



Board of Directors Finance Committee Meeting

San Mateo County Flood and Sea Level Rise Resiliency District

AGENDA

November 21, 2024

9:00 AM

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, 2023 – June 30, 2024 Fiscal Year (attached)
 - B. With the District's investment advisor, discuss the recent performance of District investments and potential amendments to the District's Investment Policy *
5. **Adjournment**

Agenda Item 4A

**With the District's Auditor, discuss the draft Audited Financial Statements
for the July 1, 2023 – June 30, 2024 Fiscal Year**

FY 2023/24 AUDIT RESULTS

mGO.

San Mateo County Flood and Sea Level Rise Resiliency District

Presented by Macias Gini & O'Connell LLP

November 21, 2024

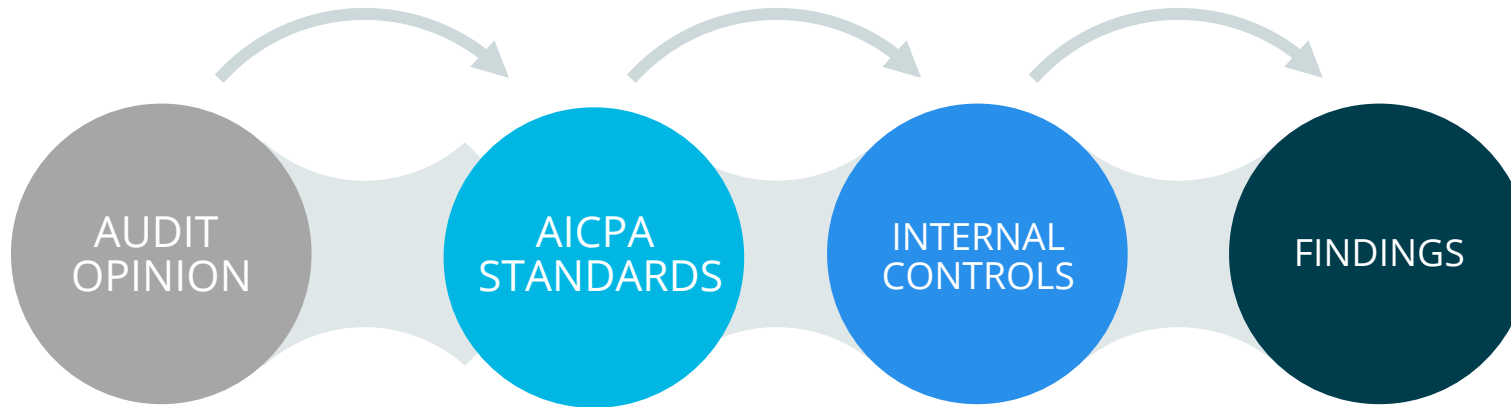


Scope of Audits

1. Basic Financial Statements
2. Single Audit
 - Not applicable in FY 2023/24

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">• Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP• 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
Management responsibilities – ICFR	<ul style="list-style-type: none">• 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
Management responsibilities – Other	<ul style="list-style-type: none">• To provide the auditor with:<ol style="list-style-type: none">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;2. additional information that the auditor may request from management for the purpose of the audit; and3. unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence• 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• 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">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 reporting2. acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	<ul style="list-style-type: none">• Oversight of the financial reporting process and internal control over financial reporting (ICFR)• Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	<ul style="list-style-type: none">• Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards• 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.

Audit Results and Required Communications

Auditor's Report	Unmodified opinion
Deficiencies in internal controls	No matters to report
Significant accounting policies and practices	Discussed in note 2 to the basic financial statements. No new accounting standards for this year impacting financial reporting.
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, 2024			
Assets:			
Current and other assets	\$	52,274,472	
Capital assets		35,747,790	
Total assets		<u>88,022,262</u>	
Liabilities:			
Long-term liabilities		14,664,899	
Other liabilities		1,946,073	
Total liabilities		<u>16,610,972</u>	
Deferred inflows of resources		<u>28,973</u>	
Net position:			
Net investment in capital assets		20,961,453	
Restricted		80	
Unrestricted		50,420,784	
Total net position	\$	<u><u>71,382,317</u></u>	
Program expenses:			
Public protection	\$	3,243,637	
Depreciation expense		990,176	
Interest on long-term liabilities		513,444	
Total program expenses		<u>4,747,257</u>	
Program revenues:			
Operating grants and contributions		1,482,148	
Capital grants and contributions		535,992	
Total program revenues		<u>2,018,140</u>	
General revenues:			
Property tax		7,942,868	
Interest and investment income		2,051,294	
Other		25,676	
Total general revenues		<u>10,019,838</u>	
Changes in net position		7,290,721	
Net position - beginning:		64,091,596	
Net position - ending	\$	<u><u>71,382,317</u></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*

Statement No. 102, *Certain Risk Disclosures*

Statement No. 103, *Financial Reporting Model Improvements*

Statement No. 104, *Disclosure of Certain Capital Assets*




Questions?

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Agenda item 4A District's Net Position Comparison: FY2023-24 vs. FY2022-23

	<u>June 30, 2024</u>	<u>June 30, 2023</u>	<u>Difference (\$)</u>	<u>Difference (%)</u>
Assets:				
Current and other assets	\$ 52,274,475	\$ 44,801,803	\$ 7,472,672	16.68%
Capital assets, net	35,747,788	36,705,025	(957,237)	-2.61%
Total assets	<u>88,022,264</u>	<u>81,506,828</u>	<u>6,515,436</u>	 7.99%
Liabilities:				
Long-term liabilities	13,635,607	15,634,194	(1,998,587)	-12.78%
Other liabilities	2,975,372	1,749,451	1,225,921	70.07%
Total liabilities	<u>16,610,979</u>	<u>17,383,645</u>	<u>(772,666)</u>	 -4.44%
Deferred inflows of resources	<u>28,973</u>	<u>31,587</u>	<u>(2,614)</u>	-8.28%
Net position:				
Net investment in capital assets	20,961,452	20,290,349	671,103	3.31%
Restricted	80	77	3	3.90%
Unrestricted	50,420,780	43,801,170	6,619,610	15.11%
Total net position	<u>\$ 71,382,312</u>	<u>\$ 64,091,596</u>	<u>\$ 7,290,716</u>	 11.38%

Agenda item 4A District's Net Position Comparison: FY2023-24 vs. FY2019-20

	<u>June 30, 2024</u>	<u>June 30, 2020</u>	<u>Difference (\$)</u>	<u>Difference (%)</u>
Assets:				
Current and other assets	\$ 52,274,475	\$ 33,801,526	\$ 18,472,949	54.65%
Capital assets, net	35,747,788	28,310,114	7,437,674	26.27%
Total assets	<u>88,022,264</u>	<u>62,111,640</u>	<u>25,910,624</u>	 41.72%
Liabilities:				
Long-term liabilities	13,635,607	18,262,942	(4,627,335)	-25.34%
Other liabilities	2,975,372	628,750	2,346,622	373.22%
Total liabilities	<u>16,610,979</u>	<u>18,891,692</u>	<u>(2,280,713)</u>	 -12.07%
Deferred inflows of resources	<u>28,973</u>	<u>39,429</u>	<u>(10,456)</u>	-26.52%
Net position:				
Net investment in capital assets	20,961,452	9,887,211	11,074,241	112.01%
Restricted	80	1,126,103	(1,126,023)	-99.99%
Unrestricted	<u>50,420,780</u>	<u>32,167,205</u>	<u>18,253,575</u>	56.75%
Total net position	<u>\$ 71,382,312</u>	<u>\$ 43,180,519</u>	<u>\$ 28,201,793</u>	 65.31%

Agenda item 4A Payoff Colma Creek Bond in August 2025?

- **In 2015, on behalf of its former Flood Control District, San Mateo County issued \$18,725,000 in bonds to mature August 1, 2035 to fund several projects within the Colma Creek Flood Control Zone.**
- **On January 1, 2020, remaining bond obligations were transferred to OneShoreline, which uses property tax revenue and investment income in the Colma Creek Flood Zone to pay off the bonds.**
- **Bond principal balance is \$12.2 million; OneShoreline has \$41 million in the Colma Creek fund.**
- **The first date OneShoreline can payoff principal owed is August 1, 2025; this would avoid future interest of \$3.5 million (interest rate is 5%; current annual interest payment of about \$600K).**
- **Parties to involve to evaluate and implement early redemption of the bonds:**
 - **Underwriter: Stifel Investment Banking**
 - **Bond Counsel: Orrick, Herrington & Sutcliffe LLP (with OneShoreline legal counsel)**
 - **Financial Advisor: California Financial Services (Key Analytics)**
 - **Trustee Bank: U.S. Bank**

OneShoreline

San Mateo County Flood and Sea Level Rise Resiliency District

November 21, 2024

Justin Resuello, Institutional Sales and
Relationship Manager

Market Themes



- The U.S. economy is characterized by:
 - A labor market that is in better balance and supports consumer activity
 - Inflation that has made meaningful progress towards the Federal Reserve's (Fed) 2% target
 - Resilient economic growth and consumer spending that support the 'soft landing' scenario

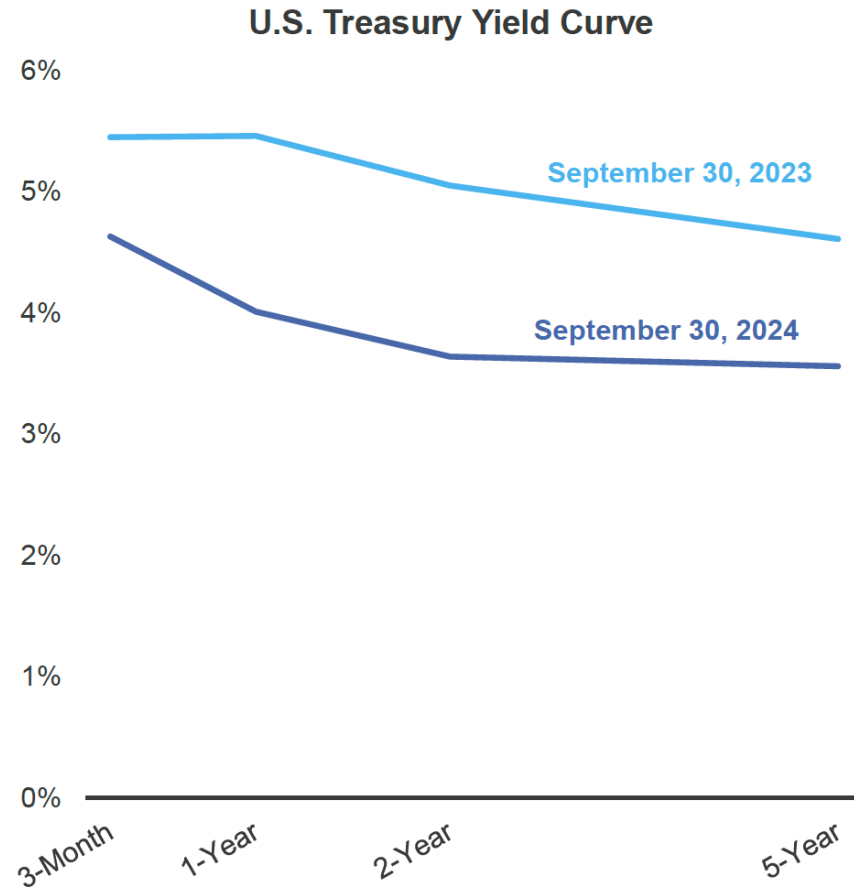
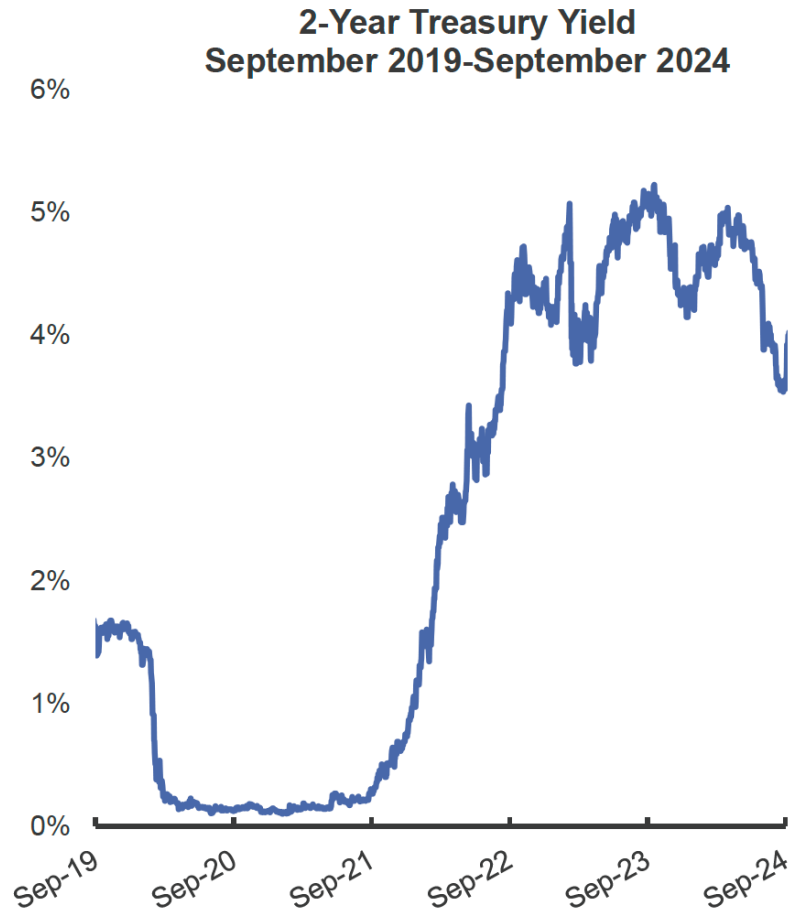


- The Federal Reserve began their easing cycle
 - The Fed cut the federal funds target rate by 50 basis points (bps) to 4.75% - 5.00% at its September FOMC meeting
 - Fed officials noted they have gained greater confidence the risks to their dual mandate are "roughly" in balance



- Treasury yields peaked in October 2023
 - After peaking in October 2023, yields have trended lower
 - The yield curve began to disinvert in the most recent quarter as the spread between the 2-year and 10-year Treasury reached positive territory for the first time in over 2 years

Interest Rate Update



Source: Bloomberg Finance L.P., as of September 30, 2024.

District's Investment Objectives

Safety

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

Liquidity

- Cash flow coordination with the staff
- Allocation to overnight funds

Return on Investment

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

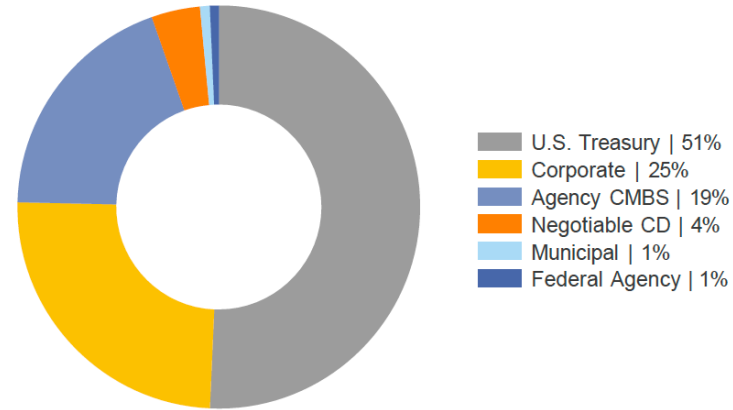


Portfolio Snapshot

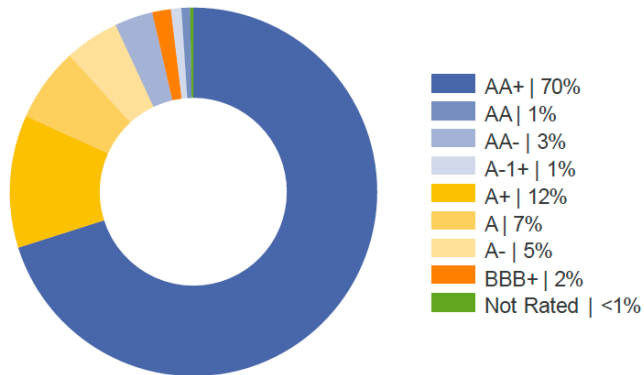
As of September 30, 2024

Portfolio Statistics	
Market Value	\$31,038,218
Yield at Cost	3.84%
Yield at Market	3.83%
Effective Duration	2.52
Benchmark Duration	2.53

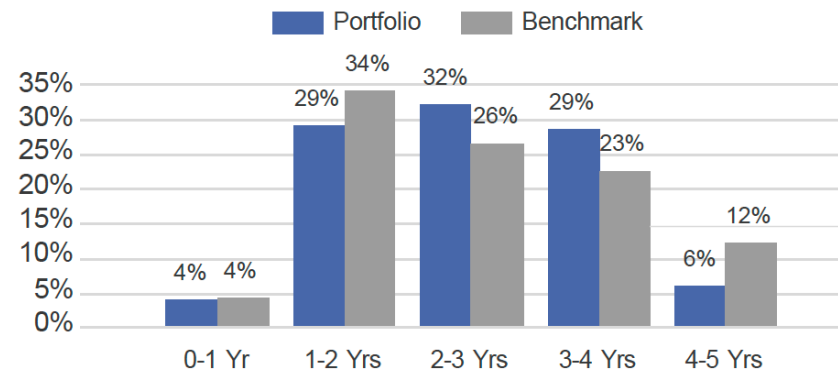
Sector Allocation



Credit Quality - S&P



Duration Distribution



Market value including accrued interest. Ratings by Standard & Poor's as of September 30, 2024. 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

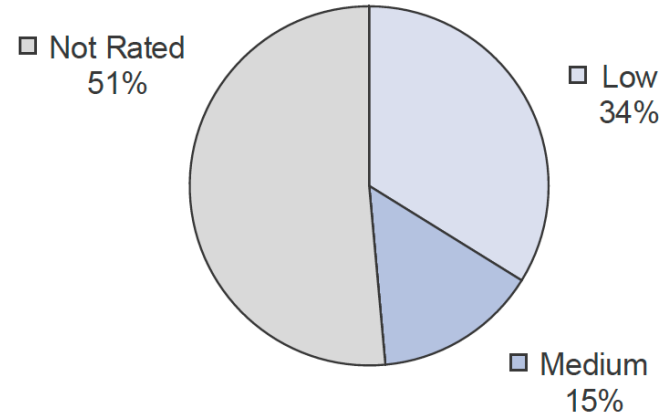
The **ESG Risk Rating** measures economic value at risk based on ESG factors.

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



40/44 of portfolio issuers are rated with a total rated market value of \$15.1 million (49%)



Portfolio
Average
ESG Risk Rating
18.7

Market Value includes accrued interest as of September 30, 2024. 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

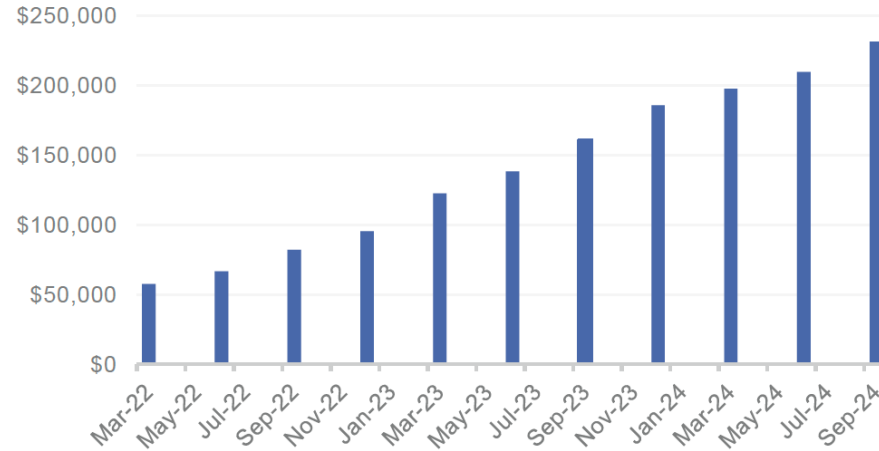
The portfolio has generated **\$899,332** in earnings since the start of the PFMAM relationship.*

Portfolio yield at cost has increased by **over 300 basis points** since start of relationship.

Outperformed the benchmark since inception by **+43 basis points**.

Portfolio assets **remained safe** and diversified.

Quarterly Interest Earnings



Total Return Performance

Total Return	3Q 2024	Past 1 Year	Since Inception
Portfolio	3.52%	8.06%	1.13%
Benchmark	3.39%	7.44%	0.70%
Outperformance	+0.13%	+0.62%	+0.43%

*Earnings and performance data as of September 30, 2024. 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 suggest an update to policy that clarified exemption from Code requirements for mortgage- and asset-backed securities issued or supported by federal agencies and GSEs.



OUTLOOK

- ▶ The Fed's path is less certain, but further easing is expected in the coming year.
- ▶ Inflation continues to make progress toward the Fed's 2% target although shelter costs remain a headwind.
- ▶ Labor market reached better balance and supports consumer activity.
- ▶ U.S. consumer spending continues to support the "soft landing" scenario.

RISKS TO OUTLOOK

- ▶ Risks to achieving the Fed's employment and inflation goals are now "roughly in balance."
- ▶ Continued elevated geopolitical risks, including Ukraine, Israel, China.

PORTFOLIO STRATEGY

- ▶ Continue to maintain disciplined investing approach with focus on safety and liquidity
- ▶ Maintain the portfolio's broad diversification by sector, industry, and issuer to support portfolio performance
- ▶ Evaluate all opportunities as we seek to safely add value to the district's portfolio



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