

# SAN MATEO COUNTY TREASURY OVERSIGHT COMMITTEE

## MINUTES

Tuesday, February 17, 2026

### 1. CALL TO ORDER

The meeting, in person and via MS Teams, was called to order at 12:03 p.m. by Daneca Halvorson.

### 2. ROLL CALL

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

#### **MEMBERS IN ATTENDANCE:**

- Daneca Halvorson, Chair (City of Daly City)
- Virginia Chang Kiraly (San Mateo County Harbor District and Menlo Park Fire Protection District Board)
- Stephanie Osaze (Bay Area Air Quality Management District)
- Robert Manchia (San Mateo County Executive's Office)
- Kevin Bultema (Deputy Superintendent, Business Services Division)
- Sandie Arnott (Treasurer-Tax Collector)

#### **STAFF IN ATTENDANCE:**

- Tiffany Htwe (Treasurer's Office)
- Angela Moreno (Treasurer's Office)
- Gerimar Tabbay (Treasurer's Office)

#### **MEMBERS OF THE PUBLIC IN ATTENDANCE:**

- Chris Harris (PFM)
- Ken Schiebel (PFM)
- Meredith LaBuda Sullivan (PFM)
- Nancy Jones (PFM)
- Allison Kaune (PFM)

### 3. APPROVAL OF MINUTES – February 24, 2025

Robert Manchia made a motion to approve minutes from October 27, 2025, meeting and seconded by Stephanie Osaze. The meeting minutes were unanimously approved.

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

Sandie Arnott reported that the Board of Supervisors had approved the new investment policy and delegation of authority on January 6, 2026. The investment policy only had minor changes to update the new legislation that had recently passed.

### 5. INVESTMENT REPORT - Tiffany Htwe (SMC), Chris Harris & Meredith Sullivan (PFM)

Tiffany Htwe reported the following data as of December 31, 2025:

- Total portfolio par value is approximately \$9.97 billion.
- Book value is \$9.8 billion.


- Market value at \$9.92 billion.
- Market value is about \$43.7 million below par value but \$120 million above the book value, and this reflects the normal interest rate driven by market fluctuation.
- Cash management portfolio's total is \$5.2 billion.
- Core portfolio that is managed by PFM has \$4.7 billion. Both segments remain above the cost and continue to balance the liquidity and yield appropriately.
- Total earnings of \$91.4 million in accrued interest.

Based on the cash flow positioning and data for the past two years, there are no issues or concerns for the next two years.

She proceeded to display the average pool balance and investment pool average daily balance to show the historical to current data of the portfolio. The current average pool balance is \$9 billion, and the liquidity of the County managed pool allocation of assets is 11.38% to address any County cash flow needs. Overall, the portfolio remains stable and performing as expected. The Treasurer's Office continues to focus on liquidity, principal protection, steady income and position to align with the County cash flow needs and current market conditions.

She also noted that the structure of the investment pool is governed by the investment policy. She compared the benchmark with Santa Clara, Alameda and San Francisco Counties, and overall, we're in the same benchmark about 3.79% to 4.04% yield.

Then Tiffany informed the committee that the County is currently on alert due to an increase in fraud attempts affecting not only the County, but also departments, special districts, and school districts. She emphasized the importance of working closely with the Controller's Office to ensure proper verification whenever vendors request updates to their banking information for electronic payments or wire transfers. Tiffany advised that, when contacting vendors, staff should confirm details that fraudsters are unlikely to know, such as a recent invoice number and the amount previously paid by the County. She also noted that while some fraud attempts have been successfully prevented, others have unfortunately been successful. However, no General Fund accounts have been impacted.

 Virginia Chang Kiraly noted that she is on the Special District Risk Management Authority (SDRMA) board, and they have seen fraud attempts as well, and she believes this is a statewide concern.

Stephanie Osaze asked whether Tiffany had best practices or guidance to share on detecting fraud. Tiffany explained that while there are multiple solutions, one simple and effective method is to verbally verify requests with vendors. This can be done by contacting the primary point of contact using information on record, rather than calling the phone number listed in an email signature, or by reviewing prior email communications to confirm that the phone number is consistent. This helps verify whether the vendor or their team actually submitted the change request. Because scammers are becoming more advanced, it is important to rely on traditional verification methods, such as confirming requests over the phone. Another layer of defense is implementing positive pay and requiring departmental accounts payable approvers to complete a second verification when a check is presented for payment, ensuring that the payee name and account information match what is on file. The Treasurer's Office also provided a countywide webinar on fraud detection and prevention to remind staff to remain vigilant, as recovering funds after a fraudulent transaction is often very difficult. Sandie added that the Controller's Office is currently conducting a risk

assessment across all County departments. Once the assessment is complete, the team can coordinate with them to gather insights and potentially offer an additional webinar for staff.

Nancy Jones from PFM introduced Chris Harris to the committee and noted that Ken Schiebel will be retiring at the end of May 2026. Chris has been with PFM since 2008 and is based in Harrisburg, Pennsylvania, where he works alongside Ken. Ken added that Chris has been an integral part of PFM for 18 years and has taken on increasingly senior leadership roles over the past 2.5 years, including leading the portfolio strategy group. He also emphasized that Chris has been actively involved behind the scenes in supporting San Mateo County's portfolio strategy and implementation for several years, partnering with Ken, Meredith, Allison, and Nancy to serve the County's account. Chris brings extensive experience and knowledge, along with a strong educational background, including a master's degree in financial mathematics from Johns Hopkins University. Ken also reiterated that he will be retiring and shared that he has greatly enjoyed working with the County, the TOC, and his PFM team.

Chris said he looks forward to working with the County and the committee and to building trust and strong relationships. He then proceeded to walk through the market update, explaining that the Federal Reserve cut the overnight rate by 75 basis points between September 2025 and December 2025. Following its January 2026 meeting, the Federal Reserve chose to keep the interest rate unchanged, within a range of approximately 3.5% to 3.75%. The Fed is moving away from the risk-management-driven cuts seen in 2025, which were intended to support the labor market, and is now refocusing on its dual mandate of maximizing employment and maintaining stable prices.

After the January 2026 meeting, Federal Open Market Committee (FOMC) released a statement describing economic activity as expanding at a solid pace, labor market as stabilizing and references to rising downside risks to the labor market were also deleted. The press conference at the conclusion of the meeting was more balanced with Federal Chair Jay Powell mentioning the resilience and strength of the economy multiple times throughout the Questions and Answers session. Chair Powell mentioned that the risk of inflation rising sharply and the downside risks to the labor market have decreased. The Federal Reserve's response to higher inflation is completely different from its response to a weakening labor market. If inflation is too high, the response is to keep rates unchanged or increase them to slow economic momentum and cool the economy. If the labor market is weakening, then the response is to lower the policy rates to support the economy.

However, there is still tension between the dual mandate of maximizing employment and stable prices because inflation is still above the Federal Reserve's 2% target, and the unemployment rate continues to drift higher. The Federal Reserve prefers using the core personal consumption expenditures (PCE) to gauge inflation. Over a year-over-year basis, the core PCE trends closer to 3% than the Federal 2% target. The current forecast of inflation is trending around 2.8% for the next few quarters, which is consistent with the Federal Reserve's expectation that tariff pressures are going to peak in the middle half of 2026. Chair Powell's observation is that getting inflation to 2% target will be the most difficult part but getting it to 3% will be trickier. In contrast to the Federal Reserve's mandate, we continue to see a gradual cooling in labor markets. We can see a slowdown in job creation relative to the very strong growth that we saw from 2022 to 2024. Currently, job creation is really concentrated in healthcare and education, so there isn't a large breadth of job creation. Unemployment rate has gradually increased over the past couple of years, but it did drop to 4.3% in last week's job report. Economists still expect the unemployment rate to remain in the mid 4% range for the next few quarters. The Federal Reserve has been putting more emphasis on unemployment rate than non-farm payroll or job creation because of the impact of change in immigration policy. They are likely to keep rates on hold as they continue to focus on

getting inflation back to their target. The current market expects two additional 25 basis points rate cuts before the end of 2026, which would put the overnight rate around 3% by the end of the year.

Chris continued noting that the Justice Department subpoenaed the Federal Reserve in early January 2025, and that was related to a testimony that Chair Powell gave to Congress on renovations to the Federal Reserve's headquarters. The Department of Justice subpoenas were seen as an effort by the administration to pressure the Federal Reserve to cut rates, but the Federal Reserve is very focused on the data and unlikely to be influenced by political pressure. Additionally, Ken Warsh was announced as the nominee to replace Chair Powell as the next federal chair. Ken Warsh served as a member of the Federal Reserve's Board of Governors from 2006 to 2011, and the market reacted favorably to his nomination from a policy perspective.

PFM team has also seen a few social media posts over the past couple of months. The first post was directing Fannie and Freddie to purchase \$200 million of residential mortgages in an effort to make home ownership more affordable. Mortgage rates did fall 10 to 20 basis points, but the broader macro impact is modest because mortgage rates are driven by 10-year treasury yield. The announcement didn't impact rates further out the curve. President Trump also announced capping credit card interest rates at 10% for a year, though many banks have argued the most likely impact would be a reduction of credit availability for low income and low credit score consumers. The negative impact of the loss of credit could outweigh the benefits of having lower monthly payments.

The next slide shows the treasury yield curve has changed over the past few months as of February 4, 2026. The yield curve is still marginally inverted on the front end, which means that the 3-month yields are still higher than 2-year treasury yields because the 3-month treasury yields are anchored by federal policies, while the 2-year treasury yields are incorporating the market's expectation for future rate cuts from the Federal Reserve. The 5-year treasury yields, the maximum PFM can buy for the County portfolio, are still attractive, and they do continue to see some increases from 3 months to 2 years. More generally, the 2-year treasury yields versus 5-, 10-, and 20-year averages, the 2-year treasury is still above the recent historical averages, so it's still a good time to lock in these higher available yields. Most economist forecasts have the 2-year yields settling in the mid to low 3% range which would align with the current 5-year average, well above the high 1% and low 2% yield.

Then Meredith LaBuda Sullivan presented the breakdown of the County's aggregate funds across various strategies that they have in place with the main priority of ensuring liquidity. Short-term portfolio and liquidity are managed by the County, while CAMP TERM, PFMAM Managed Short-Term and Core portfolios are managed by the PFMAM team. Based on PFM's forecast of expected cash flow for the remainder of the year, they expect to continue to be very well positioned with ample funds targeted at short maturity to meet any cash flow needs. As of December 31, 2025, the current aggregate market value is a little over \$10 billion. The core portfolio, which is a portion of the fund that's dedicated to our longer 1-to-5-year strategies, has a market value of \$4.4 billion at a duration of 2.13 years. The yield at cost of the core portfolio has increased to 3.84% from 3.38%.

Meredith presented the next chart to show the credit quality/profile, and we have very high-quality bonds issuers. Approximately 88% of our holdings are in AA to AAA rated categories. As for the maturity distribution of aggregate portfolio, we historically remain front and weighted with little over half of the assets targeted to maturity inside of the 2 years to support any liquidity needs. However, they also continue to make good progress investing out the curve. When comparing the

duration distribution of the core portfolio in isolation to the duration distribution of 1-to-5-year benchmarks, between 2 and 5 years are well aligned.

Meredith continued by showing the gradual evolution of our sector allocation from 2021 through 2025. Treasuries remained foundational providing liquidity and helping with duration management. Overall, there are some small shifts in our preferences for other sectors and views on the relative value and opportunities available on the market. For example, federal agencies continue to trade within few basis points compared to U.S. treasuries, so when there are maturities in federal agencies, PFM reinvests those in U.S. treasuries or some other better relative value alternatives. Corporate notes continue to make up a meaningful part of the allocation and do not expect to change. All yields are still attractive, and PFM added modestly over the fourth quarter of 2025 as opportunities presented themselves. Lastly in 2025, PFM started purchasing asset backed securities again for the core portfolio as it was an approved sector. PFM participated in few new issue opportunities while it takes time to build some of these allocations, it is a great tool to safely enhance the yield of the portfolio without materially increasing the credit risk.

Then Meredith discussed the trade activity between October 1, 2025, to December 31, 2025. Most of the sales and maturities occurred at the very low legacy yields which freed up funds for PFM to reinvest at the currently available materially higher yields. For example, the average yield of the securities that matured for treasuries is 1.62%, and PFM replaces that with a yield of 3.58% which is more than double the yield that rolled off. They also added \$60 million in corporate bonds with an average yield of 4.11%, and \$14.5 million in ABS purchases that had an average yield of 3.95%. The duration of the purchases varies by sector and that is by design because it indicates PFM's targeted curve and sector positioning view. Corporates have an average duration of 4.12 years, and that shows PFM's efforts to lock in these higher rates for as long as possible. The duration of the ABS purchases is a little shorter closer to 2.5 years, but ABS offers the best risk adjusted returns in that duration range.

Meredith continued highlighting the credit purchases for corporates and ABS that PFM had made over the past quarter. All purchases were extremely high-quality issuers, and they are rated A1 up to AAA and longer maturity focused. All the all-in yields were near or over 4% and offered spreads between 38 and 40 basis points over treasury. As of February 17, 2026, the core portfolio's duration is a bit closer to 2.2 years. The target duration for it is about 2.5 years, so PFM continues to make progress reaching that target. Additionally, based on the interest rate futures as of the morning of February 17, the market is designing less than 10% chance of a cut at the meeting on March 18, 2026. They don't expect the first 25 basis points cut to occur until June or July of 2026, but that can change as data unfolds. The continuing and elevated yields that are currently available give PFM the opportunity to continue to buy out the curve and lock in as much income as possible ahead of any potential easing that they may see by the FOMC.

Furthermore, Meredith discussed the comparison between the portfolio's book yield versus the market yield. The portfolio book yield of 3.84% now exceeds the market yield of 3.78% signaling their success of reinvesting at higher rates on the back of the FOMC cutting 75 basis points during the second half of 2025. The crossover marks the turning point from the prior years when rates were rising and suppressed the book income. The County still owns a portion of assets at ultra-low COVID type yields, and PFM will continue to work to invest those in higher yield as much as possible because the higher book yield provides good income stability even as market yields may decline going forward.

Lastly, she showed the accrual-based earnings from 2021 to 2025 from the PFMAM core portfolio. The portfolio earning growth accelerated year after year reaching \$148.8 million in 2025 with a total of \$464.5 million over that 5-year period. The earnings rate also increased over that period, and in 2025 it got to 3.39% and averaged 2.21%. The primary drive of these increases was higher rates. Balances were static over the 5-year period, but the income from the portfolio helps with cash flow planning.

6. **ORAL COMMUNICATIONS AND PUBLIC COMMENT**

Sandie expressed her appreciation for Ken for everything he had done for the County, everything he brought to the table, all the information and knowledge he shared over the years.

7. **OTHER BUSINESS**

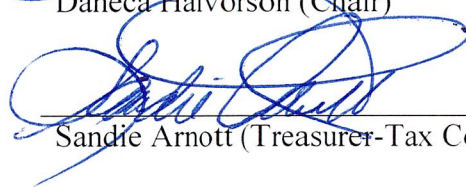
None

8. **ADJOURN**

The meeting was adjourned at 12:54 p.m.



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Daneca Halvorson (Chair)



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Sandie Arnott (Treasurer-Tax Collector)