



**SONOMA COUNTY
TREASURY OVERSIGHT COMMITTEE
MINUTES**

February 14, 2024 – 10:00 am

Members Present: Erick Roeser (ACTTC) (Chair), Peter Bruland (CAO) (alternate for Christina Rivera, CAO), Greg Medici (SCOE) (alternate for Amie Carter, SCOE), Grant Davis, SCWA, Donna Dunk (Public Member), and Lisa Cavin (Schools)

Members Absent: Christina Rivera (CAO), Amie Carter (SCOE)

Also Present: Sarah Lampenfeld (SCOE), Lynne Roselli (SCWA), David Maurice (ACTTC), Dana Shern (ACTTC), Kathleen Parnell (ACTTC), Janina Horwitz (ACTTC), Gerald Richardson (Consultant), and Kellin Gilbert (Pisenti & Brinker)

1. CALL TO ORDER

Chair Erick Roeser called the meeting to order at 10:03 am.

2. APPROVAL OF AUGUST 16, 2023, MEETING MINUTES

Two typographic corrections were made to the August 16, 2023 Meeting Minutes. A motion to approve the prior Minutes was made by Peter Bruland, seconded by Greg Medici

Ayes: 4 Noes: 0 Abstain: 2 Absent: 0

3. REVIEW & ACCEPT RESULTS OF ANNUAL EXAMINATION

Kellin Gilbert, a partner from Pisenti & Brinker LLP (P&B) presented the results of Treasury's annual examination, which assesses Treasury's compliance with California Government Code. Items covered by the examination included a review of expenses charged to the Investment Pool as well as documentation and reconciliations related to interest apportionment, reviewing the functions of the Treasury Oversight Committee (TOC), ensuring the Investment Policy Statement (IPS) is approved annually by the Board of Supervisors and that quarterly reports are published as required.

P&B issued an unqualified opinion that Sonoma County remained in compliance with Government Code for the year ended June 30, 2023. Mr. Gilbert further stated that he appreciated the cooperation and responsiveness of Treasury Staff throughout the examination process. A motion to accept the results and report of the examination was made by Grant Davis, seconded by Peter Bruland.

Ayes: 6 Noes: 0 Abstain: 0 Absent: 0

4. PRESENTATION & REVIEW OF QUARTERLY REPORT DATED DECEMBER 31, 2023

David Maurice discussed the performance of the Investment Pool and reviewed the December 31, 2023 Quarterly Report. He noted that the Fed has continued to monitor inflation, as well as

the underlying state of the economy and job market. Inflation continues to track above the Fed's 2% target but has been slowly coming down. Currently, he indicated the market expects the Fed to begin easing around May/June 2024 and likely to cut 3 or 4 times this year, with another 4 rate cuts anticipated in 2025.

The quarterly average yield on the Pool as of December 31, 2023 was 3.14%, up 41 basis points from the quarter ending September 30, 2023. As lower yielding bonds mature and are invested in higher yielding new securities, and as cash inflows from tax collection are also invested in new securities, the overall yield on the Pool is projected to continue to increase to 3.50% by fiscal year-end and to 4.00% by calendar year-end.

The market value of the portfolio increased to 98.15% as of December 31, 2023 from 96.55% as of September 30, 2023. Mr. Maurice noted that if the Fed begins to reduce rates, it is likely that the market value of the portfolio will approach par (100%) more quickly. While it is possible that the market price of the portfolio could exceed par, this is not currently anticipated because callable securities are likely to be redeemed and invested in lower yielding securities. The "goldilocks scenario" for the Pool is if the Fed stays on hold for an extended period, thereby allowing the Pool to re-invest its maturing securities in high yielding new bonds.

Mr. Maurice reviewed the new format of the Quarterly Report & Certification, which now includes additional information and enhancements in the Report. The Certification of the Pool's ability to meet participants' expected cash needs over six months is now supported with a detailed graph, for example. In addition, the Report now includes detail on the nature of the holdings, including detail by sector type and shows the largest issuers held in the portfolio (i.e. monitors issuer concentration risk). Impact Investments, i.e. those securities that support social and economic development as well as Sonoma County issuers, are also highlighted in the Report. Finally, the Report now includes a breakdown of Pool participants. Notably, the largest participant category is School Districts, followed by Other Government Funds.

Mr. Davis asked whether there had been direction from the Board of Supervisors to purchase or avoid certain investments as a result of impact investments. Mr. Maurice replied that the Investment Policy had been modified as a result to consider these strategies, but that the three statutory guidelines of Safety, Liquidity, and Return are used to guide investment decisions. Any recommendation from the Board of Supervisors, if made, would be considered in light of these statutory guidelines.

5. REPORT FROM GERALD RICHARDSON, CONSULTANT

Gerald Richardson presented his quarterly review of the Portfolio and stated that all investments continue to comply with California Government Code and IPS guidelines for maturity and credit rating, and that it has sufficient liquidity to meet anticipated cash flow requirements over the next six months. Mr. Richardson noted that 43.8% of the portfolio matures in less than one year, which will enable Staff to better position the portfolio to take advantage of a more stable rate environment. Credit risk remains low with over 74% of funds invested in AAA and AA rated securities.

Mr. Richardson noted that returns on the portfolio have historically kept pace with alternatives such as LAIF and were comparable to other large California county investment pools. However, the County's recent lag in performance behind most of its peer counties is attributed to the longer weighted average maturity (WAM) of the County's Pool. The Pool has recently shortened its WAM, and it is his opinion that the County is now better positioned to take advantage of higher short-term rates available due to the inverted yield curve environment. Mr.

Richardson agreed that the economy continues to be strong, and that the Fed will probably start lowering rates, at a measured pace in the near future.

There was a brief discussion about the failures of several mid-sized banks over the past year. Mr. Richardson felt these banks were not large enough to have a material, adverse impact on the economy. Mr. Maurice added that the Pool does not invest in smaller banks and the Pool's exposure is in large, Global Systemically Important Bank (G-SIBs), that are tightly regulated by multiple agencies and subject to enhanced capital and liquidity rules and oversight.

6. FORM 700- DISCLOSURE OF FINANCIAL INTERESTS

David Maurice reminded the Committee Members (and alternates) that Form 700, which discloses financial interests, would need to be filed by April 1, 2024.

7. FUTURE MEETING DATES

Future meetings are currently scheduled for August 14, 2024 and February 19, 2025.

8. PUBLIC COMMENT

There were no members of the public present.

9. OTHER BUSINESS

Erick Roeser informed the Committee that a voluntary Pool participant, which comprises approximately 8% of the total Pool balance, notified the County that it would like to withdraw from the Pool. Treasury staff is working with the voluntary Pool participant and County Counsel to ensure that the terms of the withdrawal are consistent with the Investment Policy Statement and protect the interest of other Pool participants.

10. ADJOURNMENT

The meeting was adjourned at 10:56 am.

Respectfully submitted,

David Maurice, Investment & Debt Officer