



# Board of Directors Finance Committee Meeting

## San Mateo County Flood and Sea Level Rise Resiliency District

## AGENDA

**November 16, 2023**

**2:00 PM**

- 1. Roll Call**
- 2. Public Comment** Persons wishing to address the Committee on District-related matters not on this Agenda may speak for up to two minutes; comments on Agenda items shall be heard during that item for up to two minutes.
- 3. Action to Set the Agenda**
- 4. Regular Business**
  - A. With the District's Auditor, discuss the draft Audited Financial Statements for the July 1, 2022 – June 30, 2023 Fiscal Year (attached)
  - B. With the District's Investment Advisor, discuss the recent performance of District investments
- 5. CEO's Report**
- 6. Adjournment**

## Agenda Item 4A

With the District's Auditor, discuss the draft Audited Financial Statements  
for the July 1, 2022 – June 30, 2023 Fiscal Year

FY 2022/23 AUDIT RESULTS

**mGO.**

# San Mateo County Flood and Sea Level Rise Resiliency District

Presented by Macias Gini & O'Connell LLP

November 16, 2023

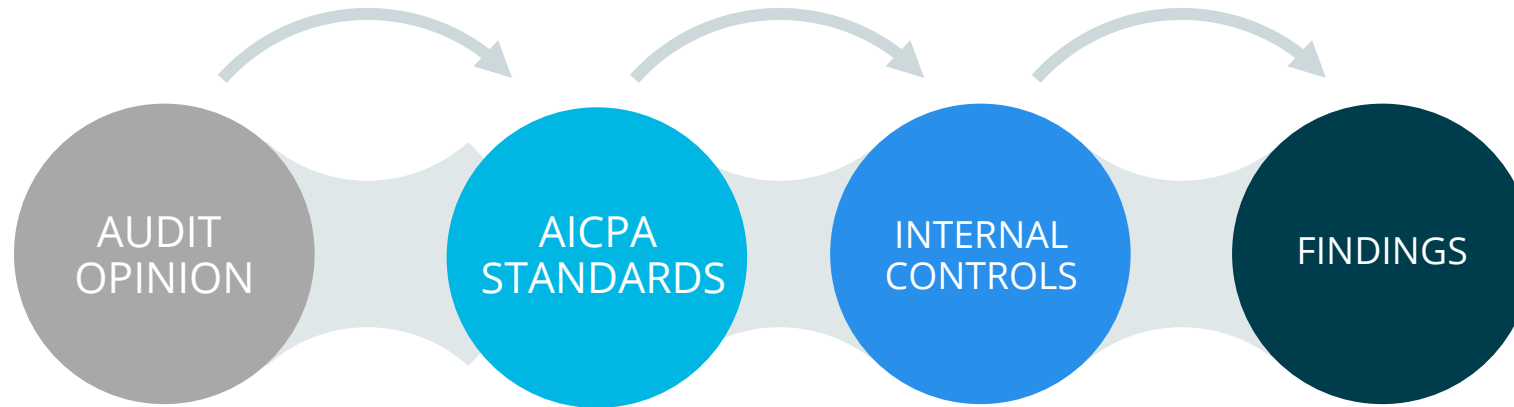


# Scope of Audits

1. Basic Financial Statements
2. Single Audit
  - Not applicable in FY 2022/23

# Auditor Responsibility

Our responsibility under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*.



To express our opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. This does not relieve you or management of your responsibilities.

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA and *Government Auditing Standards*, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

To obtain an understanding of the District and its environment, including internal controls over financial reporting and compliance, as a basis for designing our audit procedures, but not for the purpose of expressing an opinion on its effectiveness.

To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

# Management Responsibilities

Management responsibilities – Financial statements	<ul style="list-style-type: none"><li>• Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP</li><li>• Adjusting the financial statements to correct material misstatements and affirming in the representation letter that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole</li></ul>
Management responsibilities – ICFR	<ul style="list-style-type: none"><li>• Design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error</li></ul>
Management responsibilities – Other	<ul style="list-style-type: none"><li>• To provide the auditor with:<ol style="list-style-type: none"><li>1. access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;</li><li>2. additional information that the auditor may request from management for the purpose of the audit; and</li><li>3. unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence</li></ol></li><li>• Identifying and ensuring that the entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations</li><li>• Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's:<ol style="list-style-type: none"><li>1. disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the entity's financial reporting</li><li>2. acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud</li></ol></li></ul>
Audit Committee responsibilities	<ul style="list-style-type: none"><li>• Oversight of the financial reporting process and internal control over financial reporting (ICFR)</li><li>• Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud</li></ul>
Management and the Audit Committee responsibilities	<ul style="list-style-type: none"><li>• Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards</li><li>• Ensuring that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the entity's financial statements.</li></ul>

# Audit Results and Required Communications

Auditor's Report	Unmodified opinion
Deficiencies in internal controls	No matters to report
Significant accounting policies and practices	Note 2 to basic financial statements. Implementation of New GASB Statements: <ul style="list-style-type: none"> <li>• Statement No. 91, Conduit Debt Obligations</li> <li>• Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements</li> <li>• Statement No. 96, Subscription-Based Information Technology Arrangements (SBITA)</li> <li>• Statement No. 99, Omnibus 2022 – para. 11-25 related to leases, public-private and public-public partnerships, and SBITAs</li> </ul> No exceptions noted.
Significant accounting estimates	Fair value of investments, depreciation for capital assets, accruals for vacation and leave. No exceptions noted.
Financial presentation and disclosure omissions	No matters to report
Corrected and uncorrected audit misstatements	No matters to report
Difficulties encountered in performing the audit	No matters to report
Disagreements with management	No matters to report
Management consultations with other independent accountants	No matters to report

# Condensed Government-wide Financial Statements

As of and for the year ended June 30, 2023			
Assets:		Program expenses:	
Current and other assets	\$ 44,801,803	Public protection	\$ 2,063,232
Capital assets	36,705,025	Depreciation expense	973,569
Total assets	<u>81,506,828</u>	Interest on long-term liabilities	554,527
		Total program expenses	<u>3,591,328</u>
Liabilities:		Program revenues:	
Long-term liabilities	15,634,194	Operating grants and contributions	1,446,362
Other liabilities	1,749,451	Capital grants and contributions	1,748,483
Total liabilities	<u>17,383,645</u>	Total program revenues	<u>3,194,845</u>
Deferred inflows of resources	<u>31,587</u>	General revenues:	
Net position:		Property tax	7,268,967
Net investment in capital assets	20,290,349	Interest and investment income	113,471
Restricted	77	Other	10,827
Unrestricted	43,801,170	Total general revenues	<u>7,393,265</u>
Total net position	<u>\$ 64,091,596</u>	Changes in net position	6,996,782
		Net position - beginning:	<u>57,094,814</u>
		Net position - ending	<u>\$ 64,091,596</u>

# Accounting Updates

## Effective for fiscal year 2024

Statement No. 99, *Omnibus 2022* – para. 4-10 related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53

Statement No. 100, *Accounting Changes and Error Corrections*

## Effective for fiscal year 2025

Statement No. 101, *Compensated Absences*

# Questions?

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## Agenda item 4A

### District's Net Position Comparison: **FY2022-23** vs. **FY2021-22**

	<u>June 30, 2023</u>	<u>June 30, 2022</u>	<u>Difference (\$)</u>	<u>Difference (%)</u>
Assets:				
Current and other assets	\$ 44,801,803	\$ 40,230,389	\$ 4,571,414	11.36%
Capital assets, net	36,705,025	35,250,810	1,454,215	4.13%
Total assets	<u>81,506,828</u>	<u>75,481,199</u>	<u>6,025,629</u> ←	<b>7.98%</b>
Liabilities:				
Long-term liabilities	15,634,194	16,560,237	(926,043)	-5.59%
Other liabilities	1,749,451	1,791,947	(42,496)	-2.37%
Total liabilities	<u>17,383,645</u>	<u>18,352,184</u>	<u>(968,539)</u> ←	<b>-5.28%</b>
Deferred inflows of resources	<u>31,587</u>	<u>34,201</u>	<u>(2,614)</u>	-7.64%
Net position:				
Net investment in capital assets	20,290,349	18,061,076	2,229,273	12.34%
Restricted	77	73	4	5.48%
Unrestricted	43,801,170	39,033,665	4,767,505	12.21%
Total net position	<u>\$ 64,091,596</u>	<u>\$ 57,094,814</u>	<u>\$ 6,996,782</u> ←→	12.25%



## Agenda item 4A

### District's Net Position Comparison: **FY2022-23** vs. **FY2019-20**

	<u>June 30, 2023</u>	<u>June 30, 2020</u>	<u>Difference (\$)</u>	<u>Difference (%)</u>
Assets:				
Current and other assets	\$ 44,801,803	\$ 33,801,526	\$ 11,000,277	32.54%
Capital assets, net	36,705,025	28,310,114	8,394,911	29.65%
Total assets	<u>81,506,828</u>	<u>62,111,640</u>	<u>19,395,188</u> ←	<b>31.23%</b>
Liabilities:				
Long-term liabilities	15,634,194	18,262,942	(2,628,748)	-14.39%
Other liabilities	1,749,451	628,750	1,120,701	178.24%
Total liabilities	<u>17,383,645</u>	<u>18,891,692</u>	<u>(1,508,047)</u> ←	<b>-7.98%</b>
Deferred inflows of resources	<u>31,587</u>	<u>39,429</u>	<u>(7,842)</u>	-19.89%
Net position:				
Net investment in capital assets	20,290,349	9,887,211	10,403,138	105.22%
Restricted	77	1,126,103	(1,126,026)	-99.99%
Unrestricted	<u>43,801,170</u>	<u>32,167,205</u>	<u>11,633,965</u>	36.17%
Total net position	<u>\$ 64,091,596</u>	<u>\$ 43,180,519</u>	<u>\$ 20,911,077</u> ↔	<b>48.43%</b>

## Agenda Item 4B

**With the District's Investment Advisor,  
discuss the recent performance of  
District investments**

# OneShoreline

**San Mateo County Flood and Sea Level Rise Resiliency District**

November 16, 2023

415-265-3760

**pfmam.com**

Monique Spyke, Managing Director

*PFM Asset Management LLC*

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# Market Themes



- ▶ U.S. economy has been characterized by:
  - ▶ High inflation. Peaked at 9.1% in June 2022 and, while now at 3.7%, is still above the Fed's 2% target.
  - ▶ Stronger than expected GDP. A recession in 2023 appeared likely at the start of the calendar year, but growth for the first three quarters has been relatively strong.
  - ▶ Resilient labor market. Unemployment rate below 4% since February 2022.
  - ▶ Headwinds exist. Higher energy prices, elevated geopolitical risks, high inflation, and reduced consumer savings, could lead to a recession in the next year.

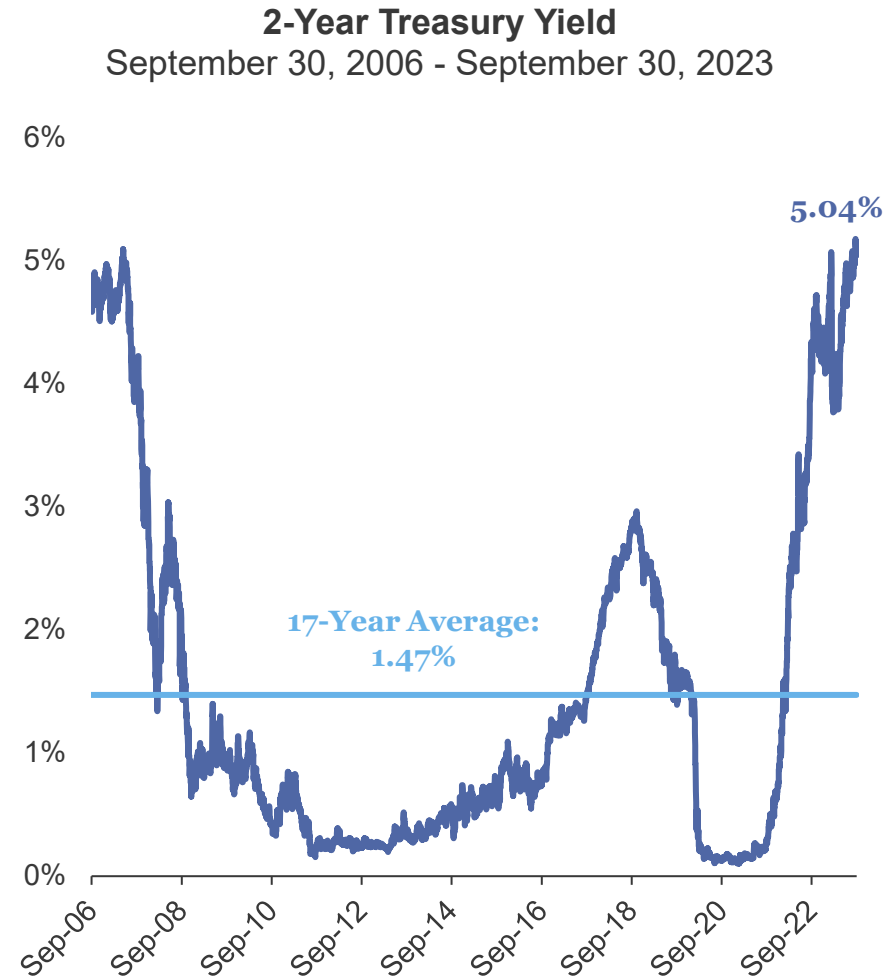
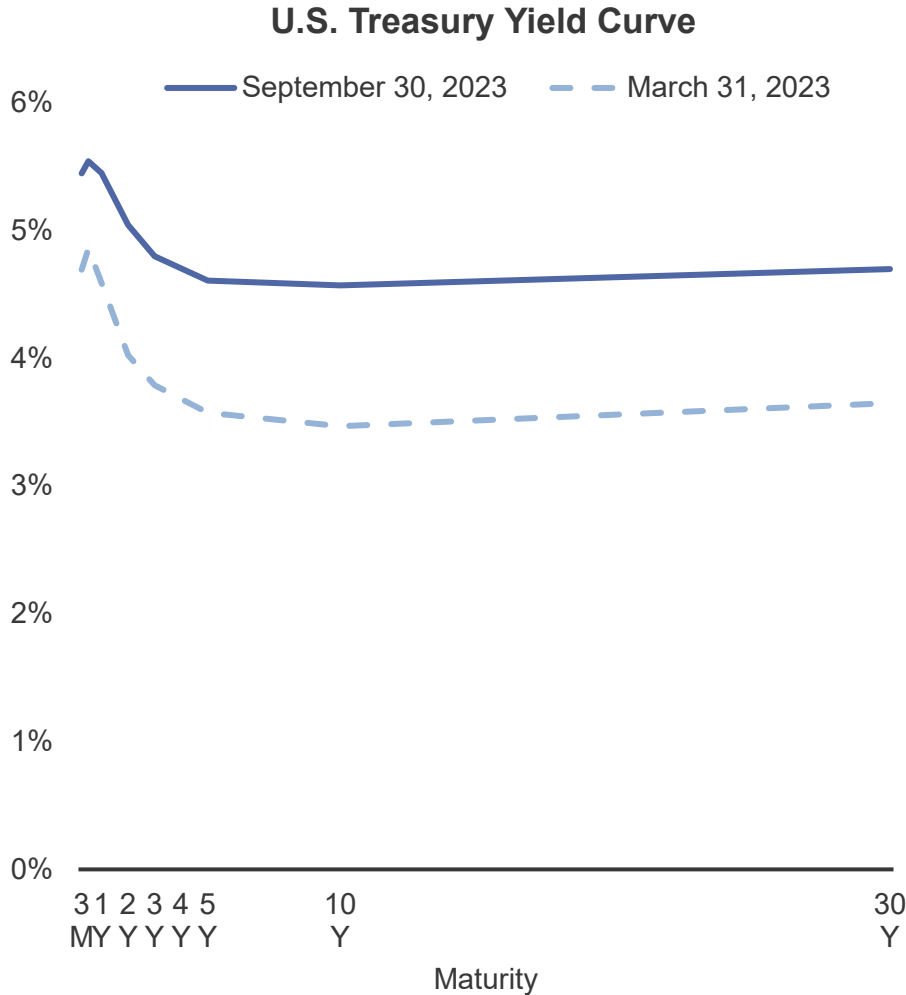


- ▶ Fed has hiked rates over 500 basis points (5.00%) since March 2022.
  - ▶ For 10 consecutive meetings the Fed raised the target rate, bringing it from 0.00% to 0.25% to its current range of 5.25% to 5.50%.
  - ▶ Potential for one additional rate hike in 2023.
  - ▶ Market currently has a “higher-for-longer” mindset.



- ▶ Interest rates are at their highest levels since 2006-07.
  - ▶ Yield curve is inverted.
  - ▶ Higher yields present great opportunities for District's future earnings.
  - ▶ Increase in rates has negatively impacted market values.

# Treasury Yields Higher; Curve Inverted



Source: Bloomberg as of September 30, 2023.

# District's Investment Objectives

## Safety

- High quality investments
- Diversification by sector, issuer, and maturity
- Management of credit and market risk

## Liquidity

- Cash flow coordination
- Allocation to overnight funds

## Return on Investment

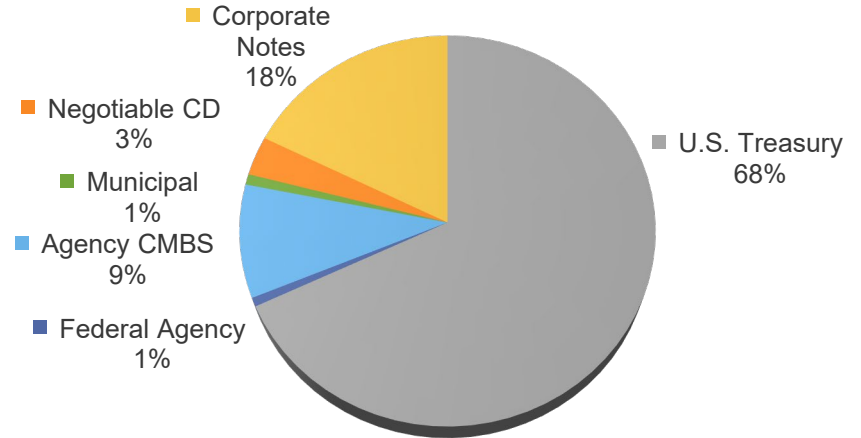
- Duration management
- Active trading and continual evaluation of relative value among allowable sectors

# Portfolio Snapshot

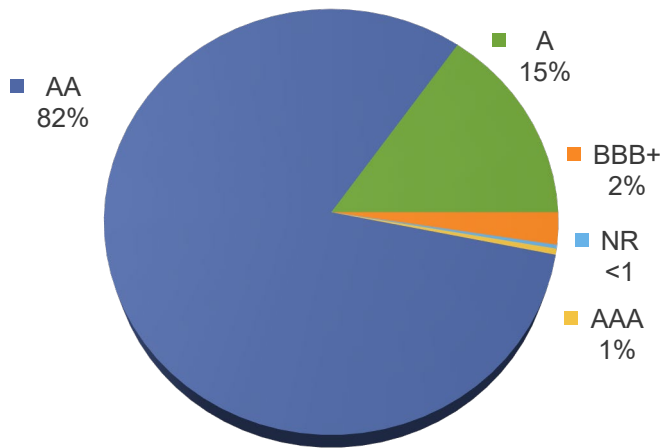
As of September 30, 2023

Portfolio Statistics	
Market Value	\$28,700,395
Yield at Cost	2.44%
Yield at Market	5.09%
Effective Duration	2.50
Benchmark Duration	2.50

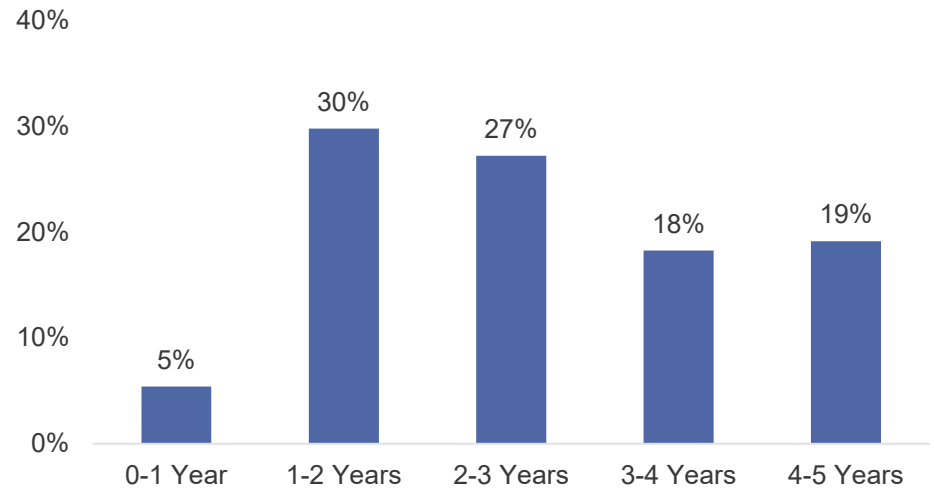
## Sector Allocation



## Credit Quality



## Maturity Distribution



Market value including accrued interest. Ratings by Standard & Poor's as of September 30, 2023. Securities in the District's portfolio are in compliance with California Government Code and the District's investment policy. Portfolio information excludes overnight funds and funds outside of PFMAM's management. 4  
The portfolio's benchmark is the ICE BofA 1-5 Year U.S. Treasury Index. Source: Bloomberg.

# ESG Risk Composition Overview

## Interpreting the ESG Risk Rating

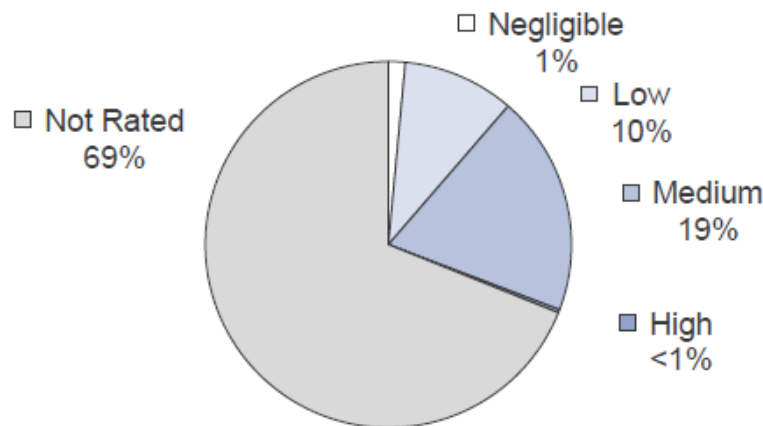
The **ESG Risk Rating** measures economic value at risk based on ESG factors.

**Risk categories are absolute** and comparable across industries.

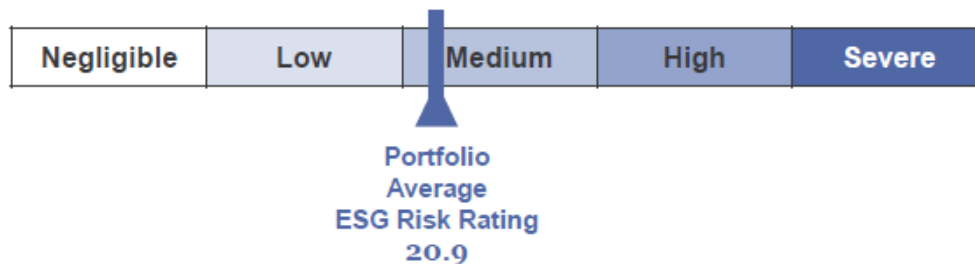
**Lower scores represent less unmanaged risk.**

- Negligible Risk (<10 points)
- Low Risk (10-<20 points)
- Medium Risk (20-<30 points)
- High Risk (30-<40 points)
- Severe Risk (+40 points)

## Allocation by ESG Risk Rating



**35/39** of portfolio issuers are rated with a total rated market value of \$8.9 million (31%)



Market Value includes accrued interest as of September 30, 2023. Average ESG Risk Rating is weighted by market value.

Please see important disclosures at the end of this presentation.

\* U.S. Treasury and Municipal obligations are not included in the analysis

# OneShoreline's Results

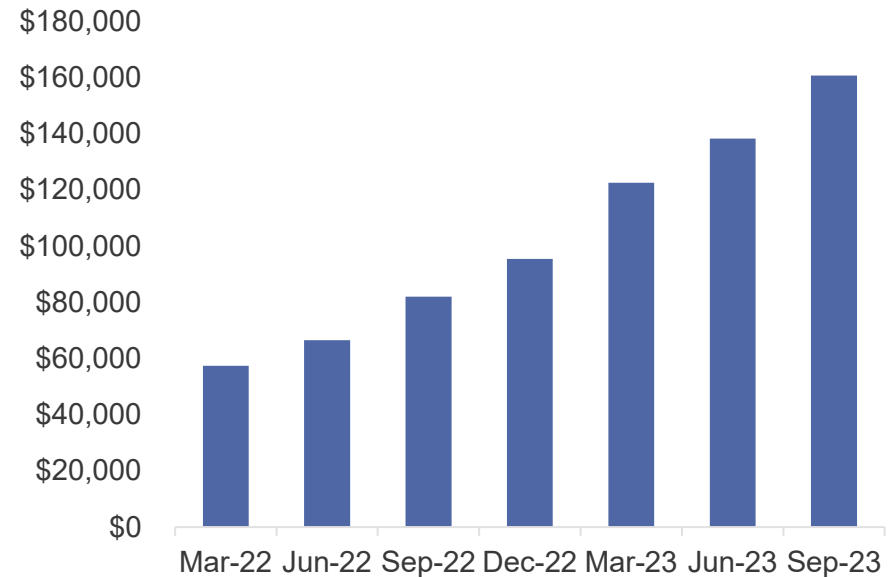
The portfolio has generated **\$302,513** in earnings since the start of the PFMAM relationship.\*

Portfolio yield at cost has increased by **over 200 basis points** since start of relationship.

Outperformed the benchmark since inception by **+36 basis points**.

Portfolio assets **remained safe** and diversified.

## Quarterly Interest Earnings



## Total Return Performance

Total Return	3Q 2023	Past 1 Year	Since Inception
Portfolio	0.27%	2.52%	-1.80%
Benchmark	0.23%	2.12%	-2.16%
<b>Outperformance</b>	<b>+0.04%</b>	<b>+0.40%</b>	<b>+0.36%</b>

\*Earnings and performance data as of September 30, 2023. Performance inception date is June 30, 2021.

Returns for periods greater than one year are presented on an annualized basis.

The portfolio's benchmark is the ICE BofAML 1-5 Year U.S. Treasury Index. Source: Bloomberg.

# Annual Investment Policy Review

- ▶ We have completed our annual review of OneShoreline's Investment Policy. The Policy is well written and in compliance with California Government Code.
- ▶ This year we are recommending no changes.

# Outlook

## Economy and Interest Rates

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- ▶ Strong labor market and wage growth
- ▶ Inflation stuck at 3% to 3.5% -- significantly over the Fed's 2% target
- ▶ U.S. consumer favors services yet spending less as we approach the holidays
- ▶ Federal Reserve continues to fight inflation; future rate hikes uncertain
- ▶ Increased risk of recession due to decreased consumer spending, higher energy prices, and manufacturing slump

## Portfolio Strategy

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- ▶ Continued focus on safety and liquidity
- ▶ Maintain broad diversification by sector, industry, and issuer
- ▶ Evaluate all opportunities to safely add value to the portfolio

# Important Disclosures

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