

# Monthly Investment & Cash Flows Report

December 2022



**CITY OF SEDONA**

January 17, 2023

# Monthly Investment & Cash Flows Report

December 2022

## Executive Summary

The fair market value of the City's **total cash and investments as of December 31, 2022 is \$72.0 million**, representing a decrease of **\$9.7 million (-12%) for the month**. The **average yield is below the City's benchmark by 41%** as a result of increases in the Local Government Investment Pool yield used as the benchmark. Higher cash balances have been maintained to cover anticipated upcoming significant expenditures. As interest rates continue to rise, further analysis will be performed to evaluate investment options.

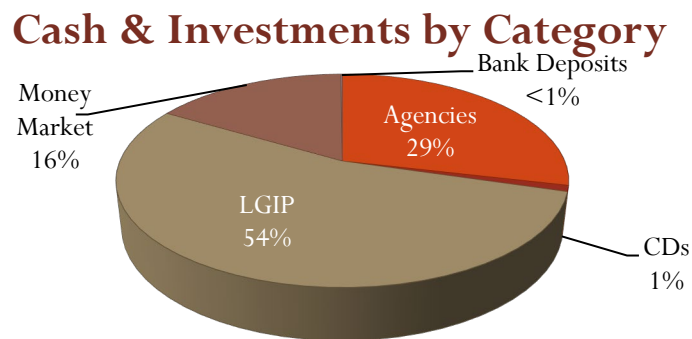
December 2022 cash and investments are \$72.0M.

| December 2022<br>Cash & Investments Summary |              |
|---|--------------|
| Total Cash & Investments                    | \$72,024,378 |
| Average Yield                               | 2.490%       |
| Benchmark <sup>1</sup>                      | 4.200%       |
| Average Duration                            | 1.0 years    |

The **average duration is 1.0 years**. The current goal is to maintain as much liquidity as possible for upcoming significant financial needs.

## 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 December 2022 resulted in a decrease of the City's cash and investments of \$9.4 million.** The decrease was mostly the result of land purchases. See the Cash Flows section for further discussion.

## Cash Flows

Cash basis **receipts for December 2022 were \$1.5 million less than the prior month** while cash basis **disbursements were \$11.5 million more than the prior month.** Changes for December 2022 compared to the prior month include:

- Receipts:
  - Cash basis sales and bed tax receipts for December 2022 were approximately \$631,000 (22%) 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 December 2022 were approximately \$27,000 (5%) more than the prior month. This was largely due to collection of short-term delinquencies in the prior month.
  - The reimbursement from the bond trustee for costs incurred for Sedona in Motion projects was \$2.4 million (-95%) less than the prior month.
  - Cash basis state shared revenue receipts for December 2022 were approximately \$18,000 (5%) more than the prior month due to an increase in state shared sales taxes receipts.
- Disbursements:
  - Capital improvement costs for December 2022 were approximately \$10.9 million (1,160%) more than the prior month primarily due to cash-funded portion of the Cultural Park land purchase and the Shelby Drive land purchase.
  - Transfers to the trustee for bond payments due on January 1, 2022 were approximately \$856,000 (24%) greater than the prior month.<sup>3</sup>

*Capital improvement disbursements were \$10.9 million more than the prior month due to land purchases.*

## Cash Basis Sales & Bed Tax Receipts

**Cash basis sales and bed tax receipts for December 2022 were 22% higher than the prior month and 3% higher than the same month last year.** The December 2022 receipts included a portion of October taxes filed in November and a portion of November taxes filed in December, including any delinquent payments that have been filed and paid in those months.

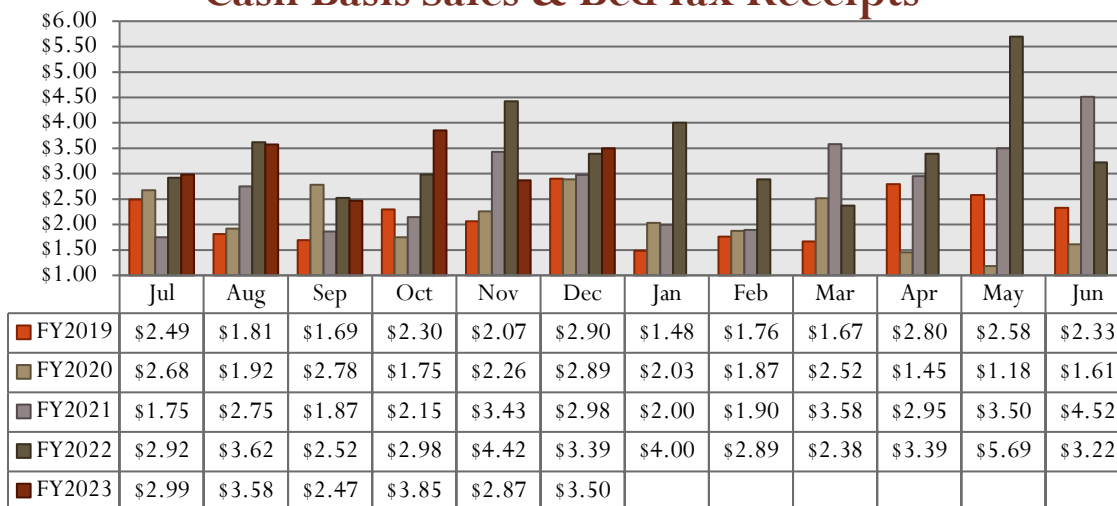
*December 2022 cash basis sales and bed tax receipts were 22% higher than the prior month.*

On average, accrual basis October sales and bed tax revenues are approximately 15% more than September, and accrual basis November sales and bed tax revenues are approximately 12% less than October. October 2022 accrual basis sales and bed tax revenues were 21% more than September 2022. Accrual basis November 2022 sales and bed tax revenue data is not yet available.

<sup>3</sup> The bond covenant for the Series 1998 bonds required 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.

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.

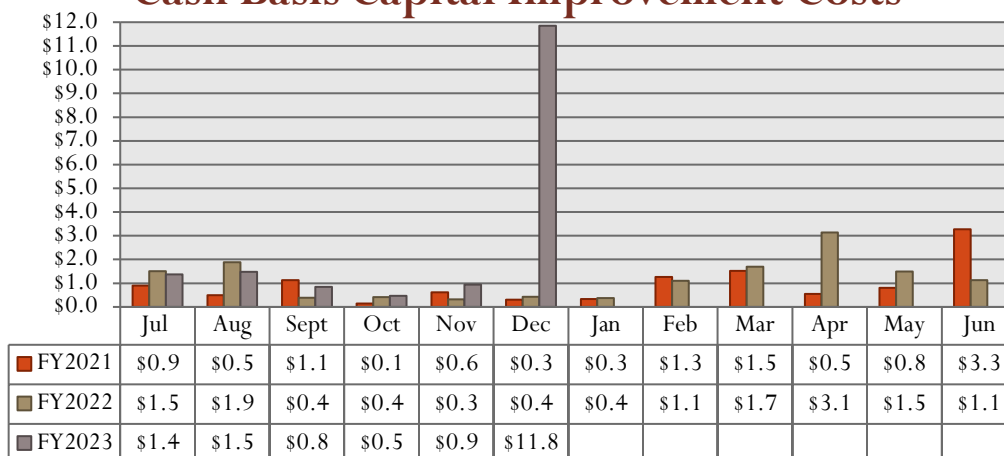
### Cash Basis Sales & Bed Tax Receipts



### 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>4</sup> Significant increases in capital improvement costs can result in months when monthly cash disbursements exceed monthly cash receipts.

### Cash Basis Capital Improvement Costs

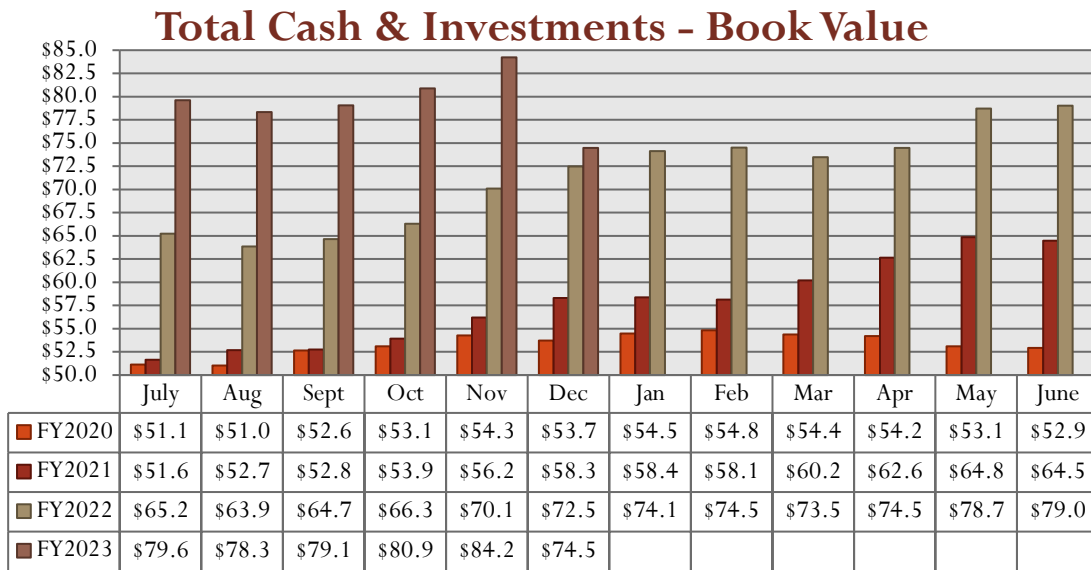


<sup>4</sup> FY 2021 includes land acquisition costs of \$1.0 million in September, \$0.1 million in April, and \$2.1 million in June. FY 2022 includes land acquisition costs of \$1.7 million in August, \$0.2 million in October, \$0.6 million in March, \$1.3 million in April, \$0.3 million in May, and \$0.2 million in June. FY 2023 includes cash-funded land acquisition costs of \$11.5 million in December. An additional \$10 million for land acquisition in December was funded by a bond issuance.

## 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.

*November 2022 represents highest cash and investment balance held.*



## 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+). **December 2022 yield was 4.20%**. 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. **December 2022 yield was 3.97%**. 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. **December 2022 yield was 2.79%**. 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. **December 2022 yield was 2.30%**. 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 December 31, 2022 (In Years) | Remaining Coupon Rates | Yield         | Benchmark at Time of Purchase | Par Value            | Book Value           | Fair Market Value as of December 31, 2022 | 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                             | 0.5   | 1.600%                 | 1.540%        | 1.790%                        | \$ 2,000,000         | \$ 2,004,072         | \$ 1,966,286                              | \$ -               | \$ (37,786)                         | \$ 14,641  | 2.69%                |
| 3136G4B77   | Federal National Mortgage Association | 8/4/2020        | 8/4/2025      | 5.0                             | 2.6   | 0.700%                 | 0.640%        | 0.200%                        | \$ 2,000,000         | \$ 2,005,896         | \$ 1,813,630                              | \$ -               | \$ (192,266)                        | \$ 5,715   | 2.69%                |
| 3130AKXB7   | Federal Home Loan Bank                | 4/29/2021       | 2/11/2026     | 4.8                             | 3.1   | 0.580%                 | 0.810%        | 0.090%                        | \$ 2,000,000         | \$ 1,978,446         | \$ 1,758,948                              | \$ -               | \$ (219,498)                        | \$ 4,513   | 2.66%                |
| 3130ALZG2   | Federal Home Loan Bank                | 4/29/2021       | 4/29/2026     | 5.0                             | 3.3   | 1.010%                 | 0.950%        | 0.090%                        | \$ 2,000,000         | \$ 2,005,846         | \$ 1,789,586                              | \$ -               | \$ (216,260)                        | \$ 3,376   | 2.69%                |
| 3130AMCL4   | Federal Home Loan Bank                | 5/19/2021       | 5/19/2026     | 5.0                             | 3.4   | 1.020%                 | 1.020%        | 0.090%                        | \$ 2,000,000         | \$ 2,000,000         | \$ 1,781,266                              | \$ -               | \$ (218,734)                        | \$ 2,347   | 2.69%                |
| 3133ELK52   | Federal Farm Credit Bank              | 10/5/2021       | 6/15/2026     | 4.7                             | 3.5   | 0.950%                 | 1.010%        | 0.060%                        | \$ 3,000,000         | \$ 2,994,000         | \$ 2,670,849                              | \$ -               | \$ (323,151)                        | \$ 1,249   | 4.02%                |
| 3133EM6E7   | Federal Farm Credit Bank              | 9/28/2021       | 9/28/2026     | 5.0                             | 3.7   | 0.940%                 | 0.940%        | 0.060%                        | \$ 2,000,000         | \$ 2,000,000         | \$ 1,754,502                              | \$ -               | \$ (245,498)                        | \$ 4,842   | 2.69%                |
| 3130APCH6   | Federal Home Loan Bank                | 9/29/2021       | 9/29/2026     | 5.0                             | 3.7   | 1.125%                 | 1.125%        | 0.060%                        | \$ 2,000,000         | \$ 2,000,000         | \$ 1,766,174                              | \$ -               | \$ (233,826)                        | \$ 5,733   | 2.69%                |
| 3130AP6B6   | Federal Home Loan Bank                | 9/30/2021       | 9/30/2026     | 5.0                             | 3.8   | 0.950%                 | 0.900%        | 0.060%                        | \$ 2,000,000         | \$ 2,004,878         | \$ 1,762,288                              | \$ -               | \$ (242,590)                        | \$ 4,789   | 2.69%                |
| 3130APGT6   | Federal Home Loan Bank                | 10/28/2021      | 10/28/2026    | 5.0                             | 3.8   | 1.150%                 | 1.150%        | 0.050%                        | \$ 2,000,000         | \$ 1,999,516         | \$ 1,780,306                              | \$ -               | \$ (219,210)                        | \$ 4,033   | 2.68%                |
| 3130APLR4   | Federal Home Loan Bank                | 11/10/2021      | 11/10/2026    | 5.0                             | 3.9   | 1.250%                 | 1.250%        | 0.050%                        | \$ 2,000,000         | \$ 2,000,000         | \$ 1,776,816                              | \$ -               | \$ (223,184)                        | \$ 3,493   | 2.69%                |
| <b>Subtotals</b>  |                                       |                 |               |                                 |   |                        |               |                               | <b>\$ 23,000,000</b> | <b>\$ 22,992,654</b> | <b>\$ 20,620,651</b>                      | <b>\$ -</b>        | <b>\$ (2,372,003)</b>               | <b>\$ 54,731</b>                                 | <b>30.87%</b>        |
| <b>Negotiable Certificates of Deposit</b>                         |                                       |                 |               |                                 |   |                        |               |                               |                      |                      |   |                    |                                     |  |                      |
| 33847E3X3   | Flagstar Bank FSB                     | 7/31/2020       | 7/31/2024     | 4.0                             | 1.6   | 0.500%                 | 0.500%        | 0.340%                        | \$ 249,000           | \$ 249,000           | \$ 233,424                                | \$ -               | \$ (15,576)                         | \$ 522   | 0.33%                |
| 38149MA94   | Goldman Sachs Bank USA                | 9/29/2021       | 9/29/2026     | 5.0                             | 3.7   | 1.050%                 | 1.050%        | 0.060%                        | \$ 248,000           | \$ 248,000           | \$ 218,268                                | \$ -               | \$ (29,732)                         | \$ 663   | 0.33%                |
| 856283U79   | State Bank of India Chicago           | 9/29/2021       | 9/29/2026     | 5.0                             | 3.7   | 1.100%                 | 1.100%        | 0.060%                        | \$ 248,000           | \$ 248,000           | \$ 218,322                                | \$ -               | \$ (29,678)                         | \$ 695   | 0.33%                |
| <b>Subtotals</b>  |                                       |                 |               |                                 |   |                        |               |                               | <b>\$ 745,000</b>    | <b>\$ 745,000</b>    | <b>\$ 670,013</b>                         | <b>\$ -</b>        | <b>\$ (74,987)</b>                  | <b>\$ 1,880</b>                                  | <b>1.00%</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                    | 4.200%        | N/A                           | \$ 3,099,588         | \$ 3,099,588         | \$ 3,099,588                              | \$ -               | \$ -                                | \$ -   | 4.16%                |
| N/A   | Pool 7                                | N/A             | N/A           | N/A                             | 0.0   | N/A                    | 3.970%        | N/A                           | \$ 41,159            | \$ 41,159            | \$ 41,159                                 | \$ -               | \$ -                                | \$ -   | 0.06%                |
| N/A   | Pool 500                              | N/A             | N/A           | N/A                             | 0.0   | N/A                    | 2.790%        | N/A                           | \$ 35,659,353        | \$ 35,659,353        | \$ 35,659,353                             | \$ -               | \$ -                                | \$ -   | 47.88%               |
| <b>Subtotals</b>  |                                       |                 |               |                                 |   |                        |               |                               | <b>\$ 38,800,100</b> | <b>\$ 38,800,100</b> | <b>\$ 38,800,100</b>                      | <b>\$ -</b>        | <b>\$ -</b>                         | <b>\$ -</b>                                      | <b>52.10%</b>        |
| <b>Government Money Market Fund</b>                               |                                       |                 |               |                                 |   |                        |               |                               |                      |                      |   |                    |                                     |  |                      |
| N/A   | Wells Fargo Sweep Account             | N/A             | N/A           | N/A                             | 0.0   | N/A                    | 4.085%        | N/A                           | \$ 11,853,551        | \$ 11,853,551        | \$ 11,853,551                             | \$ -               | \$ -                                | \$ -   | 15.92%               |
| <b>Bank Deposits</b>  |                                       |                 |               |                                 |   |                        |               |                               |                      |                      |   |                    |                                     |  |                      |
| N/A   | Analyzed Checking Accounts            | N/A             | N/A           | N/A                             | 0.0   | N/A                    | 0.400%        | N/A                           | \$ 80,063            | \$ 80,063            | \$ 80,063                                 | \$ -               | \$ -                                | \$ -   | 0.11%                |
| <b>Subtotals</b>  |                                       |                 |               |                                 |   |                        |               |                               | <b>\$ 80,063</b>     | <b>\$ 80,063</b>     | <b>\$ 80,063</b>                          | <b>\$ -</b>        | <b>\$ -</b>                         | <b>\$ -</b>                                      | <b>0.11%</b>         |
| <b>Averages/Grand Totals</b>                                      |                                       |                 |               |                                 | <b>1.0</b>  |                        | <b>2.490%</b> |                               | <b>\$ 74,478,714</b> | <b>\$ 74,471,368</b> | <b>\$ 72,024,378</b>                      | <b>\$ -</b>        | <b>\$ (2,446,990)</b>               | <b>\$ 56,612</b>                                 | <b>100.00%</b>       |

Benchmark per Policy (LGIP Pool 5) 4.200%

<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.

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

| CUSIP                                     | Issuer                         | Transaction Type     | December 2022 Activity |
|---|--------------------------------|----------------------|------------------------|
| <b>Acquisitions</b>                       |                                |                      |                        |
| N/A                                       | Analyzed Checking Accounts     | Net Contribution     | \$ 19,823              |
|   |                                | <b>Subtotal</b>      | <b>\$ 19,823</b>       |
| <b>Dispositions</b>                       |                                |                      |                        |
| 32056GCV0                                 | First Internet Bank of Indiana | Maturity             | \$ 247,000             |
| N/A                                       | Wells Fargo Sweep Account      | Net Withdrawal       | \$ 9,370,135           |
|   |                                | <b>Subtotal</b>      | <b>\$ 9,617,135</b>    |
| <b>Earnings<sup>(2)</sup></b>             |                                |                      |                        |
| 32056GCV0                                 | First Internet Bank of Indiana | Monthly Interest     | \$ 487                 |
| 3133ELK52                                 | Federal Home Loan Bank         | Semi-annual interest | \$ 14,250              |
| N/A                                       | LGIP Pool 5                    | Monthly Gain/Loss    | \$ 11,010              |
| N/A                                       | LGIP Pool 7                    | Monthly Gain/Loss    | \$ 138                 |
| N/A                                       | LGIP Pool 500                  | Monthly Gain/Loss    | \$ 104,748             |
| N/A                                       | Wells Fargo Sweep Account      | Monthly Dividends    | \$ 17,222              |
|   |                                | <b>Subtotal</b>      | <b>\$ 147,855</b>      |
| <b>Expenses</b>                           |                                |                      |                        |
| N/A                                       | N/A                            | Wire Fees            | \$ 50                  |
|   |                                | <b>Subtotal</b>      | <b>\$ 50</b>           |
| <b>Net Transactions for December 2022</b> |                                |                      | <b>\$ (9,449,507)</b>  |

<sup>(1)</sup> The net decrease to investments was the result of an increase in cash basis disbursements for the month. See the Cash Flows section of the Executive Summary for further discussion.

<sup>(2)</sup> Of the total interest earnings for December 2022, \$1,171 was accrued to FY2022 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 2021                                      | \$ 4,914,440           | \$ 6,171,652         | \$ (5,498,167)           | \$ -                  | \$ 5,587,924        | \$ (187,593)       | \$ 5,400,332              |
| August 2021                                    | 5,587,924              | 4,863,814            | (6,247,769)              | 494,000               | 4,697,970           | (84,732)           | 4,613,238                 |
| September 2021                                 | 4,697,970              | 3,731,164            | (2,845,089)              | (4,006,878)           | 1,577,167           | (56,089)           | 1,521,078                 |
| October 2021                                   | 1,577,167              | 4,407,999            | (2,677,579)              | 445,248               | 3,752,835           | (25,964)           | 3,726,870                 |
| November 2021                                  | 3,752,835              | 6,009,172            | (2,213,788)              | (2,000,000)           | 5,548,218           | (43,406)           | 5,504,812                 |
| <b>December 2021</b>                           | <b>5,548,218</b>       | <b>5,022,184</b>     | <b>(2,652,010)</b>       | <b>-</b>              | <b>7,918,392</b>    | <b>(284,940)</b>   | <b>7,633,452</b>          |
| January 2022                                   | 7,918,392              | 5,413,856            | (3,582,885)              | -                     | 9,749,363           | (250,254)          | 9,499,109                 |
| February 2022                                  | 9,749,363              | 4,124,053            | (3,680,508)              | -                     | 10,192,908          | (223,677)          | 9,969,230                 |
| March 2022                                     | 10,192,908             | 3,604,476            | (4,364,213)              | -                     | 9,433,171           | (25,446)           | 9,407,724                 |
| April 2022                                     | 9,433,171              | 6,602,857            | (5,393,225)              | -                     | 10,642,802          | (23,033)           | 10,619,769                |
| May 2022                                       | 10,642,802             | 7,877,792            | (3,781,988)              | -                     | 14,738,607          | (21,712)           | 14,716,895                |
| June 2022                                      | 14,738,607             | 5,222,443            | (4,813,061)              | -                     | 15,147,989          | (461,725)          | 14,686,263                |
| <b>Total FY 2022</b>                           |                        | <b>\$ 63,051,461</b> | <b>\$ (47,750,282)</b>   | <b>\$ (5,067,630)</b> |                     |                    |                           |
| July 2022                                      | \$ 15,147,989          | \$ 6,603,701         | \$ (6,072,711)           | \$ -                  | \$ 15,678,978       | \$ (536,118)       | \$ 15,142,860             |
| August 2022                                    | 15,678,978             | 5,792,101            | (6,340,379)              | 494,000               | 15,624,701          | (192,637)          | 15,432,064                |
| September 2022                                 | 15,624,701             | 3,881,208            | (3,878,284)              | -                     | 15,627,624          | (225,806)          | 15,401,818                |
| October 2022                                   | 15,627,624             | 5,287,833            | (3,006,962)              | 494,000               | 18,402,496          | (151,056)          | 18,251,440                |
| November 2022                                  | 18,402,496             | 6,793,873            | (3,703,366)              | -                     | 21,493,002          | (96,323)           | 21,396,679                |
| <b>December 2022</b>                           | <b>21,493,002</b>      | <b>5,294,081</b>     | <b>(15,188,448)</b>      | <b>247,000</b>        | <b>11,845,635</b>   | <b>(151,283)</b>   | <b>11,694,352</b>         |
| <b>11 Year-to-Date FY 2023</b>                 |                        | <b>\$ 33,652,796</b> | <b>\$ (38,190,150)</b>   | <b>\$ 1,235,000</b>   |                     |                    |                           |

<sup>(1)</sup> This report reflects the activity of the City's cash accounts, excluding a separate account maintained by the Court, with an assumption of the overnight sweep account balances returned to the checking account.