



To: Board of Commissioners  
Re: Treasurer's Report December 31, 2022  
Date: February 28, 2023  
From: Phillip J. Sexton

Consent Item B

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

### **Big Picture Summary**

- FY 22/23- the original budget results in \$976,000 of cash reserves being used. (There have been minor adjustments subsequent to the adoption.)
- Based on our December 31, 2022 preliminary financials, we are tracking fairly closely with the budget. Property taxes and enterprise revenues are tracking the budget, although parking revenue is down slightly by 4%. Overall operating expenses are in line with the budget, although utility costs, primarily sewer, have increased. Major maintenance and capital projects have been moving forward with significant progress, including \$1.3M on the Avila Pier.

**Cash in Bank, Short-term and Long-Term Investment Balances-** Cash in bank, and short-term investment balances on December 31, 2022 are \$6,663,000 compared to \$7,771,000 on June 30, 2022. The decrease from June 30 is due to the timing of property tax revenues and our current capital project expenditures. The current \$6,663,000 represents cash in bank (\$423,000) and our short-term Local Agency Investment Fund-LAIF (\$6,240,000). A formal long-term investment strategy is pending.

**Investment Yield-** Our overall investment yield on December 31, 2022 is 2.04% 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 February 15, 2023 daily rate is 2.63%.

**Cash/Investments and Potential Uses-** Based on the current projected FY 2022/2023 amounts:

	<b><u>Projected June 30, 2023</u></b>
<b>Cash/investment balance-6/30/22</b>	<b>\$ 7,771,051</b>
Budgeted 22/23 cash use	(976,000)
Operating cash flow reserve-board policy	(1,300,000)
Assigned funds-Specified reserves	(851,000)
Unearned deposits and revenues	(860,000)
<b>Projected Cash Reserves (Liquid Resources)</b>	<b><u>\$ 3,784,051</u></b>

The \$3,784,000 is what is projected to be available at June 30, 2023 that has not previously been reserved. Any unreserved funds are designated as operating reserves.

Potential uses of the operating reserves 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
- Your Harbor Director secured a two-year extension from the Coastal Commission to allow RVs on Avila Drive until November 16, 2024, thus negating the short-term impact of lost revenue from Avila Drive.
- Future budget requirements

The scheduled closure of Diablo Canyon in 2024/2025 (assuming the plan to keep the plant open does not materialize-which we know is in flux) 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. In FYE 21/22 the District received \$191,000 in SB 1090 mitigation funds and \$245,000 in unitary taxes for an aggregate \$435,000. We have two SB 1090 mitigation payments remaining.

The District has the following unfunded liabilities:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Other Post-Employment Benefits (OPEB) (Implicit & Explicit) (1)	\$ 1,586,000	\$ 1,764,000	\$ 1,641,000
Net Unfunded Pension Liability (UAL) (2)	\$ 5,200,000	\$ 4,130,000	\$ 4,497,000
Compensated Absences	<u>\$ 300,000</u>	<u>\$ 290,000</u>	<u>\$ 277,623</u>
Total	<u>\$ 7,086,000</u>	<u>\$ 6,184,000</u>	<u>\$ 6,415,623</u>

(1) The June 30, 2022 OPEB unfunded liability is based on a 2.18% discount rate (earnings rate)

(2) The June 30, 2022 unfunded pension liability is based on a 6.8% 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 \$123,000/year (current and future benefits). FY 2021/2022 our actual payments for retiree healthcare were \$16,364. On June 30, 2022, we have set aside in an assigned reserve \$69,000 of the unfunded \$1,586,000 liability.

**Net Unfunded Pension Liability**-The June 30, 2022 net unfunded liability from our Govinvest software reporting is \$5,200,000 (above), an increase of \$1,070,000 from 6/30/21. This is due to PERS market losses in FYE 6/30/22. Note the \$5.2M amount is less than the previously reported amount of \$5.9M, as the Govinvest projection has been updated.

The June 30, 2022 balance per our audit report is \$3,215,000 or \$2,075,000 less than our software. The reason being is that the requirements for the audit utilize data and historical market returns from 6/30/21, (when the market was up) and estimates employee census data based on a prior year....so it is outdated information. The Govinvest amount is more accurate.

PERS is systematically lowering the discount rate (the projected investment earnings rate) and all else being equal, such lowering increases the unfunded pension liability. For June 30, 2022, the discount rate is 6.8% (assumed future return on investments) while the actual PERS investment return for FY 21/22 was a loss of 6.10%. The prior year was a gain of 21.3 % increase.

**Compensated Absences**-The compensated absences represent the June 30, 2022, 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: February 28, 2023  
 RE: INVESTMENT TRANSACTIONS FOR THE SIX MONTHS ENDED December 31, 2022

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- Pacific Western Credit Card	44,028	626,837	(648,293)		22,571		
Cash in Bank- Pacific Western Operating	115,934	4,488,476	(4,362,499)		241,911		
Cash in Bank- Pacific Western Payroll	162,474	1,800,000	(1,804,354)		158,120		
.. Local Agency Investment Fund	7,192,967	500,000	(1,490,000)	37,109	6,240,076	37,109	2.17%
Cash In county Treasurer	255,648		(255,648)		0		
	7,771,051	7,415,312	(8,560,795)	37,109	6,662,677	37,109	2.04%

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