



To: Board of Commissioners
 Re: Treasurer's Report July 31, 2022
 Date: September 27, 2022
 From: Phillip J. Sexton

Attached is the treasurer's report for July 31, 2022.

Big Picture Summary

- FY 21/22-we are continuing to work on finalizing the financial statements and preparing for the annual audit. As previously discussed, we anticipate that the District generated more cash flow than budgeted.
- FY 22/23- the budget results in \$976,000 of cash reserves being used. The General 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, and short-term investment balances on July 31, 2022, are \$7,797,311 compared to \$7,771,051 on June 30, 2022.

The current \$7,797,311 represents cash in bank and our short-term Local Agency Investment Fund (LAIF). A formal long-term investment strategy is pending.

Investment Yield- Our overall investment yield on July 31, 2022, is 1.18% vs. 0.86% on June 30, 2022. The yield is consistent with our investment risk and the existing market conditions. As interest rates have increased, we anticipate the LAIF yield will continue to increase. The September 21, 2022 daily rate is 1.57 %.

Cash/Investments and Potential Uses- Based on the current projected FY 2021/2022 amounts, cash reserves are projected to be \$4,200,000 at June 30, 2022 and based on the FYE 2022/2023 budget, cash reserves are projected to be \$3,553,000 at June 30, 2023 as shown below.

	<u>Projected June 30, 2022</u>	<u>Projected June 30, 2023</u>
Cash/investment balance-beg. of year	\$ 7,203,000	\$ 7,771,000
Unearned grant income-net	330,000	959,000
Projected cash flow (usage) for FY	370,000	(976,000)
Operating cash flow reserve-board policy	(1,300,000)	(1,300,000)
Assigned funds-Specified reserves	(1,533,000)	(851,000)
Unearned deposits and revenues	(870,000)	(2,050,000)
Projected Cash Reserves (Liquid Resources)	<u>\$ 4,200,000</u>	<u>\$ 3,553,000</u>

The July 31, 2022 investment balance includes approximately \$2,050,000 of unearned deposits and revenues we have collected but not yet earned, including PG&E lighthouse barrier access funds (\$252,000), unearned mooring funds (\$59,000), RV prepaid reservation fees (\$276,000), unearned grant revenue from Friends of Avila Pier (\$245,000) and State Lands Commission (\$1,204,000), 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's current extension from the Coastal Commission to allow RVs on Avila Drive expires November 16, 2022. The District will apply for an additional extension, but it is at the Coastal Commission discretion.
- Future budget requirements

The scheduled closure of Diablo Canyon in 2024/2025 (assuming the plan to keep the plant open does not materialize) will have an impact on our budget after the closure. 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/others (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 receive an additional \$191,588 each year in 5 annual payments beginning with FY 20/21. As of 6/30/22 we are paid up through the FY 22/23 payment., so we have two payments remaining. 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.

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.

With the 2022 financial market losses, PERS experienced a 6.1% loss for FYE June 30, 2022. This will have the impact of increasing our unfunded liability by approximately \$1,500,000 compared to June 30, 2021.

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: September 27, 2022
 DATE: INVESTMENT PORTFOLIO AT July 31, 2022

INVESTMENTS	July 31, 2022			June 30, 2022			CURRENT	PREVIOUS	CURRENT	PREVIOUS
	SHARES	MARKET VALUE	COST	SHARES	MARKET VALUE	COST	MARKET YIELD	MARKET YIELD	NET ASSET VALUE	NET ASSET VALUE
								June 30, 2022		June 30, 2022
Liquid Assets:										
Cash in Bank- Pacific Western Credit Card		139,311	139,311		44,028	44,028				
Cash in Bank- Pacific Western Operating		308,221	308,221		115,934	115,934				
+ Cash in Bank- Pacific Western Payroll		143,712	143,712		162,474	162,474				
Local Agency Investment Fund (1)	7,206,067	7,206,067	7,206,067	7,192,967	7,192,967	7,192,967	1.28%	0.86%	1.00	1.00
Cash in County Treasurer		0	0		255,648	255,648				
Investments and Cash in Bank		<u>7,797,311</u>	<u>7,797,311</u>		<u>7,771,051</u>	<u>7,771,051</u>	<u>1.18%</u>	<u>0.86%</u>		
Cumulative Unrealized Gain (Loss) on Investment Balances			<u>0</u>			<u>0</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: September 27, 2022

RE: INVESTMENT TRANSACTIONS FOR THE ONE MONTH ENDED July 31, 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- Pacific Western Credit Card	44,028	171,576	(76,293)		139,311		
Cash in Bank- Pacific Western Operating	115,934	1,602,757	(1,410,470)		308,221		
Cash in Bank- Pacific Western Payroll	162,474	375,000	(393,762)		143,712		
-- Local Agency Investment Fund	7,192,967			13,100	7,206,067	13,100	1.28%
Cash In county Treasurer	255,648		(255,648)		0		
	<u>7,771,051</u>	<u>2,149,333</u>	<u>(2,136,173)</u>	<u>13,100</u>	<u>7,797,311</u>	<u>13,100</u>	<u>1.18%</u>

** Earnings are added to our investment account.