



***April 8, 2020***

**To:** Finance and Administration Committee

**From:** Darrell E. Johnson, Chief Executive Officer

**Subject:** Orange County Transportation Authority Investment and Debt Programs Report - February 2020

***Overview***

The Orange County Transportation Authority has a comprehensive investment and debt program to fund its immediate and long-term cash flow demands. Each month, the Treasurer submits a report detailing investment allocation, performance, compliance, outstanding debt balances, and credit ratings for the Orange County Transportation Authority's debt program. This report is for the month ending February 29, 2020. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy.

***Recommendation***

Receive and file as an information item.

***Discussion***

As of February 29, 2020, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$2.1 billion. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, the short-term portfolio for future budgeted expenditures, and the bond proceeds portfolio to meet Measure M2 (M2) transportation program needs. In addition to these portfolios, OCTA has funds invested in debt service reserve funds for the 91 Express Lanes Program.

The weighted average book yield for OCTA's portfolio is 2.0 percent. The book yield measures the exact income, or interest, on a bond without regard to market price change. The yield is the income return on an investment, such as the interest received from holding a particular security. The yield is usually expressed as an annual percentage rate based on the investment's cost and market value.

OCTA's month-end balance in the Local Agency Investment Fund was \$10,805,564.73, with an average monthly effective yield of 2.0 percent. OCTA's month-end balance in the Orange County Investment Pool (OCIP) was \$19,482,912.91. For the month of January, the monthly gross yield for the OCIP was 2.0 percent. Yields for the month of February will be received in March.

On Wednesday, February 5, 2020, Standard & Poor's (S&P) downgraded the long-term debt rating of Merck & Company, Inc. (Merck), from AA to AA-, and placed the issuer on negative credit watch. The downgrade and credit watch placement follow Merck's announcement that it will spin off a large group of its smaller branded drugs, including its women's health products, various legacy brands, and the company's biosimilars business. Given the spin off will reduce the company's scale, diversity, and profitability and increase its reliance on the revenue from its top product, S&P moved to cut ratings by one notch. OCTA holds a medium-term note security position in Merck for \$1,250,000. As of February 29, 2020, the security meets the minimum requirements and continues to be held in OCTA's portfolio.

On Thursday, February 20, 2020, Moody's downgraded the long-term debt rating of Nissan to Baa1 from A3. OCTA holds three high quality AAA Nissan Auto/Lease asset-backed security positions, respectively 0.3 percent, 0.4 percent, and 0.6 percent of the portfolio. However, for asset-backed securities, receivables are sold via a legal concept called "true sale" into a bankruptcy-remote issuing trust, therefore isolated from the financial health of the issuer. There has been no negative price action on the asset-backed securities on news of the downgrade. The Treasurer reviewed the position and recommended the securities be held for the short-term. The Treasurer presented his recommendation to the Deputy Chief Executive Officer, who concurred.

OCTA's debt portfolio had an outstanding principal balance of \$1.0 billion as of February 29, 2020. Approximately 62 percent of the outstanding balance is comprised of M2 debt, nine percent is associated with the 91 Express Lanes Program, and 29 percent is for the Transportation Infrastructure Finance and Innovation Act Loan.

### ***Summary***

The Treasurer is submitting a copy of the Orange County Transportation Authority Investment and Debt Programs report to the Finance and Administration Committee. The report is for the month ending February 29, 2020.

***Attachment***

- A. Orange County Transportation Authority Investment and Debt Programs  
– For the Period Ending February 29, 2020.

**Prepared by:**

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