



**SONOMA COUNTY
TREASURY OVERSIGHT COMMITTEE
MINUTES**

August 10, 2022 – 10:00 am
Via Zoom

Members Present: Erick Roeser (ACTTC) (Chair), Peter Bruland (CAO) (alternate for Sheryl Bratton, CAO), Greg Medici (alternate for Steve Harrington, SCOE), and Donna Dunk (Public Member)

Members Absent: Grant Davis (SCWA), Rick Edson (Schools, moved out of county).

Also Present: Sarah Lampenfeld (SCOE), David Maurice (ACTTC), Dana Shern (ACTTC), Kathleen Parnell (ACTTC), Gerald Richardson (Consultant), and Janina Horwitz (ACTTC)

1. CALL TO ORDER

Erick Roeser called the meeting to order at 10:04 am.

2. APPROVAL OF JANUARY 26, 2022 MEETING MINUTES

There were no comments or corrections to the prior minutes. A motion to approve the prior minutes was made by Donna Dunk, and seconded by Peter Bruland.

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

3. CHOOSE A NEW TREASURY OVERSIGHT COMMITTEE CHAIR & VICE CHAIR

The Committee discussed the roles and responsibilities for the Chair & Vice Chair. Donna Dunk asked if the Vice Chair was the presumptive Chair for the succeeding year. Erick Roeser said that had not been the experience of the Committee over the preceding years. The Committee discussed whether alternate members should be elected into these positions and felt that it was appropriate for the roles to be filled by appointed members, not alternates. Greg Medici moved that Erick Roeser be re-appointed Chair, and that Donna Dunk be appointed Vice Chair. Peter Bruland seconded the motion.

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

4. INTRODUCTIONS

As this was the first in-person meeting of the Committee since the start of the Pandemic, Erick Roeser invited all present to introduce themselves, and welcomed Donna Dunk and Greg Medici to their first in-person meeting since joining the Committee. He also introduced Kathleen Parnell, the new Assistant Auditor-Controller-Treasurer-Tax Collector, whose duties include overseeing the County's Treasury functions, including cash handling and the Investment Pool.

5. CALL FOR THE ANNUAL COMPLIANCE AUDIT FOR 2021-22 FISCAL YEAR

Erick Roeser introduced this item, noting that California Government Code Section 27134 requires the Treasury Oversight Committee to call annually for an audit. Prior audits were by Pisenti & Brinker, LLP and were felt to be satisfactory and completed timely. The County currently has a contract with Pisenti & Brinker through 2027 to perform various audits for the County, including the annual treasury compliance audit. Donna Dunk moved to engage Pisenti & Brinker; Greg Medici seconded the motion.

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

6. PRESENTATION & REVIEW OF QUARTERLY REPORT DATED JUNE 30, 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 way that prices of investments respond to the increases in market yields. Interest rates have risen over 2% since the beginning of the year, as the Federal Reserve has tightened policy in response to the highest US inflation in the past 40 years. He indicated that the Fed is probably nearer to the end of its cycle, but rates should continue to rise for at least the next six months. This 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 securities are generally held to maturity, Treasury does not anticipate having to realize any losses for Pool participants. However, there will be a period of time where the Pool 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 deposited and lower yielding positions mature, and the Pool yield will move back towards market averages. Committee members asked whether the current interest rate environment predicted a recession. David answered that while nearly all recessions are preceded by inverted yield curves, not all inversions are followed by recessions. While inflation is 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 has raised rates, which can have longer term implications for corporate earnings, employment, etc.

7. 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 Investment Policy Statement (IPS) guidelines for maturity and credit rating. The portfolio’s average maturity was 651 days at the end of the quarter, with 30% of maturing within one year. Without the SCEIP notes, which have 10 and 20-year maturities, the average maturity was 643 days. The Committee asked for a brief update on SCEIP. Erick Roeser said that the program is largely unchanged, but that loan rates will increase 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%. Jerry noted that the returns on the portfolio have kept pace with alternatives such as LAIF and are comparable to results achieved by a sampling of other large California county investment pools. The Committee asked if there was a specific benchmark return that the Treasury targets. David Maurice explained that the nature of the pool was to serve like a money market mutual fund for the participants, so the appropriate benchmark is comprised of the alternatives that are available (LAIF, etc). Jerry agreed that the economy is at a turning point, with the Fed likely to continue to be aggressive in raising rates even as economic growth moderates.

8. REVIEW OF INVESTMENT POLICY

Kathleen Parnell led a brief discussion about the current Investment Policy Statement. She said that for the re-authorization this year, the Treasury was not looking at any substantive changes, as there have been no changes to California Code. For 2023, as part of a larger review of many department policies, there could be more substantive changes. The Committee will be kept apprised of any developments.

9. FUTURE MEETING DATES

Erick Roeser led a brief discussion to see if Committee members felt it would be beneficial to meet more frequently. The sense of the Committee was that the current semi-annual cycle was sufficient at this

time. Future meetings are currently scheduled for January 25, 2023 and August 16, 2023.

10. PUBLIC COMMENT

There were no members of the public present.

11. OTHER BUSINESS

It was noted that Rick Edson had left his position at Santa Rosa City Schools, taking a position in Redwood City, out of the county, necessitating that his position be filled by a new Schools representative. Greg Medici indicated that SCOE would have some ideas about a replacement. The issue of appointing by committee member title instead of by name was raised, so as to obviate the need to re-appoint members when there is personnel turnover. Staff will research this option.

12. ADJOURNMENT

The meeting was adjourned at 10:46 am

Respectfully submitted,



David Maurice, Investment & Debt Officer