



ITEM ID: 2024-270-0

TRANSMITTAL DATE: September 6, 2024

MEETING DATE: September 13, 2024

TO: Board of Directors

FROM: Arnold Hackett, Chief Financial Officer
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SUBJECT: FY2023-24 Preliminary Quarterly Investment Report - Quarter Ended June 30, 2024

Issue

The Authority’s Annual Investment Policy requires the Treasurer to make a quarterly investment report to the Board of Directors. Section 53646 of the California Government Code encourages local agencies to file this report and provides requirements for report content and disclosures. This report is for the quarter ended June 30, 2024, and contains estimated information published prior to the conclusion of the Authority’s fiscal year close and is subject to adjustment.

Recommendation

Receive and file.

Strategic Commitment

This report aligns with the Strategic Business Plan commitment of:

- **Modernizing Business Practices:** We will improve our operational efficiency through transparency, objective metrics and streamlined governance, reducing over-reliance on subsidy while bringing our system into a state of good repair, investing in the development of our employees and maintaining fiscal sustainability.

Background

The objective of the Authority’s investment strategy is to ensure that its funds are prudently

invested to preserve capital, provide necessary liquidity, and achieve a market-average rate of return through economic cycles.

The Authority's funds are held in a variety of qualified financial institutions as indicated in the table below. The Authority's main checking and operating accounts are maintained with U.S. Bank. The Authority also maintains savings and investment accounts with U.S. Bank, the State of California's Local Agency Investment Fund (LAIF), and Bank of Montreal (BMO).

Discussion

The Authority's unrestricted cash and investments declined approximately \$19.2 million from the prior quarter ending March 31, 2024. This is primarily attributable to uncollected FY24 Member Support receivables remaining at fiscal year-end, as well as typically significant end of fiscal year disbursements. This compares favorably to a \$33.5 million decline in the prior year's comparable quarter.

Cash and Investment Portfolio as of June 30, 2024		
<i>(\$ in millions)</i>		
Restricted Funds		
Local Agency Investment Fund-Prop 1B	\$17.8	
Local Agency Investment Fund-CARES	<u>18.0</u>	<u>35.8</u>
Unrestricted Funds		
U.S. Bank Operating Accounts	54.0	
U.S. Bank Working Capital Fund	7.2	
BMO Money Market-Board Threshold	50.0	
U.S. Bank Money Market-Legal Reserve	<u>9.2</u>	<u>120.4</u>
Total Estimated Net Cash and Investments		<u>\$156.2</u>

Restricted Funds

Local Agency Investment Fund (LAIF) Prop 1B Account

LAIF is a pooled fund managed by the State Treasurer, an investment alternative for California's local governments and offers local agencies the opportunity to participate in a major portfolio that totals over \$25 billion, using the investment expertise of the State Treasurer's office investment staff at no additional cost to the Authority.

The balance in the Authority's LAIF regular account of \$17.8 million is funded by Proposition 1B (Prop 1B) and accumulated interest earnings already earmarked in prior years for existing Capital and State of Good Repair projects. The funds must be earned and transferred to unrestricted accounts to be counted within SCRRA's available cash. The active Prop 1B-funded projects are listed in Attachment B.

Local Agency Investment Fund (LAIF) CARES Account

The remaining balance in the LAIF CARES account as of June 30, 2024, was \$18.0 million.

As of this date, all funds in the LAIF CARES account belong to VCTC.

Unrestricted Funds

U.S. Bank Operating Accounts

Approximately \$54.0 million in cash was available in U.S. Bank operating accounts as of June 30, 2024. This figure reflects the reported bank balance less estimated outstanding checks (check float).

BMO Money Market Demand Account - Board Threshold

The Authority maintained a \$50.0 million principal balance in the BMO Money Market Demand Account (MMDA) for the quarter ending June 30, 2024. Pursuant to the SCRRA Investment Policy, if the cash threshold balance falls below \$50.0 million for more than two consecutive months, staff will notify the Board. At the end of June, the available cash balance exceeded this threshold and no notification is required.

U.S. Bank Money Market Demand Account - Legal Reserve

The Authority has set aside funds related to on-going legal exposure. Legal reserve funding plus accumulated interest totaled \$9.2 million as of June 30, 2024.

U.S. Bank Money Market Demand Account - Working Capital Fund

In FY24, the SCRRA Board approved a \$50 million Working Capital Fund (WCF) for the purpose of providing advance funding for Capital Program expenses. Member Agencies were invoiced for their respective WCF allocation deposits in June of 2024. As of June 30, 2024, \$7,150,000 had been collected and deposited in a newly established money market demand account at U.S. Bank. Interest earned will be paid directly to Member Agencies after the conclusion of each fiscal year.

Available Cash Analysis

In addition to restricted LAIF funds and other reserved cash (legal reserves and WCF), the Authority has pending liabilities against remaining cash balances. These particular liabilities are subject to refund and adequate liquidity must be kept available for that purpose. After consideration of both restricted/reserved funds and additional cash claims, SCRRA's net liquidity, or available cash as of June 30, 2024, was \$50.8 million. This is an improvement of \$34.4 million as compared to the available cash balance of \$16.4 million for June 30, 2023. This is due to: (1) working capital management in FY24, (2) reduction in cash claims outstanding in FY24, and (3) the estimated budgetary surplus in FY24 versus FY23. Staff monitors SCRRA liquidity on a daily basis and adjusts to address and properly fund operations as needed.

When the \$50 million in Working Capital Funds has been fully received and advance activity commences, quarterly Investment Reports will be expanded to include a summary of WCF activity and balances.

Available Cash Analysis as June 30, 2024

Does not include LAIF, reserve accounts

(\$ in millions)

Cash Category:

Net Operating Cash	\$104.0
<u>Less Prior Claims on Cash:</u>	
Member Agency Preventive Maintenance	(5.6)
TPA Advance Deposits	(28.0)
Member Agency Operating Surplus	(9.4)
Member Agency Capital Surplus	<u>(10.2)</u>
Available Cash to Spend:	\$50.8

Interest Earned

Total interest earned and paid in Q4 FY24 was \$1,689,434, for an increase of \$400,245 over the previous quarter. This represents a total weighted average yield on all accounts of 3.91%. In late February, Finance staff successfully negotiated with U.S. Bank an agreement whereby SCRRA would receive competitive floating rate interest on its main Concentration account (checking account). This account had previously not earned interest beyond interest credits that covered transactional banking fees. Incremental interest earned to date from this change in February of 2024 is \$948,032.

A detailed list of interest received in Q4 FY24 by account is shown in Attachment A.

Investment Portfolio Compliance

The composition of the investment portfolio as of June 30, 2024, complies with all provisions of both the Authority's Annual Investment Policy and California Government Code Section 53600, et sec.

Code Section 53646 requires all local agencies reporting on a quarterly basis indicate the sufficiency of available monies to fund expenses for the next six months or provide an explanation as to why sufficient money shall, or may, not be available. As of June 30, 2024, SCRRA cannot confirm sufficiency to adequately fund the next six months of its operations and capital program. While adequate operational funding is provided for in the Authority's annual budgeting process, these operational funds are concurrently leveraged to advance-fund capital projects. In addition, a portion of operations funding arrives through external Federal grants, the timing of which can be significantly delayed. These factors, along with a lack of reserve funding, creates liquidity concerns and impairs the Authority's ability to provide assurance that adequate funding exists for the next six-month period per Code Section 53646.

Next Steps

The next Investment Report for the quarter ended September 30, 2024, will be provided to the Board in November of 2024.

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Jeffrey Golfo, Finance Analyst I, Accounts Receivable

Approved by:

Arnold Hackett, Chief Financial Officer

Attachment(s)

Attachment A - FY2023-24 Quarterly Investment Report - Investment Balances and Interest Earned FINAL

Attachment B - FY2023-24 Quarterly Investment Report - Prop 1B Projects

Presentation - FY2023-24 Preliminary Quarterly Investment Report - Quarter Ended June 30, 2024