



July 10, 2019

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Investment and Debt Programs Report – May 2019

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 May 31, 2019. The report has been reviewed and is consistent with the investment practices contained in the Investment Policy. Nissan, an issuer for asset-backed securities held by Orange County Transportation Authority, was downgraded from A2 to A3, which is below Orange County Transportation Authority's investment policy requirement of A2. The asset-backed securities continue to be AAA-rated with no negative price action since the Nissan downgrade, so Orange County Transportation Authority has chosen to retain the securities.

Recommendation

Receive and file as an information item.

Discussion

As of May 31, 2019, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$2.03 billion. The portfolio is divided into three managed portfolios: the liquid portfolio for immediate cash needs, bond proceeds portfolio to meet Measure (M2) transportation program needs, and the short-term portfolio for future budgeted expenditures. 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 the OCTA portfolio is 2.4 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.

The OCTA's month-end balance in the Local Agency Investment Fund was \$10,610,270, with an average monthly effective yield of 2.5 percent. The OCTA's month-end balance in the Orange County Investment Pool (OCIP) was \$206,243. Yields for the month of May will be received in June in alignment with the timing of the County of Orange investment report. For the month of April, the monthly gross yield for the OCIP was 2.2 percent.

On Friday, May 24, 2019, Moody's downgraded the long-term debt rating of Nissan from A2 to A3 based on the decline in profitability of its United States operations due to its passenger car focus and residual issues regarding its governance challenges. OCTA holds four asset-backed security positions in Nissan Auto/Lease for a total of \$9.1 million. OCTA's current investment policy requires the issuer of asset-backed securities to have long-term debt rated a minimum of A2, so the downgrade has put Nissan's long-term debt rating below the requirements of the investment policy. OCTA's investment policy also requires asset-backed securities to be AAA-rated, and the four Nissan asset-backed securities remain AAA-rated. Since the downgrade of Nissan's long-term debt, there has been no negative price action on the AAA-rated asset-backed securities. Given the continued strong AAA-rating of the asset-backed securities and the recommendation from the investment manager holding the Nissan securities, OCTA's treasurer has decided to retain the securities. The Treasurer presented his recommendation to the Deputy Chief Executive Officer who concurred. OCTA will continue to monitor Nissan and the ratings for both the long-term debt and asset-backed securities to ensure no further downgrades to Nissan's long-term debt rating and that the asset-backed securities retain a AAA-rating.

OCTA's debt portfolio had an outstanding principal balance of \$1.02 billion as of May 31, 2019. Approximately 62 percent of the outstanding balance is comprised of M2 debt, ten percent is associated with the 91 Express Lanes Program, and 28 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 May 31, 2019.

Attachment

- A. Orange County Transportation Authority Investment and Debt Programs
– For the Period Ending May 31, 2019.

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