APRIL 9, 2024

ATTN: MENDOCINO COAST HEALTH CARE DISTRICT
BOARD OF DIRECTORS
RE: COMPLIANCE REPORT FINDINGS

Good afternoon, let me begin with thanking each of you for attending a special Board meeting. I do respect your time and effort to participate in this meeting and it is very much appreciated.

I am going to review with you a very important investment policy. The policy is really a blend of policy statements with implementation steps to launch the actual investments.

Regarding investing, the key takeaway I want to stress with you: there must be a very disciplined focus on three pillars named **safety, liquidity and yield** and in that priority order. I repeat safety, liquidity and yield.

When a District has surplus funds to invest it must abide by the California government statute number 53000 (titled investment of surplus).

The policy you are being asked to approve today complies with that statute.

I have been reviewing the District's investment procedures for the last two weeks with the support and cooperation of Kathy.

The compliance findings of that review were disturbing because:

(1) funds in all three banks (Tri-Counties Bank, Bank of America and California Bank of Commerce) were at risk for loss of principal dollars with no FDIC insurance (a **safety** issue),

(2) funds at the CBC bank were at risk of a delay in the timely payment of withdrawals (a **liquidity** issue) and

(3) zero interest income yields on certain accounts (a **yield** issue).

I find it just a little bit unbelievable and shocking that all three pillars of a solid investment policy are being violated currently: safety, liquidity and yield.

Regarding #1 a safety issue- if a bank has a solvency situation and goes into bankruptcy or even liquidation, the District's funds are only insured for the FDIC limit of $250K. the deposits at the three banks that are at risk with no FDIC coverage total $6.8M.

This lack of safety for principal dollars could be considered as negligence.

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Regarding #2 a liquidity issue- per the CBC agreement if the receiving banks fail to meet withdrawal requests timely to the custodian bank (CBC), the funding of all or a portion of the District's withdrawal request could be delayed.

This lack of liquidity could be considered as negligence.

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Regarding #3 a yield issue- the money lost from having no interest income yields cannot be recovered. In finance terms, it is referred to lost opportunity cost.

Lost opportunity cost means that a potential gain is sacrificed when the District chose one option over another (no interest income returns vs. a 5% interest achievable return).

You may be thinking no big deal if we lost a little bit of interest income. Unfortunately, it is a very significant dollar amount.

My name for cash that is not earning any investment yield is idle cash. It is like idle hands. It can become a problem for the District.

About $4.2M of idle cash was invested at the California Bank of Commerce and about $1.8M of idle cash at the other two banks (Tri Counties Bank & Bank of America) for a total of $6.0M in idle cash.

The lost annual interest returns on that $6.0M at 5% would be $300,000 or the equivalent of $822 every single day. If the average worker is making $60,000 per year that $300K lost annual interest is the equivalent of the annual salaries combined for five workers.

This lack of investment yield dollars could be considered as negligence.

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Fortunately, these possible negligent defaults were discovered and have been quickly rectified by transferring the funds to the LAIF account where their safety, liquidity and yield will be complying with the California statute. All of the transfers should be completed no later than Friday, April 12, 2024.

I reviewed the LAIF account and it was not a compliance issue.

OK, let us review the policy document now: I will move thru the pages as rapidly as I can and will be focusing on the areas that I have yellow highlighted. If you have questions, please stop me and we can discuss it at that time.

Respectfully submitted,

Wayne C. Allen, CFO