



To: Board of Commissioners
 Re: Treasurer's Report April 30, 2022
 Date: June 28, 2022
 From: Phillip J. Sexton

Consent Item B

Attached is the treasurer's report for April 30, 2022.

Big Picture Summary

- The current FY 21/22 projection, (which is based on our mid-year projections with a few changes), results in approximately \$578,000 of reserves being used as opposed to the budgeted reserve use of \$1,141,000, an improvement of \$563,000. However, we are anticipating using fewer reserves than this projection indicates.
- The preliminary FY 22/23 budget results in \$976,000 of cash reserves being used. The General Fund and Capital Projects fund will have deficit fund balances, while the Enterprise Fund will have a positive fund balance.

Cash in Bank, Short-term and Long-Term Investment Balances- Cash in bank, short-term and long-term investment balances on April 30, 2022, are \$8,068,000 compared to \$7,203,000 on June 30, 2021, an increase of approximately \$865,000. We anticipate spending substantial amounts of this increase prior to year end due to our normal cash flow cycle.

Of the current \$8,068,000 in cash and investments, approximately \$7,782,000 or 96% is cash in bank, and our short-term Local Agency Investment Fund (LAIF) with the remaining approximate \$286,000 in long-term government backed securities (Franklin Fund). The fund was liquidated in May 2022. The proceeds are temporarily invested with LAIF, pending a more formal long-term investment strategy.

Investment Yield- Our overall investment yield on April 30, 2022, is 0.52% vs. 0.34% on June 30, 2021. The yield is consistent with our investment risk and the existing market conditions. As interest rates have increased, the LAIF account is currently yielding 0.80% as of today vs. 0.52% on April 30, 2022. We anticipate the yield will continue to increase.

Cash/Investments and Potential Uses- Based on the current projected FY 2021/2022 amounts, cash reserves are projected to be \$3,521,000 at June 30, 2022 and based on the FYE 2022/2023 preliminary budget cash reserves are projected to be \$2,901,000 at June 30, 2023 unassigned are shown below.

	<u>Projected June 30, 2022</u>	<u>Projected June 30, 2023</u>
Cash/investment balance-beg. of year	\$ 7,203,000	\$ 6,900,000
Projected decrease-see above	(578,000)	(976,000)
Operating cash flow reserve-board policy	(1,300,000)	(1,300,000)
Assigned funds-Specified reserves	(1,689,000)	(1,008,000)
Unearned deposits and revenues	(715,000)	(715,000)
Projected Cash Reserves (Liquid Resources)	<u>\$ 2,921,000</u>	<u>\$ 2,901,000</u>

As noted above, the investment balance includes approximately \$715,000 of unearned deposits and revenues we have collected but not yet earned, including PG&E lighthouse barrier access funds (\$252,000), unearned mooring funds (\$87,000), RV prepaid reservation fees (\$116,000), unearned grant revenue from Friends of Avila Pier (\$245,000), 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 economic uncertainty
- 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:

	<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)	\$ 4,130,000	\$ 4,497,000	\$ 4,135,352
Compensated Absences	<u>\$ 290,000</u>	<u>\$ 277,623</u>	<u>\$ 277,629</u>
Total	<u>\$ 6,184,000</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 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: June 28, 2022
 DATE: INVESTMENT PORTFOLIO AT April 30, 2022

INVESTMENTS	April 30, 2022			June 30, 2021			CURRENT MARKET YIELD	PREVIOUS MARKET YIELD June 30, 2021	CURRENT NET ASSET VALUE	PREVIOUS NET ASSET VALUE June 30, 2021
	SHARES	MARKET VALUE	COST	SHARES	MARKET VALUE	COST				
Liquid Assets:										
Cash in Bank-Wells Fargo Operating		0	0		96,567	96,567				
Cash in Bank- Pacific Western Credit Card		20,792	20,792		33,703	33,703				
Cash in Bank- Pacific Western Operating		451,988	451,988		174,248	174,248				
Cash in Bank- Pacific Western Payroll		184,007	184,007		141,699	141,699				
Local Agency Investment Fund (1)	6,697,967	6,697,967	6,697,967	6,381,825	6,381,825	6,381,825	0.52%	0.26%	1.00	1.00
Cash in County Treasurer		427,261	427,261		60,365	60,365				
Securities Backed By U.S. Govt.										
Franklin Fund	53,029.86	286,361	381,829	53,029.86	314,467	381,829	2.53%	2.37%	5.40	5.93
Investments and Cash in Bank		8,068,376	8,163,844		7,202,874	7,270,236	0.52%	0.34%		
Cumulative Unrealized Gain (Loss) on Investment Balances			(95,468)			(67,362)				

Notes

The source of the portfolio valuations ((per government code 53464(b)(1)) are as follows: 8 . 0 6 8
 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: June 28, 2022

RE: INVESTMENT TRANSACTIONS FOR THE TEN MONTHS ENDED April 30, 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	1,032,043	(1,044,954)		20,792		
Cash in Bank- Pacific Western Operating	174,248	7,352,077	(7,074,336)		451,988		
Cash in Bank- Pacific Western Payroll	141,699	2,837,696	(2,795,388)		184,007		
Local Agency Investment Fund	6,381,825	1,750,000	(1,450,000)	16,142	6,697,967	16,142	0.52%
Cash In county Treasurer	60,365	690,942	(324,046)		427,261		
Securities Backed By US Govt.							
* Franklin Fund	381,829	0	(5,393)	5,393	381,829	5,393	2.53%
	<u>7,270,236</u>	<u>13,662,757</u>	<u>(12,790,684)</u>	<u>21,535</u>	<u>8,163,844</u>	<u>21,535</u>	<u>0.52%</u>

** Earnings are added to our investment account.