

**SAN MATEO COUNTY  
TREASURY OVERSIGHT COMMITTEE**

**MINUTES**

Monday, January 31<sup>st</sup>, 2022

**1. CALL TO ORDER**

The meeting, via Zoom, was called to order at 12:03 p.m. by Daneca Halvorson, Chair.

**2. ROLL CALL**

Members and guests were asked to state “present” as their name was announced during roll call. Kevin Bultema, Deputy Superintendent, Business Services Division, introduced himself as the newest member of the Treasury Oversight Committee.

**MEMBERS IN ATTENDANCE**

Daneca Halvorson (Treasurer, City of Daly City) Chair  
Sandie Arnott (Treasurer-Tax Collector)  
Helen Fisicaro (Town of Colma)  
Virginia Chang Kiraly (San Mateo County Harbor District and Menlo Park Fire Protection District Board)  
Connie Mobley-Ritter (Director, Treasury - San Mateo County Transit District)  
Kevin Bultema (Deputy Superintendent, Business Services Division)

**MEMBERS ABSENT**

Stephanie Osaze (Finance Manager, Bay Area Air Quality Management District)  
Robert Manchia (San Mateo County Manager’s Office)

**STAFF IN ATTENDANCE**

Tiffany Htwe (Investment & Finance Officer)  
Gina M. Luiz (Executive Assistant)

**MEMBERS OF THE PUBLIC IN ATTENDANCE**

Ken Schiebel (PFM)  
Richard Babbe (PFM)  
Nancy Jones (PFM)

**3. RESOLUTION TO CONTINUE MEETING REMOTELY**

Members of the Treasury Oversight Committee voted in favor to continue meeting remotely as a result of the ongoing COVID-19 pandemic state of emergency.

#### **4. APPROVAL OF MINUTES – October 25<sup>th</sup>, 2021**

Helen Fiscaro made a motion to approve minutes from the October 25<sup>th</sup>, 2021, meeting, seconded by Virginia Chang Kiraly. Kevin Bultema abstained. Meeting minutes were approved.

#### **5. TREASURER'S REPORT – Sandie Arnott, Treasurer-Tax Collector**

On January 11<sup>th</sup> the Board of Supervisors adopted the Delegation of Authority and the 2022 Investment Policy with the directive to add a section on ESG investing within the next six months. Initially, a request came from one Supervisor to divest from fossil fuels. At the October 25<sup>th</sup>, 2021 Treasury Oversight Committee meeting the Supervisor's request to divest in fossil fuels was mentioned. At the January 11<sup>th</sup> Board of Supervisors meeting, a second member of the Board requested that we divest from fossil fuels. Ms. Arnott stated she is following the law and government code and assured the Board that she would develop a statement that speaks to ESG as a whole, not just the environmental issue of fossil fuels.

After the Board of Supervisors meeting, Ms. Arnott sent a formal letter to direct PFM to discontinue investing in fossil fuels and lead any discussion and consideration between PFM, the Treasurer, and the investment team. The letter was not a direction to divest. The Treasurer and PFM have collected ESG statements from other counties that have addressed ESG in their policy. Once an ESG statement is prepared Ms. Arnott will work with County Counsel to ensure no government codes are violated, and the statement does not restrict her from her statutory duty. Some cities have included statements of completely divesting from fossil fuels, however, they only invest discretionary funds versus the County that invests for schools and special districts.

Ms. Mobley-Ritter stated that Ms. Arnott has a fiduciary duty to get the highest return possible with the safest rating. Ms. Arnott responded she must do what is in the best interest of the pool. PFM has looked into feasibly selling without incurring a loss to the pool, and on January 31<sup>st</sup> they sold a \$4.1 million Exxon bond that matures in 2023. Our current fossil fuel investments are a very small percentage of the portfolio.

#### **6. INVESTMENT REPORT – Ken Schibel, PFM and Tiffany Htwe, Investment & Finance Officer**

Ken Schibel provided an update on the market and economic conditions. The Omicron variant increased COVID-19 caseloads. The case numbers are high, but the hospitalization rates remain low. The GDP for the 4<sup>th</sup> quarter was 6.9%, the strongest of the four quarters. The average growth rate for the year was 5.7%. Before the pandemic, growth in the US was 2-2.5%, and we are likely to end up at 3.5-4% within the year before we taper off further in 2023. The economy added 6.4 million jobs, the most added in a single year since World War II. The unemployment rate is 3.9%, and economists would say the labor market has essentially fully recovered since the beginning of the pandemic in 2020. 3% of the workforce voluntarily quit in November to take another job for potentially higher wages, better benefits, and flexibility.

As the economy reopened businesses pulled back at the same time the Federal Reserve and Congress pumped money into the economy. The money was creating demand and the supply was not available. The Fed is cutting back and once the stimulus money runs out the goods inflation will wane. In December, the expectation was that the Fed would raise rates three times in 2022 due to inflation. The first rate hike is expected in March 2022, and then two more gradual rate hikes throughout the year. The challenge is to cut back and engineer a soft landing for the economy. The stock market has been fluctuating day to day and January will end up being the worst time in a long time for the stock market. The Fed provided too much stimulus to the economy for too long and now they need to pull it back. Interest rates are up 40-45 basis points, and the market has started to reprice and adjust in anticipation of the Fed raising rates.

The portfolio is in excellent shape. PFM has been conservative in the last several years when rates were lower. The core portfolio investments are longer-term securities that are the foundation of the County pool. The short-term portfolio is managed internally and provides for cash flow needs. There is also a separate short-term portfolio managed by PFM where they saw good opportunities in short-term investments. The short-term portfolio managed by PFM shrinks and grows based on market opportunity. The duration on the portfolio overall is 1.56%, and it has held that yield through a low yield environment. The core portfolio has a longer duration and higher yield. The shorter-term investments are great holdings because they will roll over at a much higher yield.

Tiffany Htwe discussed the short-term portfolio for the cash management part of the pool. The County manages 35% of the pool, and PFM manages 65%. The size of the investment pool is \$7 billion. Ms. Htwe has sufficiently prepared for the next 12 months' cash position for all pool participants. The investment pool average daily balance is higher than ever. As of December 31<sup>st</sup>, the total cash maintained with the County is \$6.3 billion on average. The investment pool is highly liquid, and we have not turned away any cash needs for the pool participants. The pool size has steadily increased by nearly \$2 billion over the last 1.5 years. PFM and the Treasurer's office have worked hard to maintain the earnings during the near-zero interest rate environment. The primary focus is on meeting cash requirements for all pool participants while monitoring attractive yield. Ms. Htwe thanked PFM for their partnership.

#### **7. ORAL COMMUNICATION AND PUBLIC COMMENT**

None

#### **8. OTHER BUSINESS**

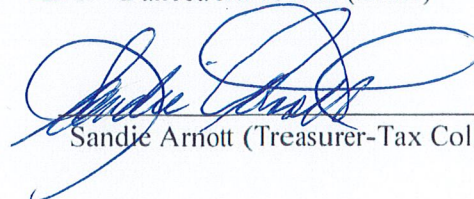
None

#### **9. ADJOURNMENT**

The meeting was adjourned at 12:51 p.m.

A handwritten signature in blue ink, appearing to read "Daneca Halvorson", written over a horizontal line.

Daneca Halvorson (Chair)

A handwritten signature in blue ink, appearing to read "Sandie Arnott", written over a horizontal line.

Sandie Arnott (Treasurer-Tax Collector)