TAHOE REGIONAL PLANNING AGENCY
OPERATIONS AND GOVERNANCE COMMITTEE

TRPA/Zoom Webinar January 24, 2024

Meeting Minutes

CALL TO ORDER AND DETERMINATION OF QUORUM

Chair Ms. Laine called the meeting to order at 8:32 a.m.

Members present: Ms. Bowman (for Mr. Aguilar), Ms. Diss, Ms. Gustafson, Ms. Hill, Mr. Hoenigman, Ms. Laine

I. APPROVAL OF AGENDA

Agenda approved.

II. APPROVAL OF MINUTES

November 15, 2023 Operations and Governance Committee Minutes

Minutes approved.

III. Recommend approval of December 2023 Audited Financial Statements

Mr. Chris Keillor, TRPA Finance Director, presented the item. He began by saying we are halfway through the year with no major liens against the budget. After a slow start, planning fees saw a good month in December. In addition, a few fee changes, in a package previously approved by the board, have now kicked in. And at the end of this month, the inflation adjustment across the board for fees will take effect.

Looking to the revenue side on slide 2, Mr. Keillor said the grant revenues are still very low at only 10%, but all grants are billed in arrears at the end of the quarter. We've also had a few grants, such as the large forest health grant that have only just got contracts against them, so we'll start to spend against that, but we are behind on that grant and some others. The only remaining money in the state revenue category is TSAC (Tahoe Science Advisory Council) money, which is billed on a cost reimbursement basis.

The expenditure side is shown on slide 3. Compensation is a little low because we still haven't filled the Attorney position, although there is a path forward on that. Contracts always tend to lag a bit, so no surprise that it's only at 25%, and everything else is pretty much on track.

Moving to cash flow charts on slide 5, Mr. Keillor said we are anticipating that the California Tahoe Conservancy (CTC) project will be executed soon. When that happens there will be a large transfer of mitigation funds to CTC. Mr. Keillor reminded everyone that under GASB 84, we are now required to report mitigation fund receipts and expenditures as revenue and expenses in our financial statements. This has a very distortional impact on the financial statements, so Mr. Keillor excludes mitigation funds from the charts presented to the Operations Committee but does provide quarterly briefings. Mr. Keillor added that the they invest the mitigation funds, and any accrued interest increases the amount money available for projects.

Committee Comments
None.

Public Comment

None.

Motion

Mr. Hoenigman made a motion to recommend the Governing Board approve the December Financials

Ayes: Ms. Bowman, Ms. Diss, Ms. Gustafson, Ms. Hill, Mr. Hoenigman, Ms. Laine

Motion passed.

VI. Tahoe Keys Mitigation Fund Request

Ms. Shay Navarro, TRPA Watersheds and Water Quality Program Manager presented this item on the Tahoe Keys Property Owners Association (TKPOA) request to release Tahoe Keys Water Quality Mitigation Funds for the Tahoe Keys Lagoons Long-term Water Quality Improvement Project. Ms. Navarro also introduced Mr. Rick Lind, a consultant representing the TKPOA to help answer any questions.

Ms. Navarro said the Tahoe Keys, located in South Lake Tahoe was first established in the late 1950's by dredging and grading a portion of the Upper Truckee marsh to create a suburban residential development with 11 miles of backyard lagoons or waterways. The lagoons receive urban stormwater runoff and are more than 90% covered with aquatic invasive weeds, which negatively impact their water quality. The lagoon's water quality is also being impacted by climate change - Tahoe is seeing a greater fluctuation of extreme events between drought and flood conditions. Ms. Navarro explained that the Lagoons Long-term Water Quality Improvement Project aims to mitigate local and regional non-point source nutrient and pollutants that are inputted to the lagoons from the Tahoe Keys and South Lake Tahoe developments upstream.

This initial planning phase of the project aims to identify restoration and treatment strategies that would improve the circulation and water quality of the Tahoe Keys lagoons, reduce spread of aquatic invasive weeds, and reduce the risks and impacts to the adjacent and hydrologically connected Pope Marsh in Lake Tahoe. The project is complementary to the Tahoe Keys Control Methods Test and Green Infrastructure Planning projects that are happening in the Tahoe Keys. The requested funds would support stakeholder engagement and coordination, refinement of goals and objectives, analyzing existing conditions, identifying restoration and treatment opportunities and constraints, and initiating planning to formulate project alternatives.

Ms. Navarro said this initial planning phase has a three to five-year timeline and follows the EIP Stormwater Quality Improvement Committee project delivery process in formulating and evaluating an alternatives process – both were developed specifically for stormwater improvement projects.

Ms. Navarro provided some background on the Tahoe Keys Water Quality Mitigation Fund. This fund is money that was collected specifically from Tahoe Keys properties. It was created by the Californian Tahoe Regional Planning Agency and Lahontan Regional Water Quality Control Board (Lahontan), to mitigate the water quality impacts from development of the Tahoe Keys, and it applied to construction of Tahoe Keys homes that were allowed to be built on the remaining lots after a change in the Keys land capability classification from stream environment zone (SEZ) to a man modified stream environment zone. TRPA and Lahontan previously released the majority of the principal fund in 2001 for EIP project implementation in the watershed that is upstream of the Tahoe Keys, but close to $450,000.00 remains in mitigation fund interest.

Ms. Navarro said the TRPA Governing Board Policy Guidelines for the release of mitigation funds permits the use of mitigation fund interest for project planning. TRPA staff requests approval of the release of $200,000.00 from the Tahoe Keys Water Quality Mitigation Fund interest for the Tahoe Keys Lagoon's Long-term Water Quality Improvement Project. $100,000.00 will initiate planning of the project, and $100,000.00 will provide match for grant funding. The account balance is sufficient to cover the request and release. The release will also supplement dedicated TKPOA funding that is generated through a property owner approved special assessment that shares a fund of the project.

Ms. Navarro said the project is consistent with Lahontan's waste discharge requirements for the Tahoe Keys, and aligns with the intent of the Tahoe Keys water quality mitigation fund to mitigate water quality from the development of the Tahoe Keys itself. The request is consistent with Environmental Improvement Program objectives, Regional Plan goals and policies, and the mitigation fund policy guidelines. Ms. Navarro added that staff had heard from board member Ms. Aldean with a request to amend condition 5 in the staff report, which currently reads; “upon written approval from TRPA, these funds may be reallocated to another project”. Ms. Aldean wanted to add “within the Tahoe Keys”.

<u>Committee Comments</u>

Ms. Laine said she agreed with Ms. Aldean’s recommendation.

<u>Public Comment</u>

None.

<u>Motion</u>

Mr. Hoenigman made a motion to recommend the Governing Board approve the release subject to the conditions in the staff report, including the amendment to condition 5 to add, “within the Tahoe Keys”.

Ayes: Ms. Bowman, Ms. Diss, Ms. Gustafson, Ms. Hill, Mr. Hoenigman, Ms. Laine

IV. Quarterly Treasurer’s Report

Mr. Keillor said the main highlight was that they had moved some money out of LAIF in anticipation of the CTC Project. He added that cash flow for the year has peaked and is now in decline. He said the investment pool is still fairly short and still heavily into Treasuries and into LAIF and LGIP. Mr. Keillor informed that the staff report includes an error on the pie chart (3% corporate is actually 5% corporate).

Referring to the charts on slide 10, Mr. Keillor said the chart on the left showed the distribution of the investments. In terms of maturities, it is very short. To a large extent the investment pools operate like money market funds - they're very short term because it's all cash management. Speaking to the chart on the right, Mr. Keillor said he had excluded government securities and only used the commercial. He added that it's a very small group of investments, but everything is within the investment policy.

This item was informational only.

V. Annual Update by Principal Group Investment Advisor

Mr. Keillor introduced Mr. Bruce Remington to present the item. Mr. Remington provided a brief economic overview, noting challenges faced throughout the year. He said initial concerns about rising rates and oil prices were prevalent, but the year concluded on a positive note economically. He said they anticipate a mild recession in the late first half of the year, with the market already factoring in much of the impact. He expressed concern about the situation in the Red Sea, and acknowledged the Federal Reserve's attempt to manage the situation. Mr. Remington highlighted the deceleration of inflation, resulting in a significant drop by the end of the year and subsequent decreases in bond yields. The good news is that the portfolio had a lot of funds locked up at higher yields over the past six months.

Mr. Remington noted that we are coming to the end of the tightening cycle, with the Fed and most central banks currently on hold. He added that the aggressive rate increases seen over the last 18-24 months, aimed at controlling inflation, are starting to come to an end. Mr. Remington said that the Fed is monitoring the next couple of months' data for inflation, growth, and volatility before making any decisions. He suggested that rate cuts may not happen until later in the year, emphasizing the data-dependent nature of these decisions.

As for equities, Mr. Remington said they are projecting a period of volatility between now and the middle of the year. He observed that the market is adjusting to slower growth but moderate inflation, with rate cuts in a slowing economy already priced into the market. He added that this is very much a bifurcated market, with the so-called "magnificent 7" (tech-oriented stocks) driving a significant portion of S&P returns. Mr. Reminton anticipates a potential improvement in performance for values, small cap, and mid-cap stocks in a broader market scenario.

Mr. Remington said they definitely had a significant sell-off but noted the positive impact of a well-structured portfolio, with an extremely short-term and high-quality orientation, leading to favorable outcomes during market volatility. He described the yield curve inversion and how the portfolio took advantage by purchasing high-quality, high-coupon bonds with longer maturities. Mr. Remington said he holds bonds to maturity, and plans for bonds with favorable coupons to roll off in the next couple of years. He noted increased stability in rates and mentions that spreads between corporates and treasuries are currently tight. Mr. Remington also highlighted the changing landscape of agency bonds, noting the reduced exposure due to the diminishing yield advantage and liquidity considerations.

Looking back to 2020, Mr. Remington discussed the yields on various financial instruments, noting the low returns on 2-year Treasury bonds (0.13%), money market, passbook savings, and bank accounts (all close to 0%). By 2021 there was some recovery, and by September 2022, inflation had gone from transitory to really embedded in the system, and the market reacted. By September 2023, 2-years had gone up to 5.04%. Mr. Remington described the impact on the portfolio's performance, noting the stability and positive outcomes due to a well-structured approach. Referring to cashflows as of September 30, 2023 for the quarter, Mr. Remington said they started at $12 million and made $114.000.00.

Mr. Remington ran through a breakdown of the portfolio's composition, highlighting significant holdings in Treasuries and high-quality corporate bonds. He also mentioned the avoidance of agency bonds due to tight spreads and discussed the careful selection of investment-grade corporates.

Looking to the portfolio's performance, Mr. Remington emphasizing positive returns against the blended benchmark, which was up 0.74, outperforming by 21 basis points. He added that the fiscal number is also good, and the one-year number was up 3.22%. Mr. Remington pointed out the impact of interest rate changes on the portfolio's performance and contrasted it with the broad market (Bloomberg US Aggregate Bond Index). He emphasized the portfolio's success in avoiding excessive volatility while delivering steady returns.

Mr. Remington said he hadn't changed the portfolio structure much since September 30th. He discussed the rationale behind staying short in the last couple of years, emphasizing the importance of maintaining liquidity, especially with the bulk of assets in LGIP and LAIF accounts. He highlighted the maturity distribution, with approximately 45% of the portfolio in the 0–1-year range and 44% in the 1-5 year range. He explained the positive returns of the portfolio over the last three years compared to the benchmark and the broader market (Bloomberg US Aggregate Bond Index).

Referring to what is in the portfolio right now, Mr. Remington highlighted that there were no triple B corporate bonds. He described key figures such as option adjusted yield, duration, and portfolio value. He expressed a desire to start stretching out maturities slightly longer to the 2–3-year range, if that meets the approval of the TRPA Board. Mr. Remington explored potential future adjustments and repositioning, and mentioned a desire to buy bonds again in 2025 to lock in the decent yields.

Mr. Keillor acknowledged the thoughtful structure of the portfolio, highlighting the strategy of buying smaller amounts of bonds at different intervals to mitigate reinvestment risk. He agreed with the idea of considering longer maturities given the perceived economic stability.

Committee Comment

Ms. Laine and Ms. Gustafson said they agreed that it was time to consider longer maturities, and thanked Mr. Remington for his presentation.

VII. Upcoming Topics

Mr. Keillor said they have not done a general increase in the AIS inspection decontamination fees for 5 years. The program is in good health financially, although we've taken some hits lately with the loss of a DBW grant. That's not a reflection on us or in the program. It's just that now everybody is fighting mussels in all the lakes and it's certainly fair for other people to get a shot at that money too. So we've lost a fair amount of money, and we're also seeing a lot of staffing pressures in the stations. We do have reserves, but we think it's time to get back into a regular cycle of annually reviewing and increasing those fees. That item will come before the committee and board next month for consideration.

Mr. Keillor added that they will get started on budgets for the coming year soon, with the item tentatively scheduled for May 2024. He said they had their first interim committee meeting yesterday with the State of Nevada. There was a lot of attendance, a lot of public comment. One of the issues that's coming up is people talking about whether or not we're as transparent as we should be. Mr. Keillor asked the committee to let him know if there is more they want to see. He said he's trying to strike a balance between burying you in minutia and giving you real information you can use.

In response to the AIS fees item, Ms. Gustafson said she would prefer to see regular smaller increases than waiting 5 years. In that time there's been a lot of cost increases just in labor, and she would like to see an annualized adjustment. Mr. Keillor explained that the way they had structured the program was for the fees and the state funds to cover the cost of the prevention program. But then they started picking up grant money that allowed them to bank funds. That's why they haven't been bringing new increases for the last 5 years because it didn't seem right to increase the fees when you're sitting on a pile of money. Now everything's working in the opposite direction, including the hourly inspector rate, which has doubled.

VIII. Committee Member Comments

None.

IX. Public Comments

None.

X. ADJOURNMENT

Ms. Gustafson made a motion to adjourn.

Ayes: [All]

Chair Laine adjourned the meeting at 9:28 a.m.

Respectfully Submitted,

Tracy Campbell

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Executive Assistant

The above meeting was recorded in its entirety. Anyone wishing to listen to the recording of the above mentioned meeting may find it at https://www.trpa.gov/meeting-materials/. In addition, written documents submitted at the meeting are available for review. If you require assistance locating this information, please contact the TRPA at (775) 588-4547 or virtualmeetinghelp@trpa.gov.