

SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

Monday, October 23, 2023

1. CALL TO ORDER

The meeting, in person and via Teams, was called to order at 12:04 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)
Stephanie Osaze (Finance Manager, Bay Area Air Quality Management District)
Robert Manchia (San Mateo County Manager’s Office)
Iliana Rodriguez (San Mateo County Manager’s Office)

MEMBERS ABSENT

Connie Mobley-Ritter (Director, Treasury - San Mateo County Transit District)

STAFF IN ATTENDANCE

Tiffany Htwe (Assistant Treasurer)
Gerimar Tabbay (Financial Services Manager)
Raj Deol (Executive Analyst)

MEMBERS OF THE PUBLIC IN ATTENDANCE

Ken Schiebel (PFM)
Nancy Jones (PFM)
Meredith LaBuda Sullivan (PFM)

3. Approval of Minutes – February 6th, 2023

Daneca Halvorson made a motion to approve minutes from the February 6, 2023 meeting, seconded by Helen Fisicaro. The meeting minutes were unanimously approved.

4. TREASURER’S REPORT – Sandie Arnott, Treasurer-Tax Collector (SMC)

The approval of the 2024 Investment Policy and Delegation of Authority will be on the agenda for the January meeting of the Board of Supervisors. There will be modifications made to the 2024 Investment Policy about Special Districts. Participants who are unable to maintain \$250,000 will be reviewed and processed based on California Government codes.

Ms. Arnott also shared the Treasurer’s team has an interest in pursuing the investment policy certification from CMTA to ensure that the policy is in full compliance with current regulations and guidelines.

5. INVESTMENT REPORT – Tiffany Htwe, Assistant Treasurer (SMC) & Ken Schiebel and Meredith Sullivan (PFM)

In March, Gerimar Tabbay joined the team as the new Financial Services Manager and was introduced by Tiffany Htwe.

Tiffany shared banking updates and provided investment updates for the County team's portfolio.

The banking transitions have been completed to the new banking partner, U.S. Bank, which offers innovative solutions and access to a broader suite of products and services. The compliance and regulatory updates introduced by U.S. Bank will improve internal controls. The County Counsel requires the county to provide banking services to the districts protected by health and safety codes, so the team is working with the participating special districts to move into separate bank accounts with solutions for check and ACH fraud control. For districts unable to maintain a minimum balance of \$250,000, they will be moved into non-ZBA accounts. The Treasurer's banking team is working closely with the bank to ensure a smooth transition for a few more months.

Tiffany continued with the investment updates. The Treasurer team manages 3.1 billion, and PFM manages 4.1 billion as of September 30th. In a rising rate environment, managing cash flow becomes crucial to ensure there are sufficient funds to cover expenses while optimizing returns on fixed-income investments. The Treasurer’s team uses careful cash flow forecasting and fund allocation to maximize returns and balance liquidity needs. Cash flow volatility is managed using robust forecasting techniques, and accounts receivable and payable are effectively managed to optimize cash flow and maintain liquidity. The pool size is increasing due to general obligation bonds and property taxes influenced by property tax values. The County has added Caltrust to its portfolio to address ongoing liquidity needs. The team is working on investment policy certification. They have also submitted a Libor settlement claim but have yet to receive confirmation.

Ken Schiebel provided an economic update. The Federal Reserve's historic move to increase short-term rates has made investing a challenge due to the timing of investment choices. Economic indicators, including inflation, employment, and overall economic growth, are being monitored by the Federal Reserve. Inflation spiked post-pandemic due to supply chain issues and higher energy prices but has

started to moderate. The upper right line graph shows two measures of inflation: the overall inflation (dark blue) and the core inflation (light blue), which strips out the volatile components of food and energy prices. There has been significant progress in reducing overall inflation from 9% to 3.7%, while core inflation is currently at 3.9%. The Federal Reserve's target for inflation is 2%, and they may need to continue raising rates to achieve this. The labor market has been strong, with over 300,000 new jobs added last year. However, the Federal Reserve's higher interest rates operate with a lag and uncertainty, so they consider a range of economic factors. The US labor market has added millions of new jobs since the pandemic, which strengthens the economy. A strong labor market leads to job opportunities and wage growth, resulting in increased consumer spending. Consumer spending makes up about two-thirds of the US overall economic activity and has been surprisingly strong, outpacing economist and Federal Reserve predictions. The market forecast for Q3 GDP growth is over 4%, which is higher than the Fed's goal to slow growth and combat inflationary pressure. The Federal Reserve is now facing higher inflationary pressures and raising interest rates after 20 years of low rates and low inflation. The low inflation was caused by globalization, technology, the .com bubble, the housing bubble, and the COVID-19 pandemic. Now, coming out of the pandemic, supply chain challenges, resourcing back to the US, and technology improvements are causing some price effects, and wages are continuing to rise. The US economy has experienced a remarkable recovery from the pandemic-induced unemployment surge, with the unemployment rate hitting a generational low of 3.5%. Still, some industries, primarily in the service sector, are facing challenges in finding qualified workers, with about 9 million job openings. However, there are only 6 million unemployed people, representing 1.5 jobs for every unemployed person. Wages have started to go up and remain strong, outpacing inflation. The airline industry, UPS drivers, and healthcare industry have seen wage increases, which can lead to higher spending and economic growth. Looking at the Fed's operations over a longer period shows significant peaks and valleys of short-term interest rates. The Fed has increased rates at a historic pace, which is usually followed by a period of lower rates and an economic slowdown. Historically, these cycles mirror the economic cycle, with catalysts like the 2007-2008 housing crisis triggering downturns. The market is uncertain about the direction of the Fed's response to economic conditions in the wake of COVID-19. The Fed may not increase rates further, and may even cut rates in the second half of next year depending on economic conditions. The Federal Reserve aims to normalize short-term rates, but they are difficult to predict due to their cyclical and volatile nature. The economy's performance will determine whether rates will be adjusted to a more normal level. The Federal Reserve makes announcements after each meeting and Fed members have regular speeches to discuss policies. The September meeting forecasted the trajectory of short-term interest rates, but the Federal Reserve remains flexible and data-dependent. The Federal Reserve's most recent forecasts, released in September, showed that most members expected either no more rate hikes or just one more this year, followed by a few rate cuts next year and beyond. Some are optimistic that the Fed can achieve its objectives and normalize rates to a more stable rate environment, but this hasn't been seen in the past 20 years. The ideal market conditions would include 2% inflation, short-term rates

around 2.5%, and long-term rates around 3-4%. The CAMP pool is a short-term investment pool with a weighted average maturity of 60 days or less. It invests in short-term investments that turn over quickly, such as 1, 3, and 6-month treasuries, agencies, and commercial paper. The current rate environment is unusual, with an inverted dual curve, which may precede the next recession of lower rates. Long-term rates have moved up quickly, even in anticipation of rate hikes. The two-year treasury yield has risen from less than 0.25% to above 5%.

Ken discussed balancing short and long-term investments to achieve the county's investment strategy. He mentioned the recent quick increase in rates and how it affects yields. The yield curve is shown on the next page, indicating rates at 15-20-year highs, with the shaded region representing last year's range. Ken noted the significant rate increase over the 10-year period.

The national unemployment rate is at an all-time low, but some less populated states like Maine and New Hampshire have even lower rates due to a smaller worker base. The county's portfolio is designed to balance longer-term funds managed by PFM with a short-term portfolio managed internally by county treasury staff. The goal is to take advantage of higher yields from longer-term and credit-related instruments while ensuring liquidity. The portfolio is diversified with high credit quality and a maturity distribution weighted towards shorter maturities. The portfolio is periodically reviewed and adjusted to reset expected cash flows.

Meredith Sullivan provided a review of the portfolio. The focus is on adding allocations to high-quality corporate notes, certificates of deposits, and commercial paper. Short-term credit markets offer attractive absolute yields of about 6% for one-year maturity. Corporate notes offer good value for the portfolio, with stable credit fundamentals and relative value and pickups over government securities. The portfolio's aggregate duration is 1.58 years, but it may increase slightly as rates peak and start to rotate back into some duration.

6. ORAL COMMUNICATION AND PUBLIC COMMENT

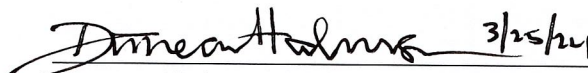
None

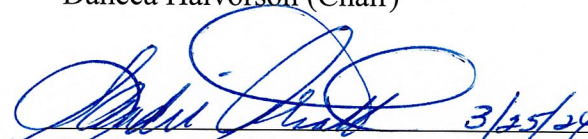
7. OTHER BUSINESS

None

8. ADJOURNMENT

The meeting was adjourned at 1:01 p.m.

 3/25/24
Daneca Halvorson (Chair)

 3/25/24
Sandie Arnott (Treasurer-Tax Collector)