



July 10, 2024

To: Finance and Administration Committee

From: Darrell E. Johnson, Chief Executive Officer

Subject: Orange County Transportation Authority Investment and Debt Programs Report – May 2024

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, 2024. During the month of May, one investment manager purchased a security that did not comply with the Investment Policy. As a result of this compliance violation, the investment manager has been placed on probation for one year, in accordance with the requirements of the Investment Policy.

Recommendation

Receive and file as an information item.

Discussion

As of May 31, 2024, the Orange County Transportation Authority's (OCTA) outstanding investments totaled \$2.5 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.

Portfolio Compliance and Liquidity Requirements for the Next Six Months: The portfolio is in full compliance with OCTA's Investment Policy and the State of California Government Code. Additionally, OCTA has reviewed the liquidity

requirements for the next six months and anticipates that OCTA's liquidity will be sufficient to meet projected expenditures during the next six months.

The weighted average book yield for the OCTA portfolio is 4.1 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 (LAIF), a pooled investment fund for California local agencies, was \$6,955,075, with an average monthly effective yield of 4.33 percent. LAIF offers local agencies an opportunity to invest funds in a diversified portfolio of high-quality, short-term securities managed by the State Treasurer's Office. OCTA's month-end balance in the Orange County Investment Pool (OCIP), a collective investment fund for local government entities in Orange County was \$749,259. For the month of April, the monthly gross yield for the OCIP was 4.48 percent. The yield for the month of May will be received in June 2024. OCIP allows local government entities to invest funds in a diversified portfolio managed by the Orange County Treasurer-Tax Collector's Office, aiming for competitive returns while prioritizing safety and liquidity. Mandated by the Transportation Development Act (TDA), OCTA is obliged to participate in the OCIP. It serves as a temporary holding account for TDA funds until claimed by OCTA and then processed by the County of Orange. This framework ensures effective fund management and adherence to regulatory compliance.

During the month of May, one security held within OCTA's investment portfolio was downgraded by Moody's. As of May 31, 2024, the security still meets the minimum ratings requirements set forth by OCTA's Investment Policy (Policy). Please refer to A-8 (Rating Downgrades and Negative Credit Watch) of Attachment A for further details.

On May 28, 2024, one of OCTA's investment managers, Payden & Rygel, purchased an asset-backed security issued by the American Tower Corporation. Pursuant to OCTA's Policy and the California Government Code, the maximum allowable term for public fund investments is five years. At the time of purchase, the security in question was listed with a final maturity date of March 15, 2028, in Bloomberg, which rendered it eligible for purchase. However, according to the Preliminary Official Statement for the security, the legal final maturity date is March 15, 2053, which exceeds the maximum allowable term of five years. OCTA's treasury management system immediately flagged the item as non-compliant, and staff notified the portfolio manager of the violation. The

portfolio manager sold the security on May 31, 2024, generating investment gains for OCTA's portfolio.

In accordance with OCTA's Policy, the Treasurer was informed of this violation, and Payden & Rygel were placed on a one-year probation effective May 28, 2024. Pursuant to OCTA's Policy, if a second violation occurs while the portfolio manager is on probation, the Finance and Administration (F&A) Committee shall review the error and may request that the portfolio manager meet with the Chair of the F&A Committee and the Treasurer as soon as practical. If OCTA's Treasurer finds that the portfolio manager has made a third non-compliant investment while on probation, the Treasurer will notify the Board of the compliance violations. OCTA may terminate services for its convenience at any time by providing at least 30 days' written notice.

OCTA's debt program is separate from its investment program and is comprised of M2 Sales Tax Revenue Bonds, 91 Express Lanes Toll Road Revenue Bonds, and 2021 Transportation Infrastructure Finance and Innovation Act Loan. The debt program currently has an outstanding principal balance of \$1.2 billion as of May 31, 2024. Approximately 46 percent of the outstanding balance is comprised of M2 debt, four percent is associated with the 91 Express Lanes Program, and 50 percent is associated with the 405 Express Lanes.

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, 2024.

Attachments

- A. Orange County Transportation Authority Investment and Debt Programs
– For the Period Ending May 31, 2024
- B. Orange County Transportation Authority Portfolio Listing as of
May 31, 2024

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