| | | |
|---|---|---|
| To: | Board of Commissioners | |
| Re: | Treasurer's Report February 28, 2022 | Consent Item B |
| Date: | April 26, 2022 | |
| From: | Phillip J. Sexton | |

Attached is the treasurer's report for February 28, 2022.

**Big Picture Summary**

- The current FY 21/22 **budget** shows approximately $1,141,000 of cash reserves being used, $441,000 from operating reserves and $700,000 from specified reserves.
- The current FY 21/22 mid-year **projection** results in approximately $340,000 of reserves being used as opposed to the budgeted cash use of $1,141,000, an improvement of $801,000.
- The projected difference is 1) $447,000 in improved operations/property taxes and 2) $354,000 in reduced major maintenance and capital expenditures.

**Cash in Bank, Short-term and Long-Term Investment Balances**- Cash in bank, short-term and long-term investment balances on February 28, 2022, are $7,033,000 compared to $7,203,000 on June 30, 2021, a decrease of approximately $180,000. However, as noted above, we anticipate a decrease in the cash by year end of approximately $340,000.

Of the current $7,033,000 in cash and investments, approximately $6,733,000 or 96% is cash in bank, and our short-term Local Agency Investment Fund (LAIF) with the remaining approximate $300,000 in long-term government backed securities (Franklin Fund).

The Franklin Fund has seen an approximate 8% or $30,000 decrease in value this year (through April 19) due to the rapid increase in interest rates, most of the decrease occurring in the past 2 months. The fund invests in government backed mortgages, most of which are yielding a lower interest rate than the current market interest rates. So as interest rates rise, the value decreases until the fund redeploys capital for higher yielding mortgages. The fund yields a 2.44% current return whereas the LAIF yields .26%. However, as interest rates rise, the LAIF yield will increase and the value of the Franklin will probably continue to decrease.

The Franklin Fund has been held by the District for more than 30 years, but with interest rates anticipated to increase even more we would be better to redeploy the investment to our LAIF as those yields are anticipated to increase, without principal risk.

**Investment Yield**- Our overall investment yield on February 28, 2022, is 0.35% 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 current budgeted FYE 2021/2022 amounts, unassigned cash is projected to be $3,888,000 as shown below.

| | | **Projected June 30, 2022** |
|---|---|---|
| **Cash/investment balance-beg. of year** | **$** | **7,203,000** |
| FY 21/22 projected decrease-see above | | (340,000) |
| Operating cash flow reserve-board policy | | (1,300,000) |
| Assigned funds-Specified reserves | | (1,089,000) |
| Unearned deposits and revenues | | (586,000) |
| **Projected Unassigned funds (Liquid Resources)-June 30, 2022** | **$** | **3,888,000** |

As noted above, the investment balance includes approximately $586,000 of unearned deposits and revenues we have collected but not yet earned, including PG&E lighthouse barrier access funds ($252,000), unearned mooring funds ($113,000), RV prepaid reservation fees ($206,000),, and lessee deposits ($15,000).

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)
- 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 (beginning in 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:

| | June 30, 2021 | June 30, 2020 | June 30, 2019 |
|---|---|---|---|
| Other Post-Employment Benefits (OPEB) (Implicit & Explicit) (1) | $ 1,764,000 | $ 1,641,000 | $ 1,608,000 |
| Net Unfunded Pension Liability (UAL) (2) | $ 4,130,000 | $ 4,497,000 | $ 4,135,352 |
| Compensated Absences | $ 290,000 | $ 277,623 | $ 277,629 |
| Total | $ 6,184,000 | $ 6,415,623 | $ 6,020,981 |

(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 actuarial computed 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 $4,130,000 (above). The June 30, 2021 balance per our audit report is $4,868,000 or $738,000 more 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 Govinvest amount is most accurate. They have recently updated their software to reflect the 2020-2021 portfolio 21.3% return achieved by CALPERS. With recent stock market losses in the current fiscal year, the balance for June 30, 2022 could be higher than the amount above.

Additionally, 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 approximately $400,000, 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: April 26, 2022

DATE: INVESTMENT PORTFOLIO / February 28, 2022

| INVESTMENTS | February 28, 2022 SHARES | February 28, 2022 MARKET VALUE | February 28, 2022 COST | June 30, 2021 SHARES | June 30, 2021 MARKET VALUE | June 30, 2021 COST | CURRENT MARKET YIELD | PREVIOUS MARKET YIELD June 30, 2021 | CURRENT NET ASSET VALUE | PREVIOUS NET ASSET VALUE June 30, 2021 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Liquid Assets:** | | | | | | | | | | |
| Cash in Bank-Wells Fargo Operating | | 0 | 0 | | 96,567 | 96,567 | | | | |
| Cash in Bank- Pacific Western Credit Card | | 147,123 | 147,123 | | 33,703 | 33,703 | | | | |
| Cash in Bank- Pacific Western Operating | | 298,048 | 298,048 | | 174,248 | 174,248 | | | | |
| Cash in Bank- Pacific Western Payroll | | 33,164 | 33,164 | | 141,699 | 141,699 | | | | |
| Local Agency Investment Fund (1) | 6,243,069 | 6,243,069 | 6,243,069 | 6,381,825 | 6,381,825 | 6,381,825 | 0.28% | 0.26% | 1.00 | 1.00 |
| Cash in County Treasurer | | 11,704 | 11,704 | | 60,365 | 60,365 | | | | |
| **Securities Backed By U.S. Govt.** | | | | | | | | | | |
| Franklin Fund | 53,029.86 | 300,149 | 381,829 | 53,029.86 | 314,467 | 381,829 | 2.44% | 2.37% | 5.66 | 5.93 |
| Investments and Cash in Bank | | 7,033,257 | 7,114,937 | | 7,202,874 | 7,270,236 | 0.35% | 0.34% | | |
| Cumulative Unrealized Gain (Loss) on Investment Balances | | | (81,680) | | | (67,362) | | | | |

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: April 26, 2022

RE: INVESTMENT TRANSACTIONS FOR THE EIGHT MONTHES ENDED February 28, 2022

| INVESTMENT | COST BEGINNING BALANCE | TRANSFERS IN | TRANSFERS OUT | EARNINGS FOR YEAR | COST ENDING BALANCE | FISCAL YEAR-TO-DATE EARNINGS | CURRENT MARKET YIELD |
|---|---|---|---|---|---|---|---|
| **Liquid Assets:** | | | | | | | |
| Cash in Bank-Wells Fargo Operating | 96,567 | | (96,567) | | 0 | | |
| Cash in Bank- Pacific Western Credit Card | 33,703 | 891,323 | (777,904) | | 147,123 | | |
| Cash in Bank- Pacific Western Operating | 174,248 | 5,297,526 | (5,173,726) | | 298,048 | | |
| Cash in Bank- Pacific Western Payroll | 141,699 | 2,202,696 | (2,311,230) | | 33,164 | | |
| Local Agency Investment Fund | 6,381,825 | 1,300,000 | (1,450,000) | 11,244 | 6,243,069 | 11,244 | 0.28% |
| Cash In county Treasurer | 60,365 | 275,385 | (324,046) | | 11,704 | | |
| **Securities Backed By US Govt.** | | | | | | | |
| * Franklin Fund | 381,829 | 0 | (4,789) | 4,789 | 381,829 | 4,789 | 2.44% |
| | 7,270,236 | 9,966,930 | (10,138,261) | 16,032 | 7,114,937 | 16,032 | 0.35% |

** Earnings are added to our investment account.