



Board Agenda Item 29

DATE: December 3, 2024

TO: Board of Supervisors

SUBMITTED BY: Oscar J. Garcia, CPA, Auditor-Controller/Treasurer-Tax Collector

SUBJECT: Delegation of Investment Authority and Approval of the County of Fresno Treasury Investment Pool Investment Policy

RECOMMENDED ACTION(S):

- 1. Delegate investment authority to the Auditor-Controller/Treasurer-Tax Collector for the 2025 calendar year; and**
- 2. Approve the “County of Fresno Treasury Investment Pool Investment Policy”.**

Approval of the first recommended action renews the Board’s delegation of investment authority to the Auditor-Controller/Treasurer-Tax Collector (ACTTC) under County Ordinance Code section 2.20.080. Your Board is also required to annually review and approve the “County of Fresno Treasury Investment Pool Investment Policy” (Investment Policy). Approval of the second recommended action will approve the Investment Policy with the ACTTC’s recommended changes to the Investment Policy, primarily in Sections 8.0, 9.0, 10.0, 16.1 and Appendix A. This item is Countywide.

ALTERNATIVE ACTION(S):

If your Board does not renew the delegation of investment authority to the ACTTC, the fiduciary responsibility of investing the funds in the Treasury Investment Pool will remain with your Board.

FISCAL IMPACT:

There is no additional fiscal impact associated with the recommended actions.

DISCUSSION:

Delegation of investment authority to the ACTTC may be renewed annually, subject to review by your Board, under Government Code sections 27000.1 and 53607 and the Ordinance Code of Fresno County section 2.20.080. Therefore, your Board is required to act each year to decide whether to renew the delegation. The first recommended action delegates investment authority to the ACTTC for calendar year 2025.

Government Code section 53646 provides that the ACTTC may annually render to the Board of Supervisors a statement of investment policy, which the Board shall review and approve at a public meeting. This Investment Policy is the document that governs the investment of all financial assets deposited to and retained in the County of Fresno Treasury Investment Pool. The ACTTC is recommending that your Board review and approve the Investment Policy. Your Board last reviewed and approved the Investment Policy on November 28, 2023.

The ACTTC is recommending a revision of Section 8.0 to include allowable investment options under Government Code section 53601, subdivision (q), relating to United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development, International Finance Corporation, or Inter-American Development Bank. In the past, our office did not see the need to invest in securities issued by these three international financial institutions because there were better alternative options such as government-sponsored enterprises (GSEs) and medium-term notes. Medium-term notes often were more flexible, had a variety of maturities, and provided better yield. Nowadays it is difficult to find attractive investment opportunities such as investment grade medium-term notes that provide all these benefits due to their credit spread being below their long-term average and the way they are structured at times. In addition, there has been a lack of supply of GSE debt. These are some of the reasons why the ACTTC is looking beyond these options. Investing in these securities will provide a way to diversify our portfolio, it will allow us to increase the credit quality and enhance the portfolio returns since the yield on these investments are higher than GSEs. In addition, since these institutions finance development loans with typical terms of 5 to 15 years, they tend to issue bonds with intermediate maturities which closely match our needs.

The ACTTC also recommends updating Section 9.0, on page 11 of the Investment Policy, to include additional investments that have been exceptions to the requirements of this section. These changes reflect the ACTTC's standard practice, when buying Treasury Bills and Notes, to get the pricing of these securities from the Bloomberg terminal. This eliminates the need to get three competitive offerings since we are able to get current market prices at time of purchase.

The proposed revisions to Section 10.0, relating to diversification, to limit the corporate exposure to no more than 5 percent per issues, also reflects what is already the ACTTC's standard practice, to bring the Investment Policy in line with that practice.

In addition, the ACTTC recommends updating the current benchmark on Section 16.1, on page 13 of the Investment Policy, from the one-year U.S. Treasury note rate to the 0-5 year U.S. Treasury index rate. The one-year US Treasury note rate, as a benchmark, does not reflect the way the ACTTC invests, given that we invest 5 years out on the yield curve. That is, each year, a maturing bond is replaced with a new 5-year bond, and it is typically held until maturity. We are recommending an index that better reflects our investment strategy to be able to measure our performance against it. The 0-5 year U.S. Treasury index rate is found on Bloomberg each day and supplied by ICE BofA. The County would use the month-end rate with a 30-month moving average. This moving average is used to better match the buying frequency of the County over time (not just at the end of each month). This is similar to how the one-year U.S. Treasury has a 24-month moving average. In addition, this is a better index than the one-year U.S. Treasury because it better matches the allowable purchasing term limit (0-5 years) of the County's Investment Policy. Also, if we look at the duration of the 0-5 year U.S. Treasury index rate which is somewhere in the 2-year area, it is very similar to our portfolio's duration, unlike the one-year U.S. Treasury note rate which has a 1-year duration. Finding an index that closely aligns to the County's investment strategy allows for us to gauge the relative performance of our portfolio more accurately.

Lastly, the ACTTC recommends updating Appendix A, on page 17 of the Investment Policy, to extend the term limit of negotiable certificates of deposit and non-negotiable certificates of deposit, from 13 months to 2 years. The main benefit of this change is the potential for more yield in a normal (upward sloping) yield curve environment, which is about 85% of the time.

The above revisions to the Investment Policy were presented to the Treasury Oversight Committee on August 29, 2024 and there were no further comments to these changes by the committee members.

A revised document, with tracked updates from the November 28, 2023 Investment Policy, and a "clean" (final) copy of the proposed Investment Policy are included with this agenda item.

OTHER REVIEWING AGENCIES:

County of Fresno Treasury Oversight Committee

REFERENCE MATERIAL:

BAI #25, November 28, 2023

ATTACHMENTS INCLUDED AND/OR ON FILE:

REVISED - County of Fresno Treasury Investment Pool Investment Policy

CLEAN - County of Fresno Treasury Investment Pool Investment Policy

CAO ANALYST:

Paige Benavides