

SAN MATEO COUNTY TREASURY  
OVERSIGHT COMMITTEE

MINUTES

Monday, March 25, 2024

**1. CALL TO ORDER**

The meeting, in person and via Teams, was called to order at 12:07 p.m. by Daneca Halvorson, Chair.

**2. ROLL CALL**

Members and guests were asked to introduce themselves by name and title during roll call.

**MEMBERS IN ATTENDANCE**

Daneca Halvorson (City of Daly City) **Chair**  
Sandie Arnott (Treasurer-Tax Collector)  
Kevin Bultema (San Mateo County Office of Education)  
Virginia Chang Kiraly (San Mateo County Harbor District and Menlo Park Fire Protection District Board)  
Helen Fisicaro (Town of Colma)  
Stephanie Osaze (Bay Area Air Quality Management District)  
Connie Mobley-Ritter (San Mateo County Transit District)  
Robert Manchia (San Mateo County Manager's Office)  
Iliana Rodriguez (San Mateo County Manager's Office)

**STAFF IN ATTENDANCE**

Tiffany Htwe (Treasurer's Office)  
Gerimar Tabbay (Treasurer's Office)

**MEMBERS OF THE PUBLIC IN ATTENDANCE**

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

**3. Approval of Minutes – October 23rd, 2023**

Virginia Chang Kiraly made a motion to approve minutes from the October 23, 2023, meeting, seconded by Connie Mobley-Ritter. The meeting minutes were unanimously approved.

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

Ms. Arnott confirmed that the Delegation of Authority was approved on 1/9/24, and the 2024 Investment Policy was approved on 2/27/24 by the Board of Supervisors.

Copies of both, along with the resolution numbers, have been sent to all members.

Ms. Arnott shared that the Treasurer's team has been providing banking services to pool participants. Broadmoor Police Department (BPD), however, due to a minimum balance requirement rule as per the investment policy, which BPD was unable to maintain, they have been removed from the pool. The investment team will continue to provide support services to BPD as is appropriate.

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

Tiffany presented an overview of the investments for the County's managed pool highlighting the resilience of the portfolio during the market volatility in recent months. The total investment pool is 8.2 billion, the Treasurer team manages \$3.8 billion, and PFM manages \$4.4 billion as of February 29th. The cashflow outlook reflects the historic data where most cash is required in summer months and will be covered by the April tax collection. The size of the pool is growing steadily according to the actual data trend and continues to manage County liabilities as required.

Tiffany addressed the committee that the investment team recognizes the challenges of geopolitical tension, inflation, and monetary policy changes impacting global markets. Despite rising bond yields impacting fixed income investments and its subsequent effects on cash flow planning, the County's diversified portfolio has maintained consistent performance. Incorporating alternative investments like CAMP and CalTrust, has secured dependable returns.

The County Investment team approach focuses on managing risk and achieving long-term goals in uncertain market conditions. While ensuring diversification which have been key to sustained success.

TOC board member, Connie Mobley-Ritter from San Mateo Transit Authority inquired about the approach to be used in handling the cash portfolio when rates start dropping. Tiffany advised, the County is carefully monitoring rate movements while looking out for reasonable yields to invest longer and investing in LGIPs for immediate cash flow needs.

TOC board member, Stephanie Osaze from Bay Area Air Management District inquired how the investment pool has doubled the size since 2018. Tiffany advised, it was mainly due to property tax collection and School District General Obligation bonds.

TOC board member, Virginia Chan Kiraly from San Mateo County Harbor District inquired how we plan to rebalance adjusted rates in an inverted yield curve environment. Tiffany advised, the Treasurer's team currently utilizes available market options to ensure sufficient funds for the county's cash liabilities. And works with PFM to balance investments between short-term corporate bonds, commercial paper, and longer-term options, diversifying across government bonds and LGIPs. PFM is cautious of fluctuating rates, particularly in LGIPs, which can change rapidly with overnight rate adjustments. Additionally, they invest in LGIP terms under one year through CAMP.

Ken provided a comprehensive market update, highlighting current economic

conditions and their impact on the investment strategy. He noted significant changes in recent years, focusing on key factors influencing Fed policy, particularly employment and inflation. Inflation, as indicated by CPI and core CPI, has shown improvement but remains above the Fed's target. On the employment front, strong job growth and low unemployment claims reflect a robust economy. Despite earlier expectations of a recession, economic growth has remained resilient, with GDP exceeding expectations. Looking ahead, Ken anticipates the Fed to cautiously reduce rates, aiming to normalize short-term rates and support economic stability amidst lingering inflation concerns.

Ken continued with a discussion highlighting an inverted yield curve, focusing on the steep inversion from short-term rates to about the five-year mark, where the curve flattens out. This suggests market expectations of long-term rates around low 4%, correlating to low 3% for shorter terms. Despite the inversion, the strategy involves a barbell approach, balancing investments between short-term options like one-year CDs and longer-term treasury and corporate securities.

The county's investment portfolio is strategically segmented into core and liquidity components. The core portfolio consists of longer-term assets aimed at stable, high performance. Meanwhile, the liquidity portfolio, manages short-term cash flow needs, including tax deposits and regular expenses. Between these segments are smaller strategic allocations used for additional liquidity or to capitalize on short-term rate opportunities like the CAMP term program. Overall, the portfolio balances high short-term rates with long-term stability, ensuring flexibility to accommodate unexpected liquidity needs throughout the year.

Meredith discussed the county's overall portfolio allocation, focusing on the strategy for the longer-term core portfolio. The core portfolio is comprised of approximately \$3.9 billion with a duration recently adjusted to about 1.75 years. Emphasizing high credit quality, most assets are rated at least AA, and the portfolio remains well-diversified across sectors. Meredith highlighted a barbell approach, balancing liquidity with opportunities to lock in higher rates, particularly in negotiable CDs and other short-term investments. With expectations of future rate cuts by the Fed, the strategy includes extending duration by reinvesting maturing funds into longer-term assets to capture current higher yields and enhance overall portfolio performance over time.

Ken provided, the historical pattern of portfolio yields through interest rate cycles. When rates were near zero, the portfolio yield was significantly above short-term rates. Recent Fed rate increases have pushed market yields higher, impacting the portfolio's yield gradually due to its long-term investment horizon extending up to five years. Investments made in late 2023 and early 2024 focused on corporates yielding in the high fours to mid fives, now adjusting to mid to high fours due to the inverted yield curve. As the Fed prepares for rate cuts, the portfolio is positioned to benefit from these higher yielding long-term investments. Tracking closely with the average yield on three-year Treasuries, the portfolio yield is expected to increase as older investments mature and roll over at higher rates. With substantial upcoming maturities, the portfolio's overall yield is anticipated to further improve, supported by reinvestments at current higher yields in both short and long-term assets.

Virginia inquired about the duration of rebooking the investments in terms of liquidity funds. Tiffany advised it depends on the month and cash flow trends which determine the County's cash requirements.

Connie Mobley-Ritter, a board member of TOC from San Mateo County Transit District, inquired about our core portfolio's current market standing, excluding the liquid portion. Asking how much of our portfolio is still underwater, whether we plan to realize losses to capitalize on longer-term opportunities and what the overall rate of return is, including any marked-to-market losses. Meredith replied that she would need to confirm the exact percentage still underwater, but indicated that a significant portion, likely more than 70%, remains underwater currently. The yield on the core portfolio managed by PFM stands at 2.67% excluding marked-to-market losses.

Ken explained that they do not measure total return on the core portfolio in the same way the county does for appropriations. Instead, they focus on yield basis, noting that the lower book yield compared to market yield results in unrealized losses due to investments with lower yields. Some investments in the portfolio date back to 2019, and given current interest rates since late 2022, investments from 2019 to 2022 are likely underwater with unrealized losses. As per their agreement with the county, they refrain from booking losses, only managing excess liquidity by reinvesting maturities.

**6. ORAL COMMUNICATION AND PUBLIC COMMENT**

None

**7. OTHER BUSINESS**


None

**8. ADJOURNMENT**

The meeting was adjourned at 12:58 p.m.



Daneca Halverson (Chair)



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Sandie Arnott (Treasurer-Tax Collector)