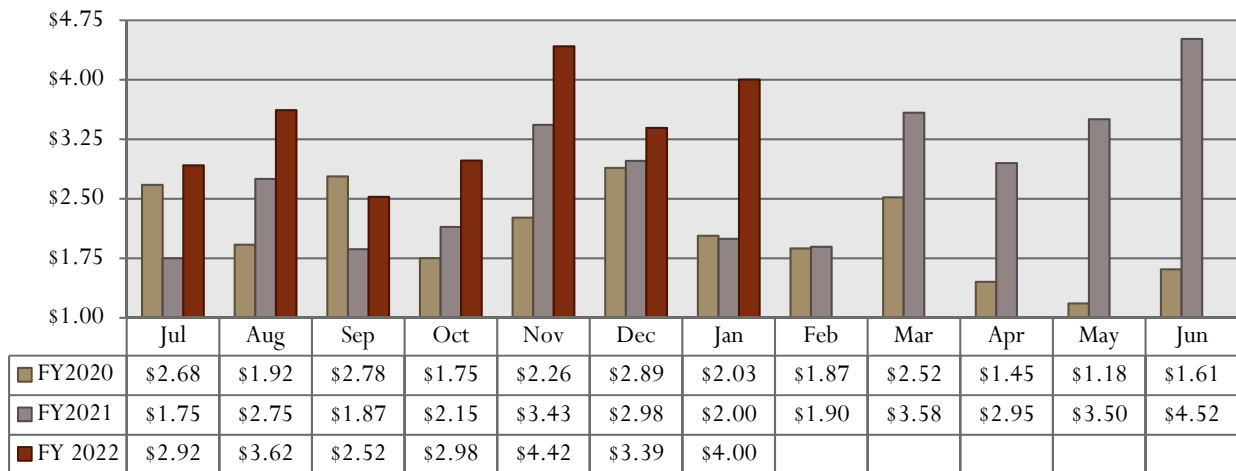
The increase compared to the prior month is a result of an increase in the number of Mondays during the month. We receive our weekly distributions from ADOR on Mondays based on the tax returns processed during the prior week. In January, there were 5 Mondays (weeks 2-7), while in December, there were 4 Mondays (weeks 50-53). The tax distribution on January 31, 2021 was approximately \$1.58 million.

Comparing to the prior year, January 2022 cash basis sales and bed tax receipts were 101% higher than January 2021.

On average, accrual basis November sales and bed tax revenues are approximately 14% less than October, and accrual basis December sales and bed tax revenues are approximately 5% less than November. November 2021 accrual basis sales and bed tax revenues were 12% less than October 2021. Accrual basis December 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.

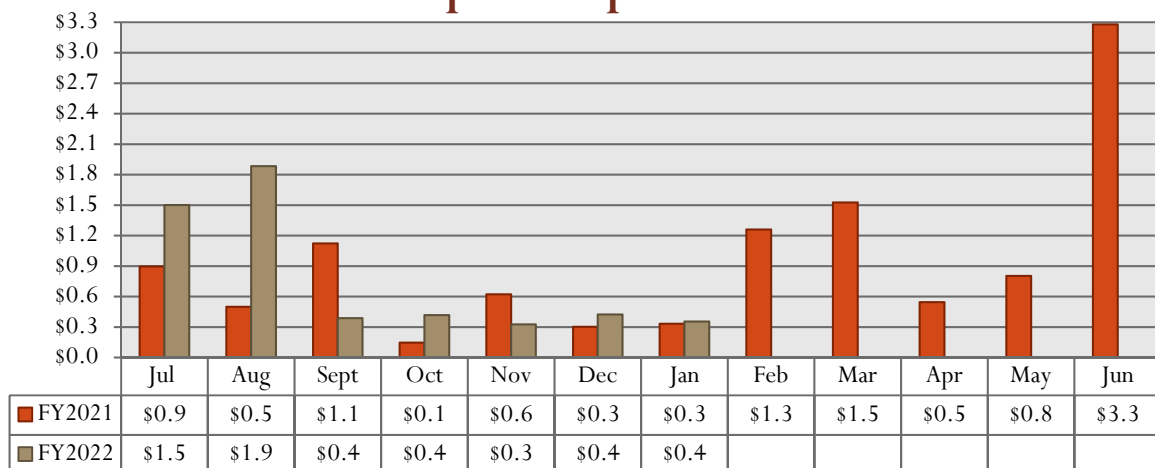
Cash Basis Sales & Bed Tax Receipts



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

Cash Basis Capital Improvement Costs



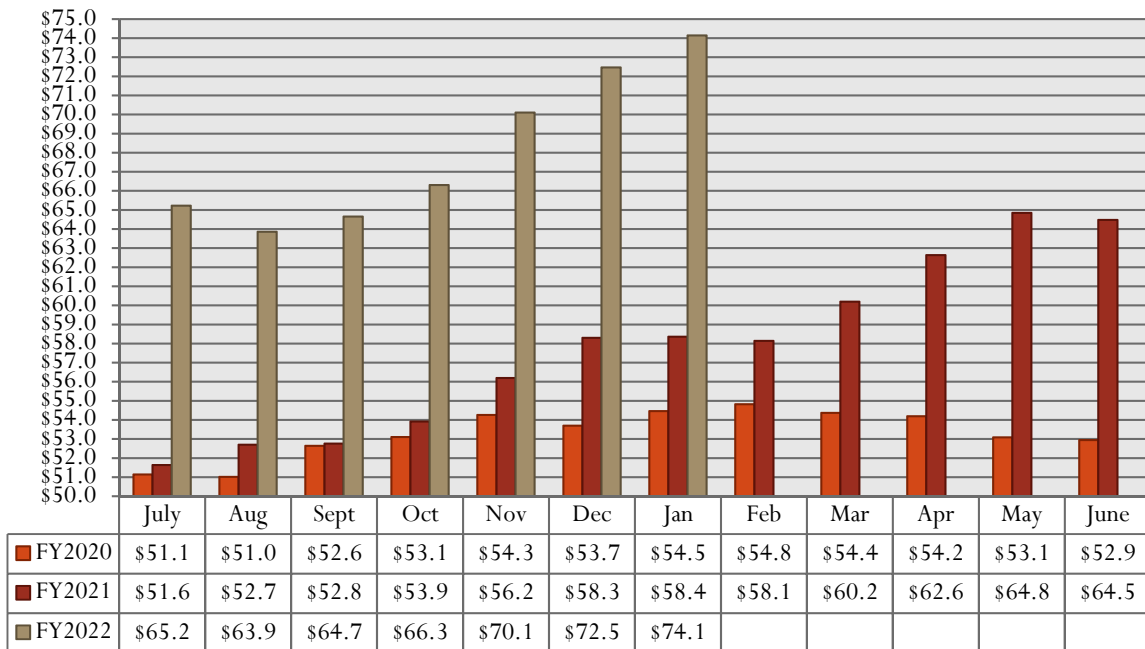
³ FY 2021 includes land acquisition costs of \$1.0 million in September, \$0.1 million in April, and \$2.1 million in June. FY 2022 includes land acquisition costs of \$1.7 million in August and \$0.2 million in October.

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.

January 2022 cash and investments far exceeded both January 2020 and January 2021.

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+). **January 2022 yield was 0.10%**. 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. **January 2022 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. **January 2022 yield was 0.78%**. 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. **January 2022 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 January 31, 2022 (In Years)	Remaining Coupon Rates	Yield	Benchmark at Time of Purchase	Par Value	Book Value	Fair Market Value as of January 31, 2022	Realized Gain/Loss	Unrealized Gain/Loss ⁽²⁾	Accrued Interest Not Yet Recorded ⁽³⁾	% of Investment Pool
U.S. Government Agency Securities															
3133ELH20	Federal Farm Credit Bank	1/17/2020	7/17/2023	3.5	1.5	1.600%	1.540%	1.790%	\$ 2,000,000	\$ 2,004,072	\$ 2,020,710	\$ -	\$ 16,638	\$ 1,227	2.70%
3136G4B77	Federal National Mortgage Association	8/4/2020	8/4/2025	5.0	3.5	0.700%	0.640%	0.200%	\$ 2,000,000	\$ 2,005,896	\$ 1,945,744	\$ -	\$ (60,152)	\$ 6,904	2.71%
3130AKXB7	Federal Home Loan Bank	4/29/2021	2/11/2026	4.8	4.0	0.580%	0.810%	0.090%	\$ 2,000,000	\$ 1,978,446	\$ 1,922,228	\$ -	\$ (56,218)	\$ 5,498	2.67%
3130ALZG2	Federal Home Loan Bank	4/29/2021	4/29/2026	5.0	4.2	1.010%	0.950%	0.090%	\$ 2,000,000	\$ 2,005,846	\$ 1,960,290	\$ -	\$ (45,556)	\$ 5,147	2.71%
3130AMCL4	Federal Home Loan Bank	5/19/2021	5/19/2026	5.0	4.3	1.020%	1.020%	0.090%	\$ 2,000,000	\$ 2,000,000	\$ 1,953,302	\$ -	\$ (46,698)	\$ 4,080	2.70%
3133ELK52	Federal Farm Credit Bank	10/5/2021	6/15/2026	4.7	4.4	0.950%	1.010%	0.060%	\$ 3,000,000	\$ 2,994,000	\$ 2,940,306	\$ -	\$ (53,694)	\$ 3,670	4.04%
3133EM6E7	Federal Farm Credit Bank	9/28/2021	9/28/2026	5.0	4.7	0.940%	0.940%	0.060%	\$ 2,000,000	\$ 2,000,000	\$ 1,933,876	\$ -	\$ (66,124)	\$ 6,438	2.70%
3130APCH6	Federal Home Loan Bank	9/29/2021	9/29/2026	5.0	4.7	1.125%	1.125%	0.060%	\$ 2,000,000	\$ 2,000,000	\$ 1,952,780	\$ -	\$ (47,220)	\$ 7,644	2.70%
3130AP6B6	Federal Home Loan Bank	9/30/2021	9/30/2026	5.0	4.7	0.950%	0.900%	0.060%	\$ 2,000,000	\$ 2,004,878	\$ 1,947,724	\$ -	\$ (57,154)	\$ 6,403	2.70%
3130APGT6	Federal Home Loan Bank	10/28/2021	10/28/2026	5.0	4.7	1.150%	1.150%	0.050%	\$ 2,000,000	\$ 1,999,516	\$ 1,969,182	\$ -	\$ (30,334)	\$ 5,986	2.70%
3130APLR4	Federal Home Loan Bank	11/10/2021	11/10/2026	5.0	4.8	1.250%	1.250%	0.050%	\$ 2,000,000	\$ 2,000,000	\$ 1,973,314	\$ -	\$ (26,686)	\$ 6,507	2.70%
Subtotals									\$ 23,000,000	\$ 22,992,654	\$ 22,519,456	\$ -	\$ (473,198)	\$ 59,504	31.01%
Negotiable Certificates of Deposit															
02587DV47	American Express Centurion	8/8/2017	8/8/2022	5.0	0.5	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 249,722	\$ -	\$ 2,722	\$ 2,799	0.33%
795450C37	Sallie Mae Bank	8/9/2017	8/9/2022	5.0	0.5	2.350%	2.350%	0.930%	\$ 247,000	\$ 247,000	\$ 249,734	\$ -	\$ 2,734	\$ 2,783	0.33%
87164XSH0	Synchrony Bank	10/6/2017	10/6/2022	5.0	0.7	2.250%	2.250%	1.100%	\$ 247,000	\$ 247,000	\$ 250,194	\$ -	\$ 3,194	\$ 1,781	0.33%
06740KLD7	Barclays Bank	10/18/2017	10/18/2022	5.0	0.7	2.300%	2.300%	1.100%	\$ 247,000	\$ 247,000	\$ 250,401	\$ -	\$ 3,401	\$ 1,634	0.33%
32056GCV0	First Internet Bank of Indiana	12/28/2017	12/28/2022	5.0	0.9	2.400%	2.400%	1.090%	\$ 247,000	\$ 247,000	\$ 251,327	\$ -	\$ 4,327	\$ 49	0.33%
33847E3X3	Flagstar Bank FSB	7/31/2020	7/31/2024	4.0	2.5	0.500%	0.500%	0.340%	\$ 249,000	\$ 249,000	\$ 244,849	\$ -	\$ (4,151)	\$ -	0.34%
38149MA94	Goldman Sachs Bank USA	9/29/2021	9/29/2026	5.0	4.7	1.050%	1.050%	0.060%	\$ 248,000	\$ 248,000	\$ 242,068	\$ -	\$ (5,932)	\$ 885	0.33%
856283U79	State Bank of India Chicago	9/29/2021	9/29/2026	5.0	4.7	1.100%	1.100%	0.060%	\$ 248,000	\$ 248,000	\$ 242,110	\$ -	\$ (5,891)	\$ 927	0.33%
Subtotals									\$ 1,980,000	\$ 1,980,000	\$ 1,980,405	\$ -	\$ 405	\$ 10,858	2.67%
AZ State Treasurer Local Government Investment Pool (LGIP)															
N/A	Pool 5	N/A	N/A	N/A	0.0	N/A	0.100%	N/A	\$ 3,047,485	\$ 3,047,485	\$ 3,047,485	\$ -	\$ -	\$ -	4.11%
N/A	Pool 7	N/A	N/A	N/A	0.0	N/A	0.020%	N/A	\$ 40,435	\$ 40,435	\$ 40,435	\$ -	\$ -	\$ -	0.05%
N/A	Pool 500	N/A	N/A	N/A	0.0	N/A	0.780%	N/A	\$ 36,202,823	\$ 36,202,823	\$ 36,202,823	\$ -	\$ -	\$ -	48.83%
Subtotals									\$ 39,290,743	\$ 39,290,743	\$ 39,290,743	\$ -	\$ -	\$ -	52.99%
Bank Deposits															
N/A	Analyzed Checking Accounts ⁽⁴⁾	N/A	N/A	N/A	0.0	N/A	0.400%	N/A	\$ 9,877,814	\$ 9,877,814	\$ 9,877,814	\$ -	\$ -	\$ -	13.32%
Subtotals									\$ 9,877,814	\$ 9,877,814	\$ 9,877,814	\$ -	\$ -	\$ -	13.32%
Averages/Grand Totals					1.3	0.805%	\$ 74,148,558	\$ 74,141,212	\$ 73,668,419	\$ -	\$ (472,793)	\$ 70,362	100.00%		

Benchmark per Policy (LGIP Pool 5) 0.100%

⁽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 and purchased to enhance portfolio performance, while keeping significant balances available for anticipated upcoming significant expenditures.

Investment Transactions Summary⁽¹⁾

CUSIP	Issuer	Transaction Type	January 2022 Activity
Acquisitions			
N/A	Analyzed Checking Accounts	Net Contribution	\$ 1,833,574
Subtotal			\$ 1,833,574
Dispositions			
Subtotal			\$ -
Earnings⁽²⁾			
32056GCV0	First Internet Bank of Indiana	Monthly Interest	\$ 503
33847E3X3	Flagstar Bank FSB	Semi-annual interest	\$ 628
3133ELHZ0	Federal Farm Credit Bank	Semi-annual interest	\$ 16,000
N/A	LGIP Pool 5	Monthly Gain/Loss	\$ 250
N/A	LGIP Pool 7	Monthly Gain/Loss	\$ 1
N/A	LGIP Pool 500	Monthly Gain/Loss	\$ (181,116)
Subtotal			\$ (163,734)
Expenses			
N/A	N/A	Wire Fees	\$ 75
Subtotal			\$ 75
Net Transactions for January 2022			\$ 1,669,765

⁽¹⁾ The net increase to investments was largely a result of continued higher cash receipts. See the Cash Flows 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</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	(1,014,296)	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
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	\$ (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	(54,089)	1,523,078
October 2021	1,577,167	4,403,543	(2,673,123)	445,248	3,752,835	(23,964)	3,728,870
November 2021	3,752,835	6,004,256	(2,208,873)	(2,000,000)	5,548,218	(41,346)	5,506,872
December 2021	5,548,218	5,017,104	(2,646,929)	-	7,918,392	(156,569)	7,761,823
January 2022	7,918,392	5,409,133	(3,578,162)	-	9,749,363	(121,882)	9,627,481
Total Year-to-Date FY 2022		\$ 35,587,428	\$ (25,684,875)	\$ (5,067,630)			

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