SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

Monday, February 6, 2023

1. CALL TO ORDER

The meeting, via Zoom, was called to order at 12:02 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.

MEMBERS IN ATTENDANCE

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

MEMBERS ABSENT

Robert Manchia (San Mateo County Manager's Office)
Iliana Rodriguez (San Mateo County Manager's Office)

STAFF IN ATTENDANCE

Tiffany Htwe (Investment & Finance Officer)

MEMBERS OF THE PUBLIC IN ATTENDANCE

Richard Babbe (PFM)
Kyle Jones (PFM)
Nancy Jones (PFM)
Meredith LaBuda Sullivan (PFM)

3. RESOLUTION TO CONTINUE MEETING REMOTELY

Helen Fisicaro made a motion to approve the resolution to continue meeting remotely, seconded by Virginia Chang Kiraly. 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 24, 2022

Virginia Chang Kiraly made a motion to approve minutes from the October 24, 2022 meeting, seconded by Helen Fisicaro. Meeting minutes were unanimously approved.

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

Ms. Arnott confirmed that the 2023 SMC Investment Policy and the Delegation of Authority were passed unanimously by the Board of Supervisors on 1/17/23. Copies of both with the resolution numbers have been sent to all members. She also provided her cell phone number to all members and advised them to feel free to call any time information regarding the pool is required. Tiffany provided the number to all members as well: 650-743-6595. Connie Mobley Ritter advised the committee that CMTA will be held in San Mateo this year. Sandie is providing the welcome presentation.

6. INVESTMENT REPORT – Meredith LaBuda Sullivan & Kyle Jones PFM and Tiffany Htwe, Investment & Finance Officer

Tiffany spoke to her pool update presentation sent to all members with the agenda packet. As opposed to the prior investment arrangement of PFM handling long term investments and the internal team handling the short term, PFM is now focusing on investments in corporate bonds and commercial paper in addition to some government agencies and treasuries due to issuer limitations and credit risk. The treasurer's internal team is focusing on government agencies, treasuries and money market funds. For the quarter ending 12/31/22 the pool's average daily balance was $7B. The pool earnings estimate for FY 2022-23 is $150M, the highest in pool history. The cash management portfolio, previously described as the short term portfolio managed in-house, has its share of challenges maintaining the liquidity needs of the County despite the strong investment options currently available. Connie Mobley Ritter questioned the possibility of increasing the current pool withdrawal max from 12.5% monthly to perhaps 50% based on short term investment ceilings and a preference to place more money in the short term/liquid fund as opposed to purchasing T-bills. Connie expressed that the 12.5% makes sense on the long end but on the short end it's proving to be a barrier. Her preference is to support the County pool as much as possible. Sandie & Tiffany will review the current withdrawal guidelines to determine the impact of increasing the maximum and stated the key challenge involved is maintaining a higher level of liquidity required to cover all voluntary participants should they choose to withdraw funds at the higher maximum.

Kyle Jones provided an economic update. The net new jobs numbers for January were quite strong at 517,000 versus 223,000 in December. The labor force participation rate is showing signs of recovery after COVID, closer to pre-pandemic numbers. The CPI is showing a steady decline, currently at 6.5%. Inflation is stickier in the area of food (eggs) and the services industry. Inflation will impact retail sales, consumer spending and economic growth. The inverted yield curve is historically a sign the economy may be entering a recessionary period. It's likely we will avoid a recession, however, if we do enter it, it will be a milder, short lived one; Natural to an economic cycle. The economy as a whole should be strong enough to withstand it.

Following the Dec meeting of the Fed, an appropriate rate to end 2023 is projected to be above 5%. Keeping a restrictive policy stance through the end of the year would seem appropriate. The long term rate is appropriately projected to be in the mid 2% range. The euphoria experienced on the great rates on the short end of the yield curve will not last forever.

For February, market expectations of fed reserve actions reflect the 25 bp hike last week as expected. Further hikes are expected. The market is pricing in rate cuts in fall or winter although the Fed has warned against it. It could cause inflation to flare up again. The Fed is being vocal about not pricing in significant cuts toward the end of the year.

We're seeing the front end of the yield curve pricing in the current elevated level of the fed funds rate and the expectation that it will remain somewhat elevated over the next year or so, while the longer part of yield curve, the 5, 10, 30, the longer part of the yield curve, prices in economic growth and inflation expectations. Expectations for both are more moderate than they were a year ago.

Thoughts were requested on the current unique political situation where both sides are not interested in getting things done. Might a new congress generate consistency or agreement that getting interest rates down and to a better economic position is something they can work together to accomplish? Kyle added the debt ceiling debate to the mix. It was stated that the Fed is supposed to act independent from congress. The Fed says we need to get inflation under control and has acknowledged the impacts of endless amounts of fiscal stimulus. Previously, Chairman Powell's view that avoiding mass insolvency was more important than inflation, back in 2020. Now, we're fighting inflation and he prefers this as more important than fighting a steep, long recession. Regarding political brinksmanship, debates on the debt ceiling will show us how tenuous those relationships are, not only between but within the political parties. Not optimistic they will come to a long lasting plan on the right course of action but optimistic we will avoid treasury defaults.

Meredith provided a review of the portfolio. Key takeaways: Liquidity is somewhat tightened versus other periods which is typical for later apportionments. We remain well structured to meet any and all liquidity needs. In aggregate, the portfolio is broadly diversified and remains very high quality. PFM is constantly looking to add relative value through corporate notes, commercial paper and other credit sectors. In 2022 intentionally under allocated funds to longer maturing securities. Percentage of assets owned in 4-5 year part of the curve decreased due to the Fed's clear intent to aggressively increase rates to combat inflation. Knowing rates would be going higher, investments were made in shorter maturities. Bulk of move in rates behind us creating opportunities to lock in value further out on the curve. Duration drifted slightly lower over time. The goal this year is to move duration from 1.58 years closer to the 1-5 treasury benchmark of 2.5 years. Market yield 4.6% and book yield is 1.42%. The portfolio will trend toward market yield over time as we have maturities and capture market rate. A question was asked if there are opportunities to sell off some existing bonds at a loss to pick up additional yield or are we better off holding to maturity? PFM indicated it is better to let things mature.

7. ORAL COMMUNICATION AND PUBLIC COMMENT

None

8. OTHER BUSINESS

None

9. 2023 MEETING DATES

May 1 and October 23 (in person)

10. ADJOURNMENT

The meeting was adjourned at 12:43 p.m.

Daneca Halvorson (Chair)

Sandie Arnott (Treasurer-Tax Collector)