



**SONOMA COUNTY  
TREASURY OVERSIGHT COMMITTEE  
MINUTES**

February 8, 2023 – 10:00 am

**PRELIMINARY**

Members Present: Erick Roeser (ACTTC) (Chair), Peter Bruland (CAO) (alternate for Christina Rivera, CAO), Grant Davis (SCWA), and Donna Dunk (Public Member)

Members Absent: Amie Carter (SCOE), (Schools, vacant).

Also Present: Greg Medici (SCOE), Sarah Lampenfeld (SCOE), David Maurice (ACTTC), Dana Shern (ACTTC), Kathleen Parnell (ACTTC), Lea Smith (ACTTC), Gerald Richardson (Consultant), and Kellin Gilbert (Pisenti & Brinker LLC)

**1. CALL TO ORDER**

Chair Erick Roeser called the meeting to order at 10:05 am.

**2. APPROVAL OF AUGUST 10, 2022, MEETING MINUTES**

There were two corrections made to the prior Meeting Minutes to correct minor typos. A motion to approve the prior Minutes was made by Peter Bruland, seconded by Donna Dunk.

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

**3. REVIEW AND ACCEPT RESULTS OF EXAMINATION BY PISENTI & BRINKER LLC**

Kellin Gilbert, Pisenti and Brinker LLC (P&B), presented the results of the Examination P&B performed on the Treasury. The purpose of the Examination was to ascertain whether the Treasury & Investment operations were in accordance with California Government Code. Mr. Gilbert stated that Sonoma County's ACTTC is responsible for maintaining compliance and preparing all required reporting. Items covered included examining the expenses and costs that are charged to the Investment Pool, reviewing the functions of the Treasury Oversight Committee (TOC) and to make sure the Investment Policy Statement (IPS) is approved as required by the Board of Supervisors.

P&B issued an unqualified opinion that Sonoma County was in compliance with Government Code. Mr. Gilbert further stated that P&B had no difficulties in obtaining the necessary and required information from the County and its Staff and he appreciated their cooperation and responsiveness. A motion to accept the results and report of the examination was made by Grant Davis, seconded by Donna Dunk.

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

**4. PRESENTATION & REVIEW OF QUARTERLY REPORT DATED DECEMBER 31, 2022**

David Maurice reviewed the performance of the Investment Pool (Pool) during the prior quarter. He noted that the current interest rate environment is the type that is most problematic for the Pool due to the way that prices of investments respond to the increases in market yields. Interest rates rose 4.25% during 2022, as the Federal Reserve quickly tightened policy in response to the highest US inflation in the past 40 years. He indicated that the Fed may be near the end of its cycle, and rates may rise over the next six months, but it is currently anticipated at a slower pace.

As an increase in yields is inversely related to price, the rise in rates causes a decrease in the market value of current Pool holdings, which leads to an unrealized loss. Unrealized losses (and gains) are reported in the County's annual financial reports. Since the Pool's securities are generally held to

maturity, Treasury does not anticipate realizing any net losses for Pool participants, except at times where a security is called or sold opportunistically. However, there will be a period of time where the Pool's overall yield will be below then-current market averages due to the fact that a large portion of Pool investments were purchased during the low interest rate period over the last two years. In other words, due to the maturity structure of the portfolio, the yield on the portfolio will lag market interest rate increases. Going forward, higher yielding investments will be purchased as new funds are available to invest and lower yielding positions mature, and the Pool yield will move toward market averages, illustrated by the near doubling of the Pool's yield during the last six months. He expects that the yield on the Pool will continue to rise throughout 2023.

Mr. Maurice reviewed the structure of the Pool. The Treasurer is required to invest for three reasons, according to California Government Code: 1. Safety of principal, or a high degree of assurance that investments will mature without loss of principal, 2. Liquidity, or a measure of the Pool's ability to meet cash needs on behalf of participants; the Treasurer must certify that the Pool has six months' worth of liquid assets to meet needs, and 3. Maximizing the return achieved. The first two criteria take precedence over the third. He stated that the investments decisions are made considering both the near-term cash-flow needs and the longer-term expectations, with a view toward maximizing current yield and the yield accruing over the life of the investment. The yield curve is currently inverted, meaning that shorter maturities yield more than longer maturities, with the highest point on the yield current currently at a tenor under 1 year. This is highly unusual, as typically yields increase with tenor, and the degree of inversion is extreme, with 2-year maturities yielding 0.60% more than 5-year securities. This means that investments beyond one-year at this point cause the portfolio to earn less in the current year, than it would by investing in shorter maturities. If yields fall over the next few years, those longer investments might prove to have better returns than rolling shorter term investments, but at this point that is unlikely. He stated that currently the only longer investment that have been made are ones where there is extra yield, such as on high quality insurance company debt.

Committee members asked whether the current interest rate environment predicted a recession. Mr. Maurice answered that while nearly all recessions are preceded by inverted yield curves, not all inversions are followed by recessions. While inflation was at a 40-year high and many measures of sentiment have softened, not all economic indicators are currently pointing to a recession including very low unemployment figures and strong corporate earnings. That said, corporate borrowing costs have increased as the Fed continues to raise rates, which can have longer term implications for corporate earnings, employment, etc.

## **5. REPORT FROM GERALD RICHARDSON, CONSULTANT**

Gerald Richardson presented his quarterly review of the Pool 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. The portfolio's average maturity was 532 days at the end of the quarter, significantly shorter than the 651 days average maturity on June 30<sup>th</sup>, 2022. This is reflected in an increase in the percent of the portfolio maturing within one year rising from 30% to 44% (June to December).

Mr. Richardson noted that the returns on the portfolio have historically kept pace with alternatives such as LAIF and were comparable to results achieved by a sampling of other large California county investment pools. The pool has fallen behind recently because of the longer weighted average maturity (WAM) employed by the County over the past year. With the shortening of the WAM, his opinion was that the County was much better prepared to take advantage of higher short-term rates available in the current inverted yield curve environment. Mr. Richardson agreed that the economy is at a turning point, with the Fed likely to continue raising rates even as economic growth moderates.

The Committee asked for a brief update on SCEIP. Erick Roeser said that the program is largely

unchanged, but that loan rates had increased to 6.99% after being reduced two years ago to 5.99%. Treasury will thus see its yield increase from 1.99% to 2.99%. Additionally, the rate on SCEIP loans will be evaluated by July as part of the annual re-authorization of the program. Mr. Roeser also noted that there were some potential regulatory changes which could adversely impact the program.

**6. FUTURE MEETING DATES**

Future meetings are currently scheduled for August 16, 2023, and February 14, 2024.

**7. PUBLIC COMMENT**

There were no members of the public present.

**8. OTHER BUSINESS**

- A. David Maurice reminded the members present that the date for completion and filing of Form 700 is April 3<sup>rd</sup>. Staff in the ACTTC office will be reminding members of their responsibility to file.
- B. There was a brief discussion about filling the vacant Schools member, with Greg Medici indicating that the likely candidate will be Santa Rosa City Schools' deputy business officer. The appointed member will need to be nominated by the heads of the School Districts and Community Colleges within the County, and then approved by the County Board of Supervisors.

**9. ADJOURNMENT**

The meeting was adjourned at 11:16 am

Respectfully submitted,

David Maurice, Investment & Debt Officer