



To: Board of Commissioners  
Re: Treasurer's Report September 30, 2021  
Date: November 16, 2021  
From: Phillip J. Sexton

Consent Item B

Attached is the treasurer's report for September 30, 2021.

**Big Picture Summary**

- The **FY 20/21** preliminary results show approximately \$145,000 of cash reserves being used. We are still waiting for our final pension adjustment for last year, so that is anticipated to increase the expenses.
- The **FY 21/22** budget shows approximately \$1,113,000 of cash reserves being used, \$441,000 from operating reserves and \$672,000 from specified reserves.

**Cash in Bank, Short-term and Long-Term Investment Balances-** Cash in bank, short-term and long-term investment balances on September 30, 2021, are \$5,784,000 compared to \$7,203,000 on June 30, 2021, a decrease of approximately \$1,419,000. This decrease is projected based on our budgeted cash use of \$1.1M for the year, the timing of property tax receipts and beginning of the year payments for prepaid costs.

The balance on September 30, 2020, was \$6,355,000. The decrease in cash over the prior year is primarily the result of the reduction in the timing of property tax receipts, \$100,000 in legal settlement costs, and an increase in major maintenance/capital projects expenses of approximately \$142,000 as compared to the prior year at this point.

Of the current \$5,784,000 in cash and investments, approximately \$5,471,000 or 95% is cash in bank, and our short-term Local Agency Investment Fund (LAIF) with the remaining approximate \$313,000 in long-term government backed securities.

**Investment Yield-** Our overall investment yield on September 30, 2021, is 0.31% vs. 0.34% on June 30, 2021. The yield is consistent with our investment risk and the existing market conditions.

**Cash/Investments and Potential Uses-** Based on the budgeted FYE 2021/2022 amounts, unassigned cash is projected to be \$2,961,000 as shown below.

	<b>Projected</b>
	<b><u>June 30, 2022</u></b>
<b>Cash/investment balance-beg. of year</b>	<b>\$ 7,203,000</b>
FY 21/22 decrease-see above	(1,113,000)
Operating cash flow reserve-board policy	(1,300,000)
Assigned funds-Specified reserves	(1,118,000)
Unearned deposits and revenues	(711,000)
<b>Projected Unassigned funds</b>	<b><u>\$ 2,961,000</u></b>
<b>(Liquid Resources)-June 30, 2022</b>	

As noted above, the investment balance includes approximately \$711,000 of unearned deposits and revenues we have collected but not yet earned, including PG&E lighthouse barrier access funds (\$252,000), unearned mooring funds (\$177,000), RV prepaid reservation fees (\$164,000), San Luis County generator funds (\$98,000), and lessee deposits (\$20,000).

Potential uses of the unassigned funds include:

- Pension and OPEB prefunding, either through Section 115 plans or in the case of the pension direct pay downs of the balance.
- Seed money for pier reconstruction
- Potential rent losses due to Fat Cats (\$85,000 annually) and those related to COVID-19 matters.
- Potential reduction in RV revenues (\$390,000-estimated) relating to Avila Beach Drive. The District has received an additional extension from the Coastal Commission to allow RVs on Avila Drive until November 16, 2022 or until Harbor Terrace is operational.
- Wastewater Treatment Plant
- Future budget requirements

The closure of Diablo Canyon in 2024/2025 will have an impact on our budget after the closure. Based on current legislation, until the closure and over the 6-year period (from FY 18/19) we should receive an annual average of the FY 18/19 annual unitary taxes of approximately \$400,000. This projected average is the combination of the actual unitary tax paid by PG&E (which is decreasing every year as the County devalues the plant) and the supplemental SB 1090 funds which we will receive each year until FY 25/26. FYI...for FY 19/20 we received \$383,176 of SB 1090 funds and were scheduled receive an additional \$191,588 each year in 6 annual payments beginning with FY 20/21. **However, in FY 20/21 we received \$383,176 – PG&E paid us two installments instead of one. The Board may want to reserve these funds when we present year-end budget adjustments.** Once the mitigation funds run out and the plant is devalued, we will have a \$400,000 shortfall in this line item compared to where we were in FY 18/19.

**Other**

**Unfunded Liabilities**

The District has the following unfunded liabilities:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Other Post-Employment Benefits (OPEB) (Implicit & Explicit) (1)	\$ 1,764,000	\$ 1,641,000	\$ 1,608,000
Net Unfunded Pension Liability (UAL) (2)	\$ 5,370,000	\$ 4,497,000	\$ 4,135,352
Compensated Absences	<u>\$ 290,000</u>	<u>\$ 277,623</u>	<u>\$ 277,629</u>
Total	<u>\$ 7,424,000</u>	<u>\$ 6,415,623</u>	<u>\$ 6,020,981</u>

(1) The June 30, 2021 OPEB unfunded liability is based on a 2.66% discount rate (earnings rate)

(2) The June 30, 2021 unfunded pension liability is based on a 7.0% discount rate (earnings rate)

**OPEB-**The Other Post-Employment Benefits (OPEB) relates to the present value of accrued post-employment health insurance benefits employees and retirees have earned. Based on actuarial projections our actual costs are approximately \$140,000/year (current and future benefits). FY 2020/2021 our actual payments for retiree healthcare were \$17,039. On June 30, 2021, we have set aside in an assigned reserve \$69,000 of the unfunded \$1,764,000 liability.

**Net Unfunded Pension Liability-**The June 30, 2021 net unfunded liability from our Govinvest software reporting is \$5,370,000 (above). The June 30, 2021 balance per our audit report will be \$4,868,000 or \$502,000 less than our software. The June 30, 2020 pension liability per our software was \$5,230,000 and for financial statements was \$4,497,000. The financial statement balance is less than our software due to the rules for computing the balance per the Governmental Accounting Standards Board (GASB). The Govinvest amount of \$5,370,000 is the most accurate. Comparing the two years, per Govinvest, the liability increased by \$140,000. and per the financials it increased by \$371,000.

PERS is systematically lowering the discount rate (the projected investment earnings rate) and such lowering increases the unfunded pension liability. For June 30, 2021, the discount rate is 7% (assumed future return on investments) while the actual PERS investment return for FY20/21 was **21.3%**. The average 20-year return is now 6.9%. An earnings rate of 1% less would increase the liability by approximately \$2,200,000. Even though PERS had a FY20/21 21.3% return, they are lowering the discount rate to 6.8% based on their policy. This means our liability will go up, all else being equal.

**Compensated Absences**-The compensated absences represent the June 30, 2021, value of accrued vacation and sick leave that employees are entitled to based on their past service.

**Certification**

In conformity with Government Code 53646 (b)(2) I certify that 1) all investment actions executed since the last report have been made in full compliance with the Investment Policy and 2) the Harbor District is projected to have sufficient cash reserves to meet its expenditure obligations for the next six months.

TO: BOARD OF COMMISSIONERS  
 FROM: PHILLIP J. SEXTON, TREASURER  
 DATE: November 16, 2021  
 DATE: INVESTMENT PORTFOLIO AT September 30, 2021

INVESTMENTS	September 30, 2021			June 30, 2021			CURRENT	PREVIOUS	CURRENT	PREVIOUS
	SHARES	MARKET VALUE	COST	SHARES	MARKET VALUE	COST	MARKET YIELD	MARKET YIELD	NET ASSET VALUE	NET ASSET VALUE
								June 30, 2021		June 30, 2021
<b>Liquid Assets:</b>										
Cash in Bank-Wells Fargo Operating		398	398		96,567	96,567				
Cash in Bank- Pacific Western Credit Card		20,217	20,217		33,703	33,703				
Cash in Bank- Pacific Western Operating		45,659	45,659		174,248	174,248				
Cash in Bank- Pacific Western Payroll		142,264	142,264		141,699	141,699				
Local Agency Investment Fund (1)	5,256,745	5,256,745	5,256,745	6,381,825	6,381,825	6,381,825	0.21%	0.26%	1.00	1.00
Cash in County Treasurer		5,789	5,789		60,365	60,365				
<b>Securities Backed By U.S. Govt.</b>										
Franklin Fund	53,029.86	312,876	381,829	53,029.86	314,467	381,829	2.36%	2.37%	5.90	5.93
Investments and Cash in Bank		<u>5,783,948</u>	<u>5,852,901</u>		<u>7,202,874</u>	<u>7,270,236</u>	<u>0.31%</u>	<u>0.34%</u>		
Cumulative Unrealized Gain (Loss) on Investment Balances			<u>(68,953)</u>			<u>(67,362)</u>				

Notes

The source of the portfolio valuations ((per government code 53464(b)(1)) are as follows:

- Cash in Bank- Bank statements and bank reconciliations
- Local Agency Investment Fund- Local Agency Investment Report
- Franklin fund-Reported stock market valuation

(1) Excludes any interest accrued at year end but not yet paid.

TO: BOARD OF COMMISSIONERS  
 FROM: PHILLIP J. SEXTON, TREASURER  
 DATE: November 16, 2021  
 RE: INVESTMENT TRANSACTIONS FOR THE THREE MONTHS ENDED September 30, 2021

INVESTMENT	COST BEGINNING BALANCE	TRANSFERS IN	TRANSFERS OUT	EARNINGS FOR YEAR	COST ENDING BALANCE	FISCAL YEAR-TO-DATE EARNINGS	CURRENT MARKET YIELD
<b>Liquid Assets:</b>							
Cash in Bank-Wells Fargo Operating	96,567		(96,169)		398		
Cash in Bank- Pacific Western Credit Card	33,703	405,301	(418,787)		20,217		
Cash in Bank- Pacific Western Operating	174,248	1,665,633	(1,794,222)		45,659		
Cash in Bank- Pacific Western Payroll	141,699	881,350	(880,785)		142,264		
Local Agency Investment Fund	6,381,825		(1,130,000)	4,920	5,256,745	4,920	0.21%
Cash In county Treasurer	60,365	5,789	(60,365)		5,789		
<b>Securities Backed By US Govt.</b>							
* Franklin Fund	381,829	0	(1,782)	1,782	381,829	1,782	2.36%
	7,270,236	2,958,073	(4,382,110)	6,702	5,852,901	6,702	0.31%

\*\* Earnings are added to our investment account.