

Tulare County Board of Supervisors

Review of April 1, 2024, Administration Report

Millennium Fund Investment Program

July 30, 2024

415.393.7270

pfmam.com

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Millennium Fund Background and Objectives

- ▶ **In 1999, the County issued \$45 million of taxable, variable-rate demand bonds (VRDBs)**
 - ▷ Created an endowment to fund public capital improvements
 - ▷ Bonds secured by certain lease payments and County's share of the national tobacco settlement
 - ▷ Outstanding bonds as of July 30, 2024: \$25,390,000

- ▶ **In 2006, the County refunded the original issue with a private placement**
 - ▷ Resulted in significant savings
 - ▷ Established a borrowing rate of 1-month LIBOR + 0.25%
 - ▷ After the expiration of LIBOR in 2023, rate is now based on SOFR and was 5.69% as of June 1, 2024

- ▶ **Program's long-term investment objectives:**
 - ▷ Achieve and maintain parity
 - ▷ Carefully control risk to ensure ongoing success
 - ▷ Generate an investment return higher than the borrowing rate to grow the Program



Value of Millennium Fund Endowment – Annual Update

- ▶ **April 1, 2024:** market value of \$55.0 million
- ▶ **April 23, 2024:** County received annual settlement payment totaling \$4.1 million

Tulare County Millennium Fund Program Market Value as of April 1, 2024	
Fund Name	Market Value
Bond Fund	\$616,664
Millennium Fund	\$54,463,743
Tobacco Settlement Fund	\$0
Total	\$55,080,407

Total excludes the April 23, 2024 annual settlement amount.

Program Highlights – Year Ended April 1, 2024

► Interest rates moved higher and remained elevated

- ▷ Federal Reserve raised the fed funds rate four times as inflation remained above the 2% target
 - Rate has been at 5.25%-5.50% since July 2023
- ▷ Bond borrowing rate climbed to an average of 5.57% during the year ended April 1, 2024, compared to 3.41% in the year prior, and 0.39% in the year prior
- ▷ The Program's investment return will benefit from higher reinvestment rates over time, but market values continued to be negatively impacted by the sharp increase in rates since 2022

► Portfolio Market Value is \$55.0 million

- ▷ County withdrew \$3.0 million for capital expenditures in August 2023
- ▷ Bond payments totaled \$2.9 million, compared to \$2.2 million in prior year, due to higher interest costs
- ▷ Value excludes \$4.1 million received after April 1, 2024

► Program value exceeds outstanding par value of bonds by \$29.7 million

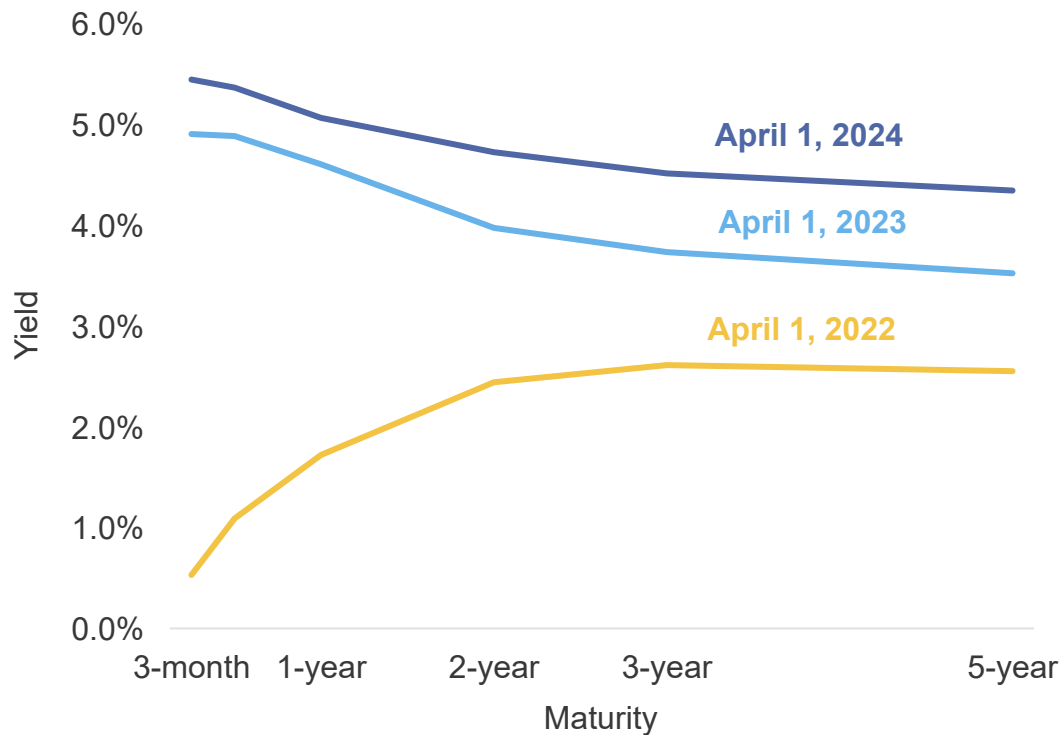
- ▷ Unwind position increased by \$2.6 million
- ▷ Elevated borrowing rate and rising interest rates caused the investment return to lag the higher interest cost



Yields Remain Sharply Higher

- ▶ Rates moved higher in response to additional rate hikes by the Federal Reserve
- ▶ The yield curve remained inverted, creating a challenging investment landscape

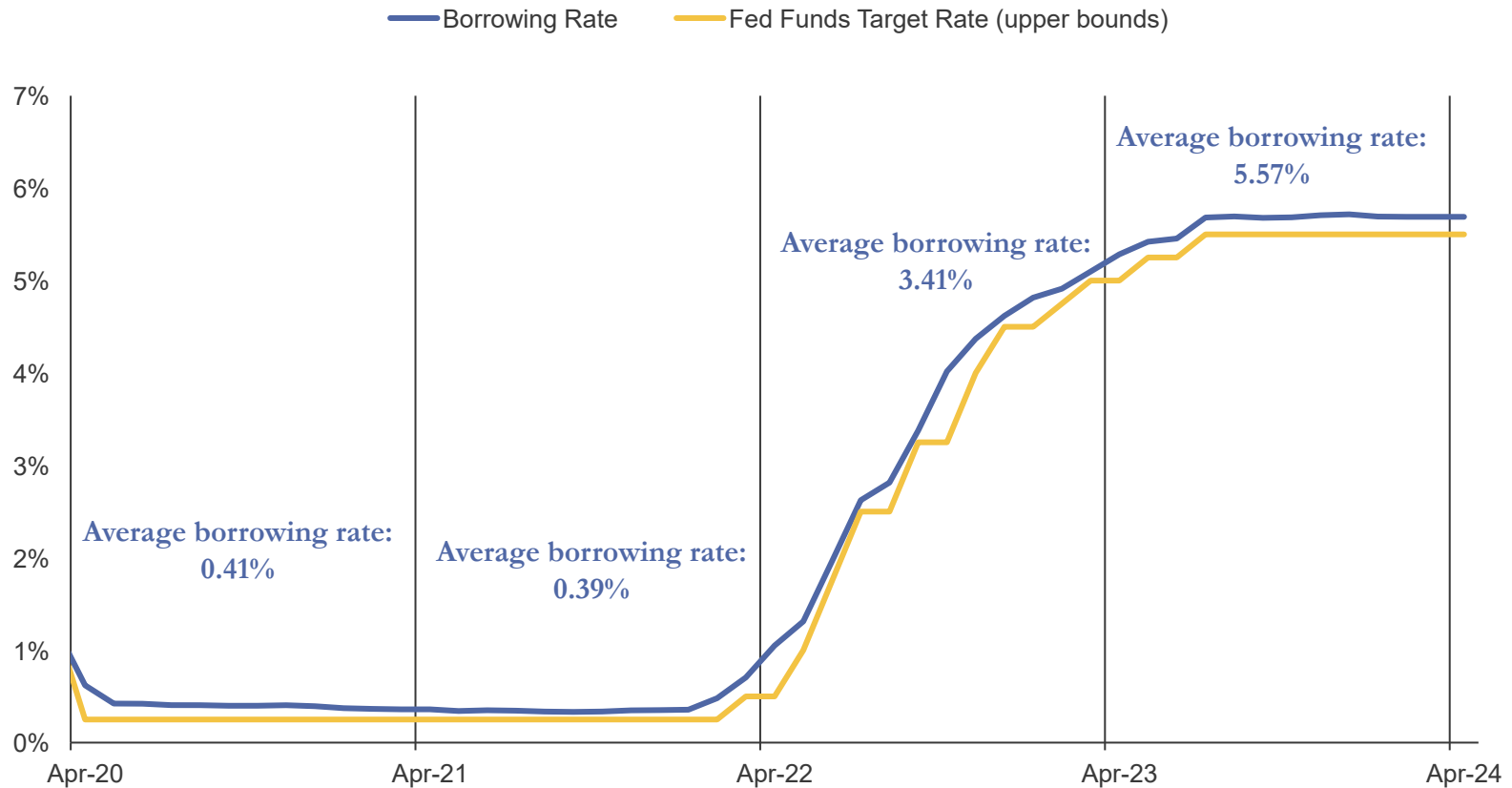
Treasury Yield Curve



	4/1/24	4/1/23	Year-over-Year Change
3-month	5.44%	4.90%	+0.54%
6-month	5.36%	4.88%	+0.48%
1-year	5.06%	4.60%	+0.46%
2-year	4.72%	3.97%	+0.75%
3-year	4.51%	3.73%	+0.78%
5-year	4.34%	3.52%	+0.82%

Borrowing Costs Rose Sharply in 2022 and 2023

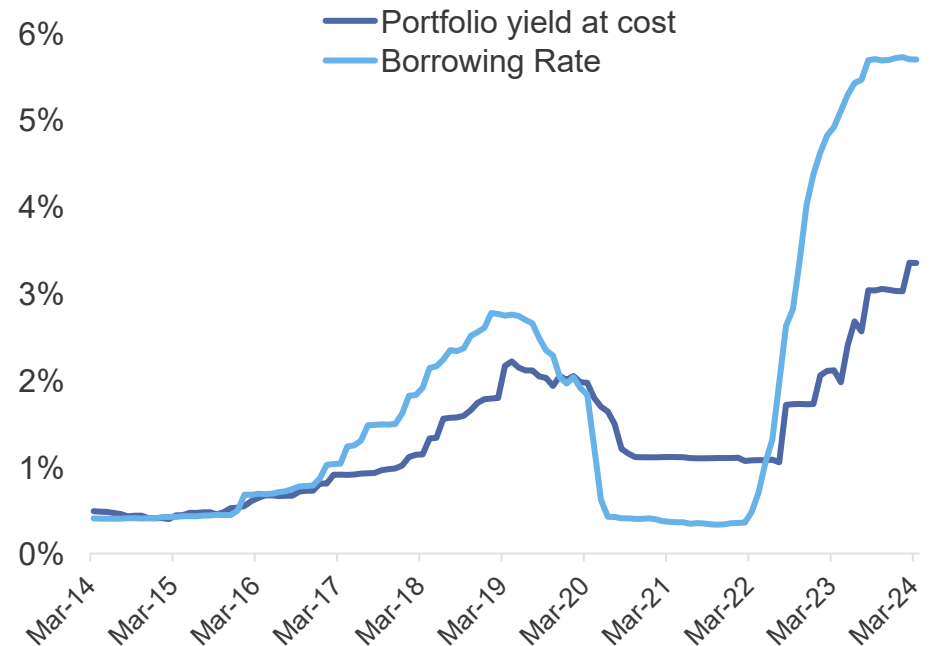
Borrowing Rate on Millennium Program Bonds and Fed Funds Target Rate
April 1, 2020 – April 1, 2024



Portfolio Strategy

- Sharply higher interest rates presented a significant investment challenge. An inverted yield curve compounded the challenges.
- In response, new purchases were focused in floating-rate securities.
 - Help to offset the floating borrowing rate
 - Take advantage of the continued rise in interest rates
- For year ended April 1, 2024, the Program's investment return was 4.49%, higher than the prior year, but lagged the borrowing rate.
- Portfolio yield at cost moved materially higher during the year and continues to trend upward.

Millennium Fund Portfolio

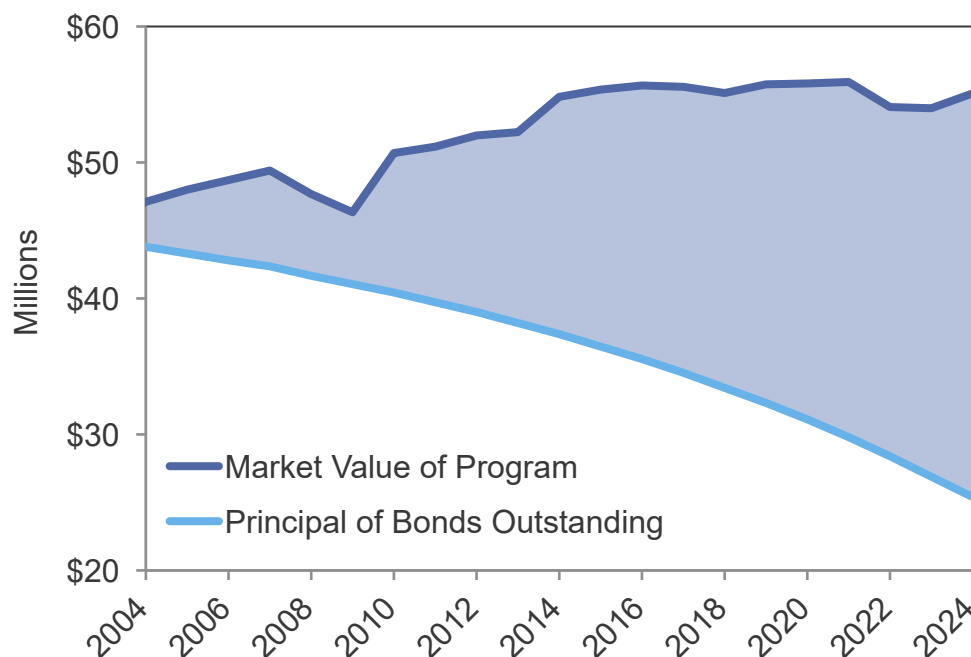


Program's Unwind Position Continued to Increase

- ▶ Unwind position increased during the year and remains favorable at \$29.7 million.

Market Value of Program vs. Outstanding Principal

April 2004 – April 2024



Unwind Position as of April 1 (\$ in millions)

	2024	2023
Market Value	\$55.0	\$54.0
Bonds Outstanding	\$25.3	\$26.9
Favorable Unwind Position	+\$29.7	+\$27.1

Unwind represents amount of proceeds remaining if the Program were collapsed and the Bonds completely paid off. Excludes costs associated with collapsing the Program.

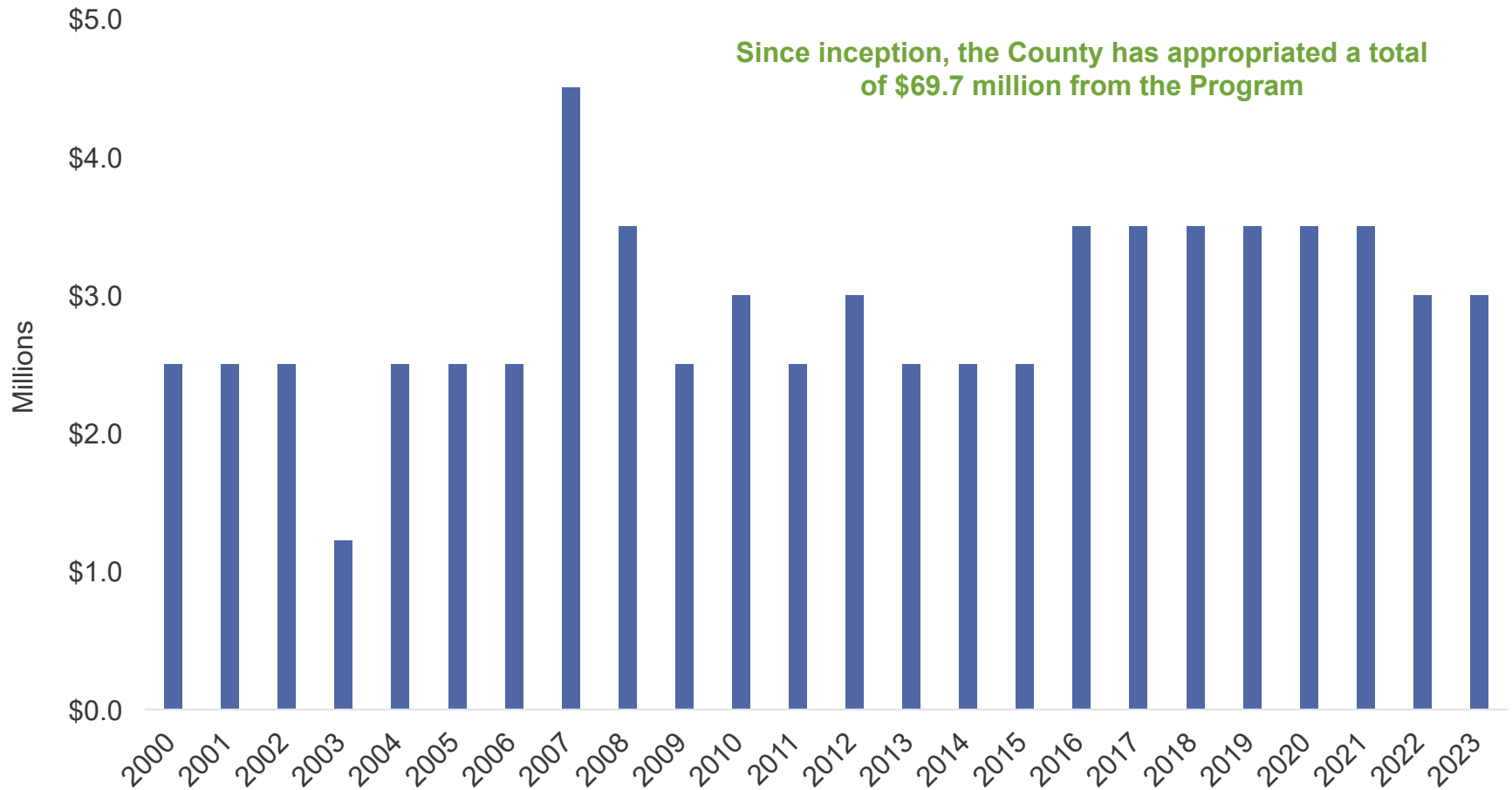
Portfolio Return and Borrowing Cost

- ▶ The since-inception spread between the portfolio's return and the borrowing rate has tightened due to significantly higher borrowing rates and lower portfolio returns.
- ▶ As of April 1, 2024, the cumulative earnings rate since inception is approximately 1 basis point (0.01%) lower than the average borrowing rate.

Investment Return and Borrowing Rate Since Inception December 17, 1999 – April 1, 2023	
Average Investment Return	2.16%
Average Borrowing Rate	2.17%
Earnings Spread	-0.01%



Program Appropriations Total Nearly \$70 Million



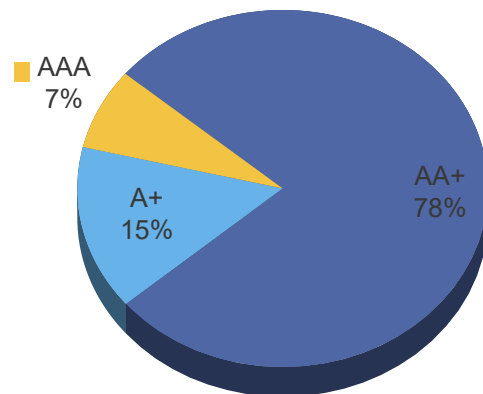
Since inception date of December 1999.

Millennium Fund Portfolio Characteristics

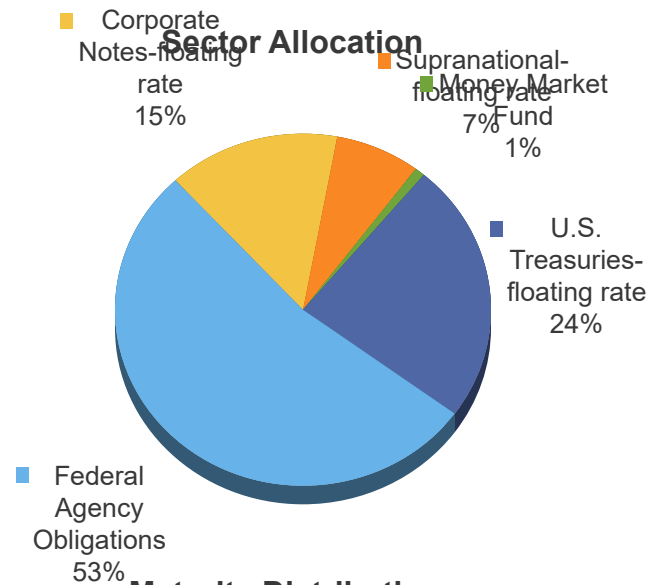
Portfolio Statistics^{1,2}

Market Value	\$54,390,714
Average Maturity	1.47 years
Yield at Market	5.48%
Yield at Cost	3.34%
Average Credit Quality	AA

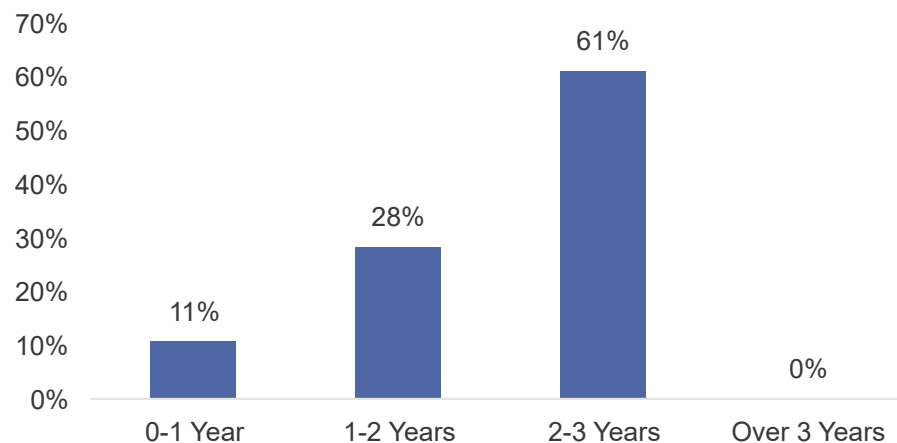
Credit Quality



Sector Allocation



Maturity Distribution



As of May 31, 2024.

1. Market value includes accrued interest and cash/money market fund balance.

2. Average yield at cost and average maturity calculations exclude money market fund balance.

Ratings by Standard & Poor's. Credit quality chart excludes cash/money market fund balance.

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