ORANGE COUNTY, FLORIDA

ANNUAL INVESTMENT REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2024

PREPARED BY
ORANGE COUNTY, FLORIDA

COMPTROLLER

PHIL DIAMOND, CPA

EXECUTIVE SUMMARY

The portfolio earned $165.5 million for an effective rate of return of 4.57% on an average daily balance of $3.61 billion in Fiscal Year 2024. For comparison, the portfolio earned $121.1 million for an effective rate of return of 3.58% on an average daily balance of $3.38 billion in Fiscal Year 2023. Investments were made in compliance with the Investment Policy's permitted investment types, composition limits and allowable maturities.

The investment portfolio is affected by domestic monetary policy and national economic activity. The sharp increase in earnings was primarily attributable to the highest fed funds rate since 2001. The Federal Reserve increased the target range for federal funds to 5.25%-5.50% in July 2023, where it remained for nearly all of Fiscal Year 2024. The highest returns were realized in Florida PRIME, an overnight local government investment pool. In September, inflation was decelerating toward the Federal Reserve's preferred 2% target and hiring began to slow. On September 18, 2024, the Fed reduced the target range for fed funds by 50 basis points to 4.75-5.00%.

Interest earnings were led higher by the County's short-term investments. Earnings in the current operating sub-portfolio, which has a maximum maturity of 13 months, increased 35% to $141.2 million. Approximately 73% of the overall portfolio's assets were invested in the current operating sub-portfolio. Short-term investments offered the highest returns due to an inverted yield curve, where short-term yields are higher than long-term yields. Returns increased in the intermediate term sub-portfolio (3-year ladder) and noncurrent operating sub-portfolio (5-year ladder). Lower-yielding investments purchased two to four years ago, when interest rates were lower, matured and were reinvested at higher rates. Returns on the intermediate term and noncurrent operating portfolios should continue to rise in Fiscal Year 2025.

Section 218.415 (15), Florida Statutes, requires the Orange County Comptroller to provide an annual report to the Board of County Commissioners of the securities in the portfolio by investment type, book value, market value and income earned. This information is presented below as of September 30, 2024.

Summary Table of Portfolio Performance

Investment Type	Book Value September 30, 2024	Market Value September 30, 2024	Earnings Fiscal Year 2024
U.S. Treasuries	$1,916,993,515	$1,911,179,729	$71,078,378
Florida PRIME (SBA)	1,382,123,991	1,382,123,991	76,501,462
Federal Instrumentalities	124,238,004	124,464,750	12,773,300
Fixed Income Money Market Mutual Funds	102,111,124	102,111,124	5,141,775
Totals	$3,525,466,634	$3,519,879,594	$165,494,915

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for the year ended September 30, 2024
ORANGE COUNTY, FLORIDA

I. INVESTMENT POLICY

Section 218.415, Florida Statutes provides units of local government with the ability to conduct investment activity outside the framework of that Statute that is consistent with a written plan adopted by the local governing body. Orange County's (County) investment activity is authorized by the Investment Policy (Policy) adopted by the Board of County Commissioners (BCC). The Policy applies to all investment activities and financial assets of the BCC excluding funds invested in the Orange County Retiree Health Care Benefit Trust, which was created solely to provide funding and payment of post-retirement benefits to beneficiaries.

The County's investment activity was conducted in accordance with written procedures and internal controls.

II. INVESTMENT ADVISORY COMMITTEE

The Committee was established by the Comptroller to recommend investment strategies and monitor the performance and structure of the County's portfolio. The Committee is chaired by the Chief Deputy Comptroller and the other members are community volunteers with financial expertise. During the fiscal year, the community volunteers were Daniel Johnson, Jacinta Mathis, Jim Downing and Eva Tukdarian. Mr. Johnson is a Shareholder at Carlton Fields Jorden Burt, P.A.; Ms. Mathis is a Business, Real Estate and Wealth Management Attorney at Mathis Law Group; Mr. Downing is a Group Chairman of a Vistage CEO Peer Group; and Ms Tukdarian is the Chief Financial Officer/Chief Investment Officer for Dr. Phillips Charities.

III. INVESTMENT OBJECTIVES

The Policy describes three specific objectives to be applied in managing the County's investments. The primary investment objective is **safety** of the County's funds. The portfolio is managed in a manner that seeks to ensure the preservation of capital in the overall portfolio. To achieve this objective, investments are diversified across a variety of securities offering independent returns and maturities. On average in Fiscal Year 2024, approximately 55% of portfolio assets were invested in Treasuries and money market mutual funds comprised of Treasuries and Treasury-backed repurchase agreements. Treasuries are considered to have the lowest default risk of any security type because they are guaranteed by the full faith and credit of the United States Government.

The second investment objective is to maintain sufficient **liquidity**. The County's funds are invested to match maturities with forecasted expenditures for operating, payroll and capital needs. Liquidity also encompasses the ability to sell an investment when necessary, with minimal delay and minimal loss of principal.

Maximizing yield on the portfolio is the County's third investment objective. This objective is only sought after the first two investment objectives are met.

IV. PORTFOLIO PERFORMANCE

Acceptable portfolio performance is the result of balancing the rewards of investing, or the income earned, with the risks associated with those investments. Factors influencing the portfolio's performance include the types of investments permitted, allowable maturities, liquidity requirements, domestic monetary policy, sensitivity of asset values to changes in market conditions, local economic activity (the dollars available to be invested) and the investment operation.

The portfolio earned $165.5 million for an effective rate of return of 4.57% on an average daily balance of $3.61 billion in Fiscal Year 2024. For comparison, the portfolio earned $121.1 million for an effective rate of return of 3.58% on an average daily balance of $3.38 billion in Fiscal Year 2023.

This report discusses in detail each of the factors influencing portfolio performance, as well as the County's depository banking relationship.

V. PERMITTED INVESTMENTS AND ALLOWABLE MATURITIES

Table 1 summarizes the permitted investments, composition limits and maximum allowable maturities. The County's excess funds are invested according to Orange County Code Section 17-5, which authorizes the Comptroller to invest in specific permitted investment types. The permitted investments are restricted by the Policy's composition limits and maximum allowable maturities. The Policy also restricts the investment maturities of current operating funds to not more than 13 months, the investment maturities of noncurrent operating funds to not more than 60 months, and the investments of bond reserves, construction funds and other non-operating funds to a term appropriate to the need for the funds. Following is a brief description of each investment type. It is generally regarded that the following investment types are safe investments and meet the Policy's first objective: safety.

Table 1 – Permitted Investments

Investment Type	Composition Limit	Maximum Maturity
Florida PRIME (SBA)	40%	NA
Treasuries	100%	10 Years
Instrumentalities	45%	10 Years
CDs & Savings Accounts	30%	One Year
Repurchase Agreements	20%	30 Days
Bankers' Acceptances	15%	270 Days
Commercial Paper	15%	270 Days
Municipal Obligations	10%	Three Years
Money Markets	25%	NA

A. Florida Local Government Surplus Funds Trust Fund (Florida PRIME)

Florida PRIME is administered by the Florida State Board of Administration (SBA) for the purpose of pooling investment funds of local governments in an investment portfolio of money market instruments that provide liquidity while preserving capital. As of October 1, 1997, the SBA had converted Florida PRIME to a “2a-7 like” investment pool (SEC Rule 2a-7 of the Investment Company Act of 1940). On February 13, 2008, the Trustees of the SBA hired Federated Investors to manage Florida PRIME, effective on March 1, 2008. The SBA takes reasonable care to maintain a weighted average maturity of 60 days or less and to have no more than 25% of assets in a single industry sector, except the financial services industry. In addition, the SBA will generally comply with the diversification limitation of having at least 50% of the portfolio invested in securities rated A-1+ or those deemed to be of comparable credit quality. On September 30, 2024, Florida PRIME was invested in fixed rate and floating rate bank instruments, fixed and floating rate corporate commercial paper, fixed and floating rate asset backed commercial paper, money market mutual funds, floating rate corporate notes, government securities and repurchase agreements. A maximum of 40% of the portfolio may be invested in Florida PRIME but when combined with money market mutual funds, may not exceed 50% of the portfolio.

B. U.S. Treasury Securities (Treasuries)

The securities comprising Treasuries are direct obligations of the U.S. Government. The securities are designated by maturity. Treasury bills have maturities of one year or less, Treasury notes have maturities of two to 10 years, and Treasury bonds have maturities of more than 10 years. The prices of the longer maturities are more volatile because they are more sensitive to interest rate fluctuations. Treasury yields are typically lower than yields on debt issued by federal agencies sponsored by the U.S. Government.

C. Federal Agency Securities (Instrumentalities)

Instrumentalities are securities issued by federal agencies sponsored by the U.S. Government. The Policy allows purchases of bonds, notes or debentures of the issuing agencies including Federal Farm Credit Banks, Federal Home Loan Bank or its district banks, Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac). Instrumentalities vary in maturities. Yields on Instrumentalities are typically greater than yields of similar Treasuries. The Policy further restricts investments in any one agency to 15% of the portfolio.

D. Certificates of Deposit and Savings Accounts (CDs/Savings)

The Comptroller may invest in nonnegotiable, interest bearing CDs and savings accounts in state or national banks located in Florida, and having their deposits secured by Chapter 280, Florida Statutes, known as the Florida Security for Public Deposits Act. The issuing bank must not be listed with any nationally known credit watch organization. There is some liquidity risk with CDs because they are subject to penalties for early withdrawal. The Policy further restricts CDs/Savings in any one bank to 5% of the portfolio.

E. Repurchase Agreements (Repos)

A Repo is a financial transaction in which the County exchanges cash for ownership of specific securities with a simultaneous agreement to sell back the securities. Overnight Repos mature in one day. Other Repos are written to mature in specific multi-day periods and are known as term Repos. Other Repos are written as open transactions with indefinite terms subject to liquidation by either party. Yields tend to run close to the federal funds rate. The Policy calls for the specific securities to be only those Treasuries or Instrumentalities allowed by the Policy with maturities less than five years and having a market value of 102% during the term. The County may enter into a Repo transaction only with qualified financial institutions, which have executed a Master Repurchase Agreement with the Comptroller. The Policy further restricts transactions with any one financial institution to 5% of the portfolio, except for overnight Repos.

F. Bankers' Acceptances (BAs)

BAs are generally bearer form securities comprised of underlying letters of credit used to finance international trade. A BA is created from a letter of credit issued by an importer's bank to pay a foreign exporter for goods expected to be received. The exporter will normally present this letter of credit to its bank for a discounted payment. The exporter's bank then presents the letter of credit to a U.S. correspondent bank for payment at which time it is marked *Accepted*. Upon acceptance, the BA becomes an irrevocable and unconditional obligation of the accepting bank, and it is also an obligation of the importer and any endorser thereof. BAs typically have maturities of 180 days or less. Yields are generally greater than Treasuries and Instrumentalities of similar maturity. The Policy requires BAs to be inventory-based, issued by a domestic bank that has an uninsured and unguaranteed obligation rating of at least P-1 and A by Moody's Investors Service and A-1 and A by S&P Global, and ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 5% of the portfolio.

G. Commercial Paper (CP)

CP is unsecured short-term debt issued primarily by corporations to finance receivables and other short-term needs. CP has a maximum maturity of 270 days. Yields are typically greater than Treasuries and Instrumentalities of similar maturity. The Policy requires the issuer to be rated P-1 by Moody's Investors Service and A-1 by S&P Global and, if backed by a letter of credit, the long-term debt of the credit provider must be rated at least A by two nationally recognized rating agencies. The credit provider must also be ranked in the top 50 domestically chartered insured commercial banks that have consolidated assets of $300 million or more as reported by the Federal Reserve Board. The Policy further restricts the investment with any one financial institution to 2.5% of the portfolio.

H. Municipal Obligations

For situations necessary to comply with arbitrage regulations, the Comptroller may invest in taxable and tax-exempt debt, and general obligation and revenue bonds issued by state and local governments. Long-term debt must be rated at least Aa by Moody's Investors Service and AA by S&P Global. Short-term debt must be rated at least MIG-2 by Moody's Investors Service and SP-2 by S&P Global. The Policy further restricts the investment with any one issuer to 3% of the portfolio.

I. Fixed Income Money Market Mutual Funds (Money Markets)

Money Markets are pools of securities providing income and liquidity. The Policy enables the Comptroller to invest in SEC qualified fixed income Money Markets with underlying investments in Treasuries and Treasury-backed repurchase agreements. The average maturity of the underlying investments may not exceed sixty days. A maximum of 25% of the portfolio may be invested in Money Markets but when combined with Florida PRIME may not exceed 50% of the portfolio. The Policy further restricts the investment with any one fund to 10% of the portfolio.

VI. LIQUIDITY REQUIREMENTS

The second objective in managing the County's investments is the provision for sufficient liquidity. On a regular basis, the County's receipts and disbursements are analyzed to determine trends in cash inflow and outflow. Cash inflows are invested upon receipt and immediately become part of the portfolio.

The portfolio provides cash for daily payment of operating and capital expenditures, biweekly payment of payroll expenditures, and semiannual debt service payments. Average daily payments for operating and capital expenditures increased 20% to $9.5 million in Fiscal Year 2024 from $7.9 million in Fiscal Year 2023. Average biweekly payments for payroll expenditures rose 9.9% to $21.1 million from $19.2 million in Fiscal Year

2023. Total debt service payments fell 5.8% to $122.7 million in Fiscal Year 2024 from $130.3 million in the prior year.

VII. DOMESTIC MONETARY POLICY AND NATIONAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, and liquidity requirements, portfolio performance is influenced by domestic monetary policy and national economic activity. The Policy provides that the Comptroller will utilize federal funds rates, Treasury yield curves, and major U.S. economic barometers in making investment decisions. Yields usually fall or remain stable when monetary policy and economic indicators point to declines in inflationary pressure. Yields usually rise when the economy shows signs of increasing inflation. Domestic monetary policy and economic activity significantly influence the County’s portfolio performance.

The Federal Reserve Board (Fed) conducts domestic monetary policy. The Fed controls monetary policy through open market operations, the discount rate and bank reserve requirements. The Fed’s Board of Governors administers the discount rate and bank reserve requirements, and the Federal Open Market Committee (FOMC) conducts open market operations. Open market operations have the most significant impact on the County’s portfolio performance. The FOMC reviews economic and financial conditions, assesses risks to the economic outlook and attempts to alter the federal funds rate through monetary policy. The federal funds rate is the interest rate at which banks lend to other banks overnight. Changes in federal funds rates trigger events that affect other short-term interest rates and, ultimately, a range of economic variables.

The target range for fed funds opened the fiscal year at 5.25%-5.50% and was unchanged until September 2024. The FOMC did not alter monetary policy while the unemployment rate was low and payroll growth was strong. Furthermore, inflation eased as the year progressed but remained elevated through the summer months. On September 18, 2024, the FOMC reduced the fed funds target range by 50 basis points to 4.75%-5.00%. The Fed reduced rates as job growth slowed, unemployment increased and inflation continued to slow toward the Committee’s 2% target. However, the U.S. economy continued to grow at a solid pace. The central bank began reducing rates in an effort to avoid a recession and achieve a *soft landing* for the economy.

Yields on Treasury bills and short-term Treasury notes are strongly influenced by the federal funds rate, as well as anticipated changes in this rate. The average Treasury yield curve shifted upward during Fiscal Year 2024, except in the 1-year section of the curve. The largest increases occurred on the front end and back end of the yield curve. The average yield on the 3-month Treasury increased by 48 basis points; 6-month, 21 basis points; 2-year, 6 basis points; 5-year, 25 basis points; 10-year, 44 basis points; and 30-year, 0.51 basis points. Rates were unchanged in the 1-year section of the curve. The yield curve was inverted for the entire year.

The inversion of the yield curve began in the fourth quarter of Fiscal Year 2022 and remained that way for the next two years. In Fiscal Year 2024, the average yield on the 3-month Treasury was 5.42% compared with only 4.25% on the 10-year Treasury, or a spread of 1.17 percentage points. In Fiscal Year 2023, the average yield on the 3-month Treasury exceeded the yield on the 10-year Treasury by 1.13 percentage points. The 3-month Treasury was the high point of the curve in Fiscal Year 2024. Historically, inverted yield curves have reliably predicted recessions. The lag time between the inversion of the curve and the onset of recession has varied greatly, typically between six months and three years.

In June 2022, the Federal Reserve began reducing the size of its holdings of Treasury securities and agency debt and agency mortgaged-backed securities. The Federal Reserve's quantitative tightening program followed its purchase of $4.6 trillion of assets during the pandemic, which brought the total size of its bond portfolio to a peak of nearly $9 trillion in the summer of 2022. The Fed reduced the size of its Treasury holdings by $60 billion a month through May by not reinvesting proceeds from maturing investments. The Fed also reduced its agency debt and agency mortgaged-backed holdings by $35 billion a month. In June 2024, the Federal Reserve eased the pace of its Treasury reductions to $25 billion a month but did not change the agency program. The total size of the Fed's balance sheet runoff was about $2 trillion as of November 2024. Morgan Stanley projects that the Fed will end quantitative tightening in early 2025.

The sharp increase in the County's earnings was driven by higher market interest rates, particularly on the short end of the yield curve. Approximately 73% of the overall portfolio's assets were invested in the current operating sub-portfolio, which has a maximum maturity of 13 months. Investments in the current operating sub-portfolio were made at higher rates than in the previous year. However, short-term rates fell late in the year on the Fed's rate cut in September. Although returns on the longer-term portfolios increased from Fiscal Year 2023, yields on the intermediate term sub-portfolio (3-year ladder) and noncurrent operating sub-portfolio (5-year ladder) were lower than the current operating sub-portfolio due to the inverted yield curve and investments made in Treasury notes during the coronavirus pandemic. Market yields dropped to historic lows in August 2020 and remained relatively modest into 2022. The returns on book value for the intermediate term and noncurrent sub-portfolios respond slower to changes in market interest rates, relative to the current operating sub-portfolio, due to the longer terms to maturity of the investments. The returns on the intermediate term and noncurrent sub-portfolios increased year-over-year as investments made during the pandemic matured and were reinvested at higher market interest rates.

Shown on the next page in Chart 1 are the average 30-year Treasury yield curves for fiscal years 2020 through 2024, followed by Chart 2, which compares the monthly portfolio rates of return with the monthly intended and effective federal funds rates for the same period.

Chart 1 – Average U.S. Treasury Yield Curves

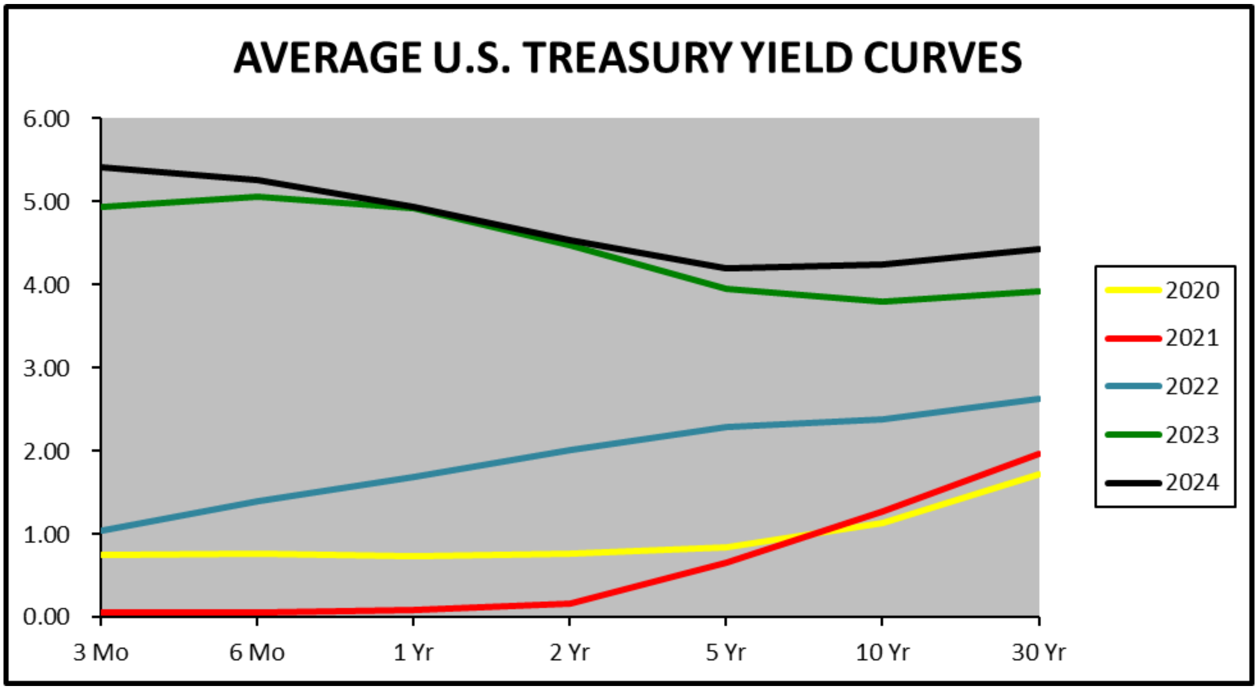
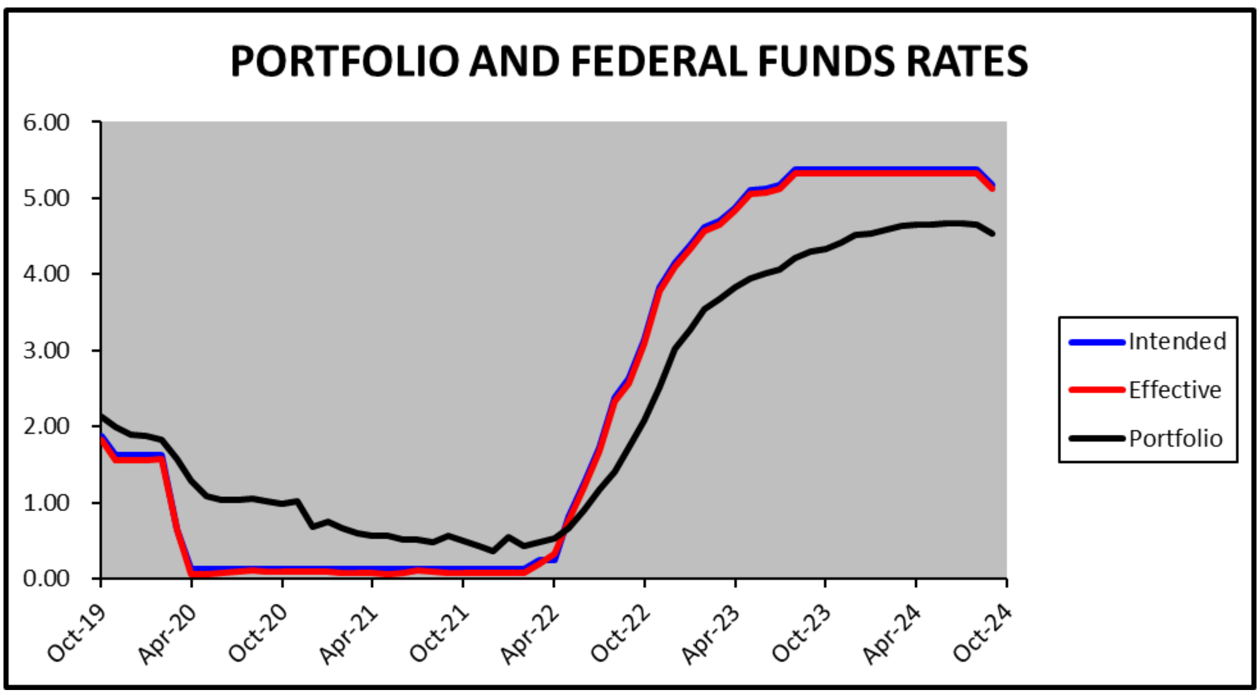
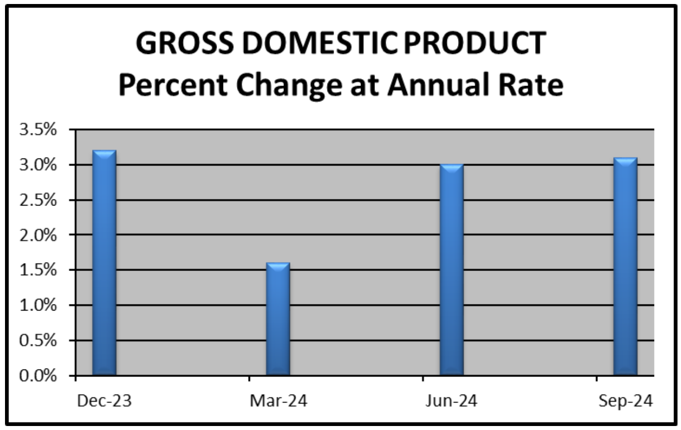


Chart 2 – Portfolio and Federal Funds Rates



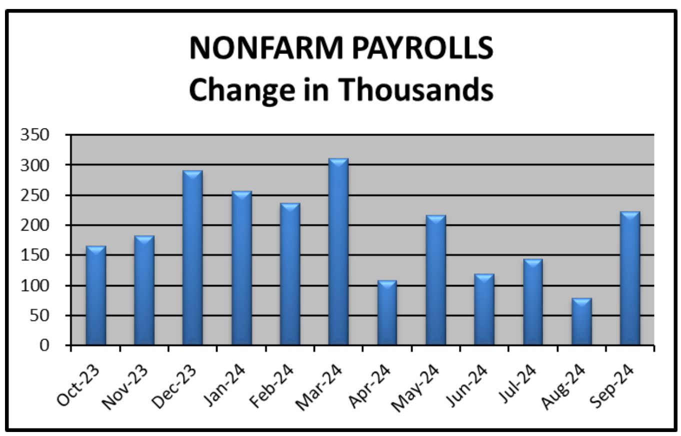
Economic barometers are data points that represent trends in the general economy. These barometers significantly influence interest rates on most government and corporate securities nationwide. Shown below in Charts 3 through 13 are the barometers followed by the Comptroller in developing investment strategy during the fiscal year, together with a brief explanation of each.

Chart 3 – Gross Domestic Product



Gross domestic product (GDP) is a measure of the total value of goods and services produced in the United States for a given time period. Quarterly percent changes in the chain price index provide a broad-based estimate of GDP at constant, or inflation adjusted, dollar prices. GDP is the most comprehensive economic scorecard because it is the broadest measure of aggregate economic activity including personal consumption expenditures, investment, net exports and government expenditures. Changes in the GDP chain price index are a widely followed, market-moving indicator. GDP is published by the U.S. Department of Commerce.

Chart 4 – Nonfarm Payrolls



Nonfarm payrolls (NFP) measure the number of jobs in the nonagricultural economy. Monthly changes reflect the changes in actual numbers of paid employees in business and government establishments. NFP is a coincident indicator of the level of economic activity. Changes are closely watched because they are representative of the state of the economy. NFP is published by the U.S. Department of Labor.

Chart 5 – Unemployment Rate

The unemployment rate is the ratio of the total number of unemployed to the total labor force. The labor force consists of those working and those seeking employment. Monthly changes in this rate and NFP are widely regarded together as the primary monthly economic indicator because the combined data helps forecast other important economic barometers. The unemployment rate is published by the U.S. Department of Labor.

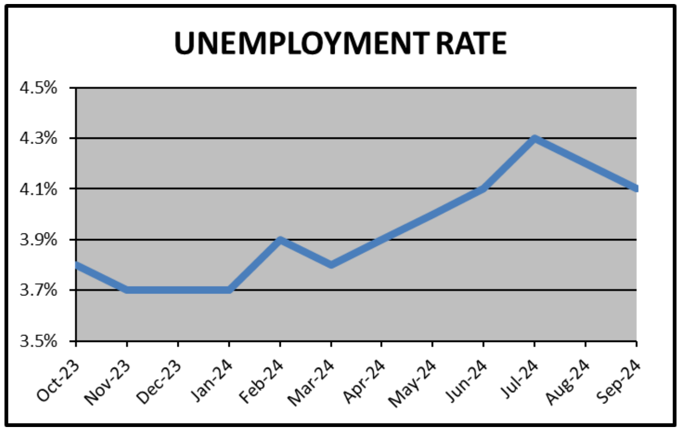


Chart 6 – Personal Consumption Expenditures

Personal consumption expenditures (PCE) is a measure of goods and services purchased by persons in the United States. PCE is the most important and typically the most stable of the four components that comprise GDP. PCE normally represents more than two-thirds of GDP. The three sectors of PCE are durable goods (expected to last three years or more), nondurable goods (less than three years) and services. Services account for approximately 66% of PCE. The U.S. Department of Commerce publishes PCE.

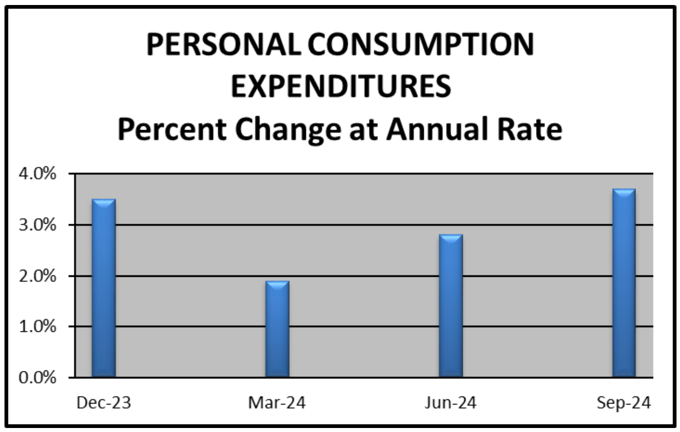


Chart 7 – Retail Sales (Excluding Autos)

Retail sales is a measure of consumer spending for a given month. This reading is used to help forecast PCE and GDP. The control component, retail sales excluding autos, is used to measure the growth rate in the non-service component of PCE. This indicator is hard to forecast and the market is often sensitive to large, unexpected readings. The U.S. Census Bureau of the Department of Commerce publishes retail sales.

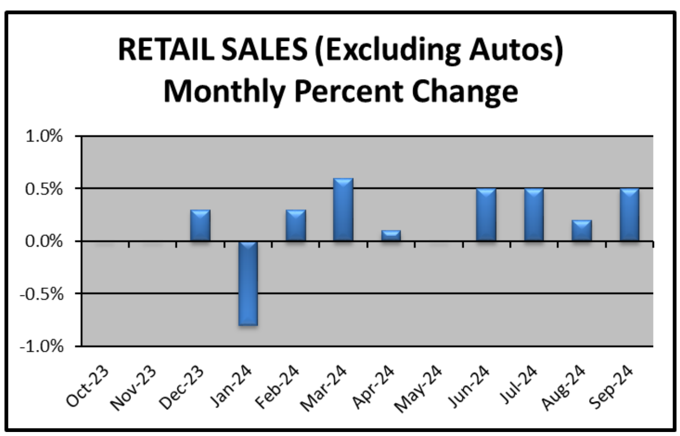
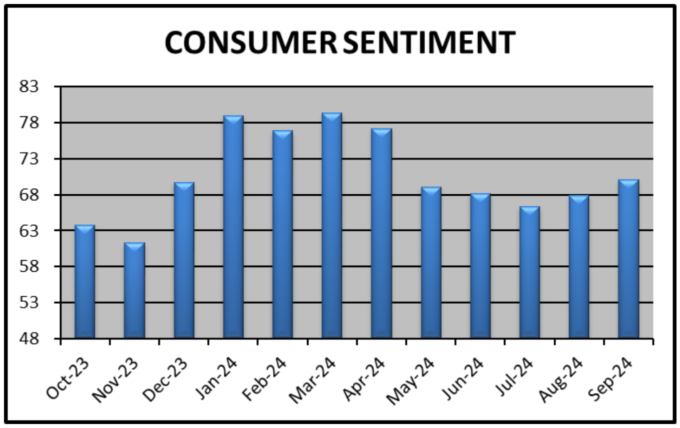
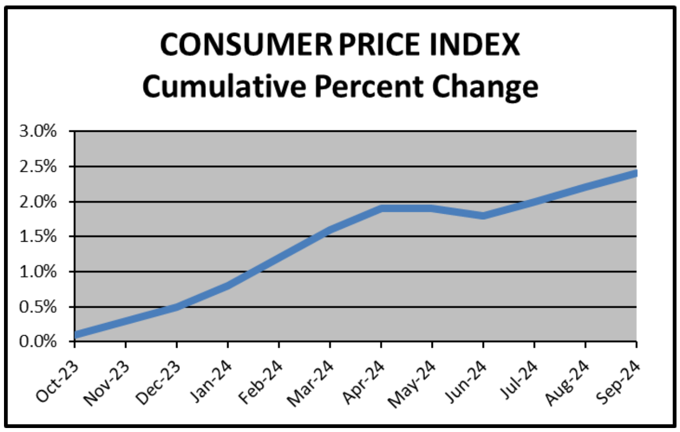


Chart 8 – Consumer Sentiment



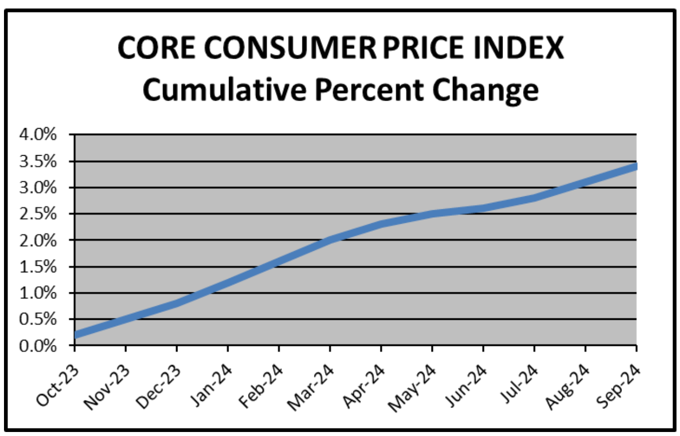
Consumer sentiment is a measure of how consumers view prospects for their own financial condition, how they view prospects for the general economy in the near term, and their view of the economy over the long term. Monthly levels of consumer sentiment are included in the Conference Board's Index of Leading Economic Indicators and are associated with consumer spending. The University of Michigan and Thomson Reuters publish the report on consumer sentiment.

Chart 9 – Consumer Price Index



The consumer price index (CPI) is a measure of the average price of a fixed basket of goods and services that consumers in the U.S. buy on a regular basis. Monthly percent changes in the index reflect the average change in consumer prices. The CPI is widely followed and regarded by many as the measure of inflation. CPI is published by the U.S. Department of Labor.

Chart 10 – Core Consumer Price Index



Core CPI excludes food and energy costs from the CPI. The core CPI rate is believed by many to be a better approximation of underlying inflation than the CPI because it removes items that are subject to large, temporary price changes. Economists and market analysts monitor core CPI for its greater monthly stability. Core CPI is published by the U.S. Department of Labor.

Chart 11 – Producer Price Index

The producer price index (PPI) is a measure of the average level of prices of a fixed basket of goods and services received by domestic producers. Monthly percent changes reflect the rate of change in such prices. Changes in the PPI are widely followed as a significant indicator of inflation trends. PPI is published by the U.S. Department of Labor.

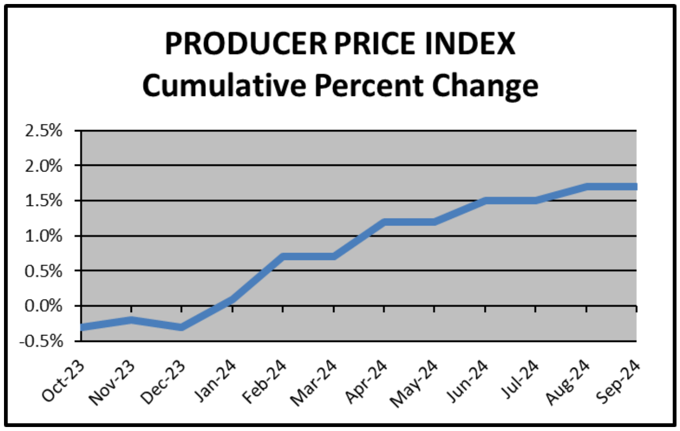


Chart 12 – Housing Starts

Housing starts is a measure of the number of residential units on which construction has begun each month. The level of housing starts is widely followed as a significant indicator of residential construction trends and demand for furniture, home furnishings and appliances. Housing starts is published by the U.S. Department of Commerce.

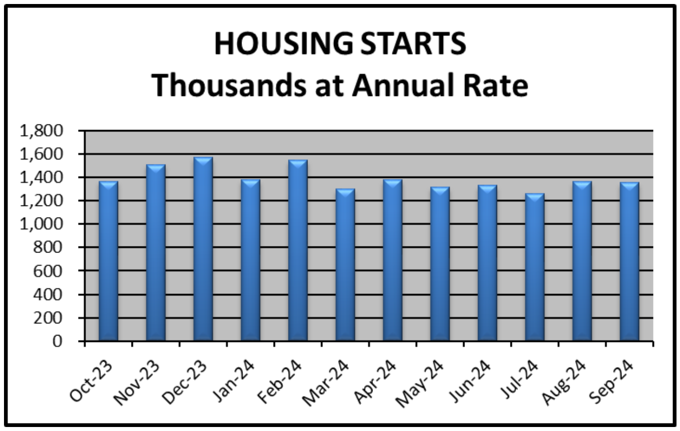
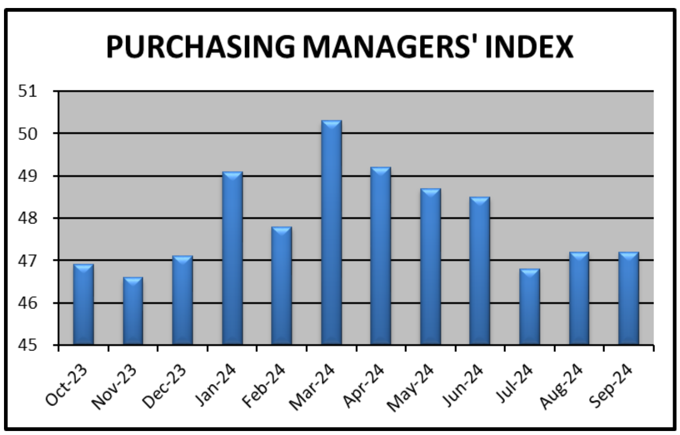


Chart 13 – Purchasing Managers' Index

The purchasing managers' index (PMI) is derived from surveys of purchasing managers about the general direction of production, orders, inventories, employment, vendor deliveries and prices. PMI is an indicator of overall factory sector trends. Historically, readings above 50 are associated with expanding manufacturing activity; readings over 42.7 indicate that the overall economy is expanding. Readings below 50 are typically associated with contractions in manufacturing and readings below 42.7 indicate that the overall economy is contracting. PMI is widely followed because it gauges momentum in manufacturing and corporate earnings. The Institute for Supply Management publishes PMI.



Leading into Fiscal Year 2024, economic growth was expected to slow as higher interest rates continued to have an impact on personal and business financial positions. According to a survey conducted by Bloomberg, GDP was forecast to average 0.75% in Fiscal Year 2024. Economists anticipated slower job growth and an uptick in the unemployment rate. The pace of inflation was decelerating; however, it remained higher than the Fed's 2% target rate. Economists believed the Fed was done with its tightening cycle and the market was anticipating monetary policy easing in May or June of 2024.

Indicated in Charts 3 through 13, the barometers reflect varying economic conditions throughout the fiscal year. According to GDP, the economy was growing at an annual rate of 3.2% in the quarter ended December 31, 2023, amid stronger consumer spending. PCE advanced to a 3.5% annual pace, led by increased expenditures on healthcare and financial services. Inflation accelerated on services costs, while a downward trend in goods prices fizzled out. The annual inflation rate in December 2023 was 3.4%, well above the Fed's 2% target. The reported labor market data remained strong through the end of the first fiscal quarter. Nonfarm payrolls were up by 290,000 jobs in December and the unemployment rate was 3.7%. Employment gains were driven by government jobs, leisure and hospitality, and healthcare.

GDP slowed to a 1.6% annualized rate in the quarter ended March 31, 2024. US growth slid to an eighteen-month low on slower growth in consumer spending and subtractions from net exports and inventories. Consumer spending fell to a 1.9% growth rate. Inflation remained elevated and job growth rose to an annual high in March. The consumer price index (CPI) rose 0.4% in March on increases in shelter and transportation costs. Core CPI, which excludes food and energy, rose 0.4% in each month of the quarter. The Bureau of Labor Statistics reported that nonfarm payrolls added 310,000 jobs in March led by healthcare, government, leisure and hospitality, and construction. The University of Michigan consumer sentiment index climbed to 79.4% at the end of the quarter, the highest reading since July 2021. Consumer optimism was supported by rising stock prices and expectations for lower inflation.

For the quarter ended June 30, 2024, GDP increased at a 3.0% rate on strong consumer spending, government spending and a sizable inventory build. Consumer spending grew at a 2.8% rate, led by household expenditures and a rebound in automobile and furnishing outlays. Total nonfarm payroll growth slowed to 118,000 jobs in June, as manufacturing, retail trade and temporary employment contracted. The unemployment rate rose to 4% in May for the first time since January 2022. CPI fell 0.1% in June, the only monthly decline in Fiscal Year 2024, on a decrease in gasoline prices. Core CPI, which excludes food and energy, rose just 0.1% in June due primarily to a slowdown in housing inflation. The soft inflation report raised market expectations for the Federal Reserve to begin a cycle of rate cuts.

GDP increased at a 3.1% annual rate in the quarter ended September 30, 2024, led by resilient consumer spending. PCE accelerated at a 3.7% annual pace, the largest increase since March 2023. Spending increased for household services and across a broad array of goods. However, in August, the Bureau of Labor Statistics announced that the U.S. economy added 818,000 fewer jobs than it previously estimated between March 2023 and March 2024. Furthermore, the unemployment rate stayed above 4% in the last few months of the year. On September 18th, the Fed reduced the fed funds rate by 50 basis points to a range of 4.75% to 5.00%.

Going into Fiscal Year 2025, the economy was expected to expand at a modest pace as the labor market softened and inflation was moving toward the Fed's preferred 2% target. According to a survey conducted by Bloomberg, GDP was forecast to average 1.9% in Fiscal Year 2025. Economists expected the Federal Reserve to reduce the fed funds target rate by 150 basis points to a range of 3.25%-3.5% next year. President-elect Trump's proposed policies complicate the economic outlook. Tax cuts and deregulation would likely increase the level of economic activity, while tariffs on imported goods would act as a headwind against growth.

VIII. LOCAL ECONOMIC ACTIVITY

In addition to the types of permitted investments and allowable maturities, liquidity requirements, and domestic monetary policy and national economic activity, the portfolio's effective rate of return is influenced by the local economy. The County derived approximately 79% of its Fiscal Year 2024 revenues from 12 revenue sources including several taxes, user fees and charges, state-shared revenues and investment income. Shown in Table 2 are the County's 12 major revenues received in Fiscal Years 2024 and 2023.

Table 2 – Orange County's 12 Major Revenue Sources

Revenue	FY 2024*	FY 2023
Ad Valorem Tax	$1,473,718,460	$1,163,910,794
Tourist Development Tax	359,464,592	359,324,492
Water Utilities System Operations	260,666,860	242,413,018
Half-Cent Sales Tax	245,416,336	250,836,882
Interest Earnings	**165,494,914**	**121,119,449**
Public Service Tax	120,450,596	111,180,939
Convention Center Operations	90,279,850	73,919,628
Impact Fees (excl. School Impact Fees)	76,537,919	83,855,069
State Revenue Sharing	65,965,810	66,001,118
Mandatory Refuse Fees	65,366,814	58,047,596
Solid Waste Tipping Fees	54,736,943	46,639,966
Fuel Taxes	49,154,142	50,700,096
Totals	$3,027,253,236	$2,627,949,047

*Preliminary – subject to change.

IX. INVESTMENT OPERATIONS

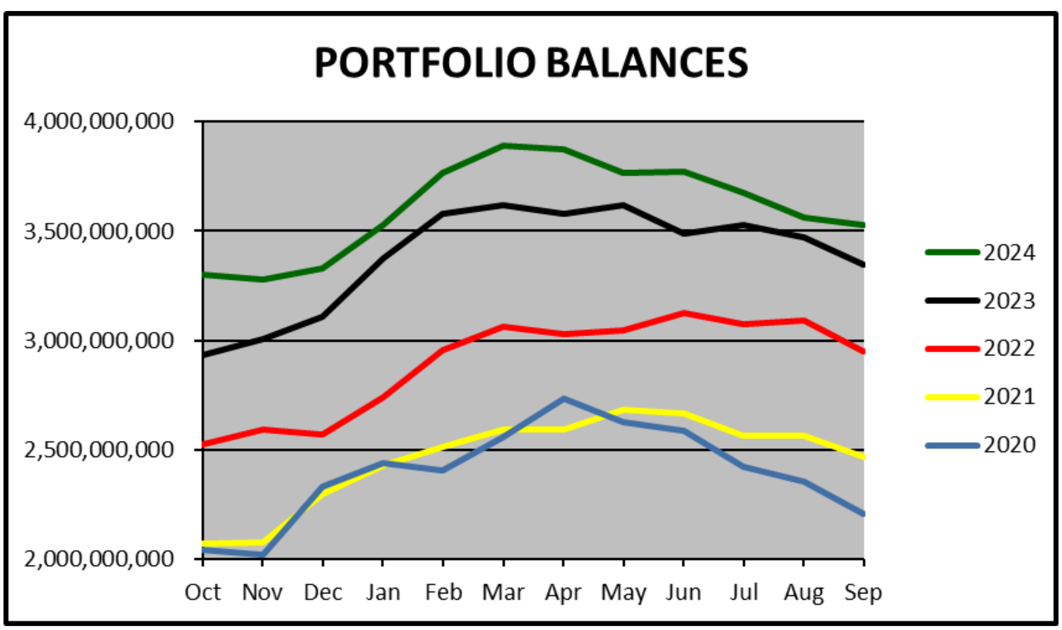
Qualified professionals in the Comptroller's Office conduct investing activities in accordance with Florida Statutes, County Ordinances, and written policies and procedures. Monthly reports of investment activity and positions are prepared and distributed to Comptroller management, management of the BCC and the Investment Advisory Committee. Regular meetings of the Committee are held to monitor the portfolio, evaluate investment performance and discuss investment strategies.

The Comptroller uses sophisticated techniques in carrying out its investment activities including the use of electronic bank and trust account systems; electronic funds transfer; on-line, real-time monitoring of U.S. securities markets; and electronic trading. Bank account balances, cash requirements, investment positions and trust account activity are determined daily. Current conditions and evaluations of domestic monetary policy and national economic activity are considered in purchasing investments.

A. Portfolio Balances

The portfolio's opening balance in Fiscal Year 2024 was $3.35 billion and the average daily balance was $3.61 billion. The portfolio's ending balance for Fiscal Year 2024 was $3.53 billion. The portfolio balances were led higher by substantial growth in ad valorem tax collections, as well as a sharp increase in interest earnings on the investment portfolio. Portfolio growth was partially offset by a 17% increase in operating and capital, payroll, and debt service expenditures. Shown in Chart 14 are the portfolio balances as of the end of each month in fiscal years 2020 through 2024.

Chart 14 – Portfolio Balances



B. Portfolio Composition

As of September 30, 2024, the portfolio was fully invested in permitted investments within allowable composition limits. As shown in Chart 15 below, the portfolio contained Treasuries, Florida PRIME (SBA), Instrumentalities, and Money Markets comprised of Treasuries and Treasury-backed repurchase agreements. Chart 16, September 30, 2023 Portfolio Composition by Investment Type, is presented for comparative purposes.

Chart 15 – September 30, 2024 Portfolio Composition by Investment Type

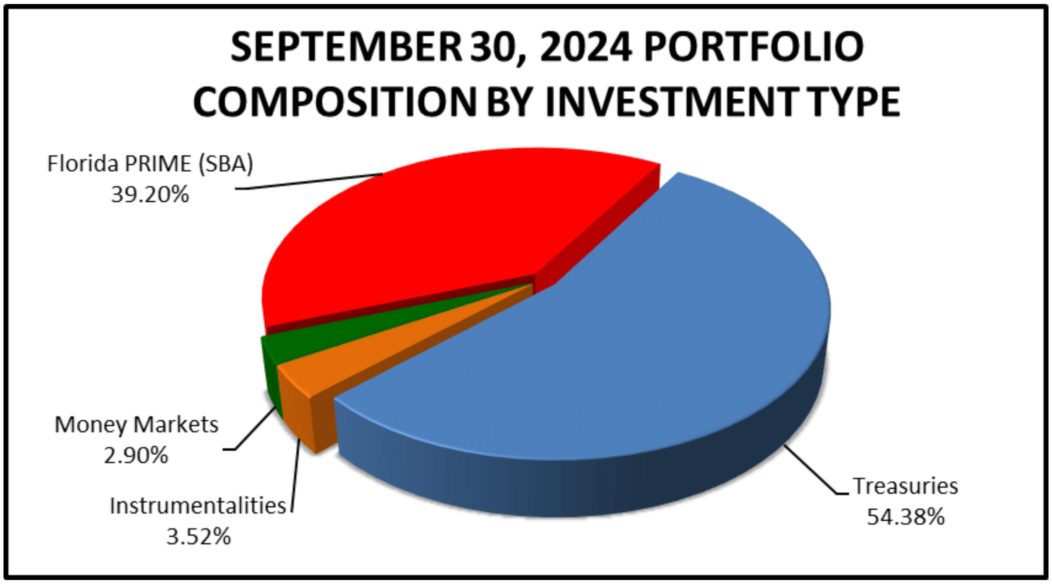
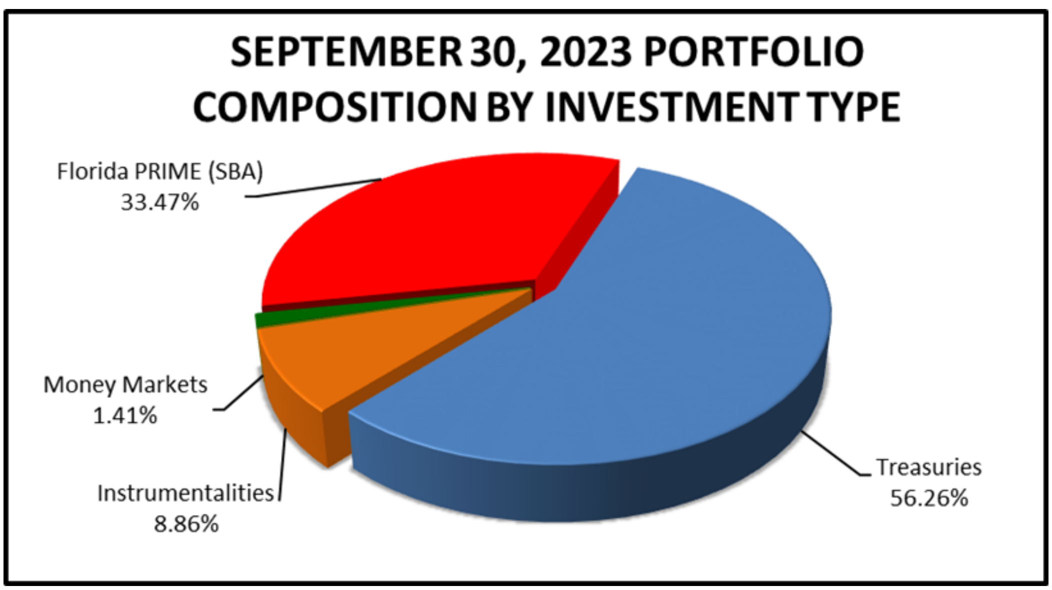


Chart 16 – September 30, 2023 Portfolio Composition by Investment Type



The portfolio was managed in compliance with the Policy, which requires the portfolio to be diversified by investment type. However, Treasuries may represent 100% of the portfolio because they are backed by the full faith and credit of the United States Government. During Fiscal Year 2024, the average allocation to Florida PRIME was increased. Allocations to Treasuries, Instrumentalities and money markets were reduced. Changes in the average portfolio composition can be seen in Charts 17 and 18.

Chart 17 – FY 2024 Average Portfolio Composition by Investment Type

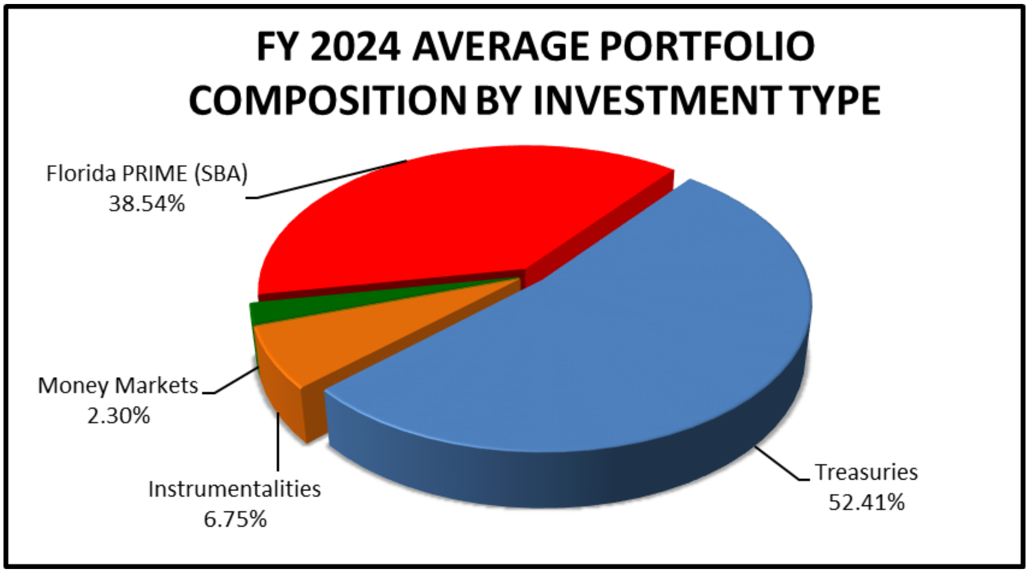
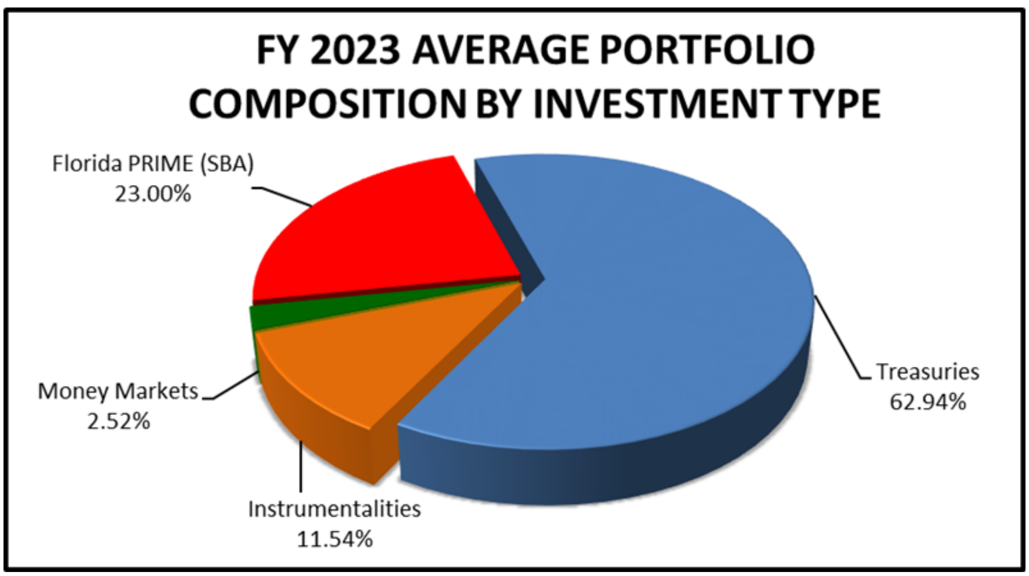


Chart 18 – FY 2023 Average Portfolio Composition by Investment Type



The portfolio is comprised of four sub-portfolios: current operating, intermediate term, noncurrent operating and debt service reserve. The current operating sub-portfolio has a maximum maturity of 13 months and is managed to meet operating, payroll and debt service requirements. The intermediate term sub-portfolio has a maximum maturity of 36 months and was established to increase returns on excess liquidity and diversify investment maturities across the yield curve. The noncurrent sub-portfolio is comprised of a 5-year ladder designed to meet longer term funding requirements. Investments in the debt service reserve sub-portfolio are governed by the County's bond covenants. The Policy requires debt service reserve and project construction investments to have terms that coincide with the expected use of the funds and in accordance with debt covenants, but not to exceed 10 years. The September 30, 2024 Portfolio Composition by Sub-portfolio is presented below. Chart 20, September 30, 2023 Portfolio Composition by Sub-portfolio, is presented for comparative purposes.

Chart 19 – September 30, 2024 Portfolio Composition by Sub-portfolio

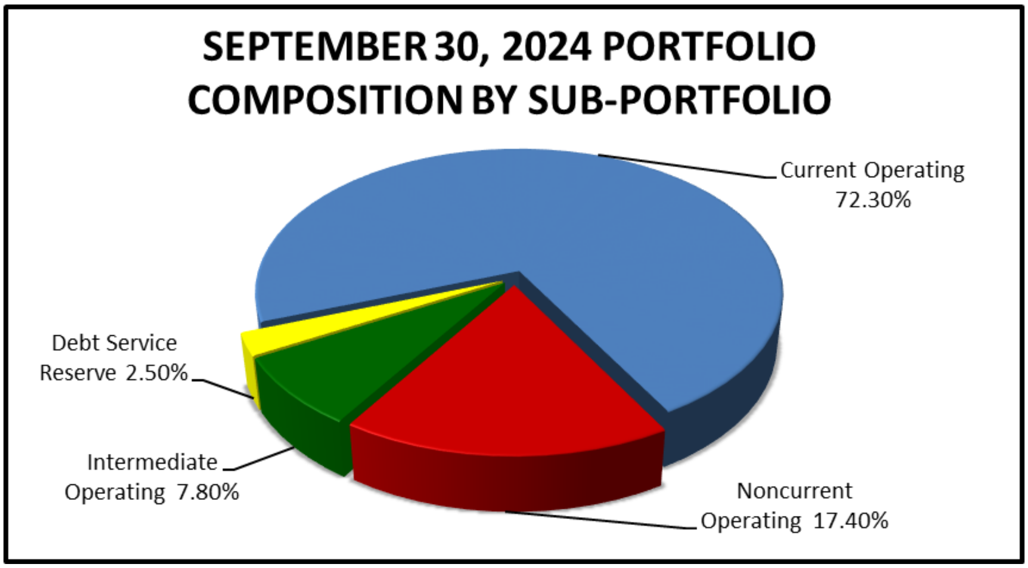
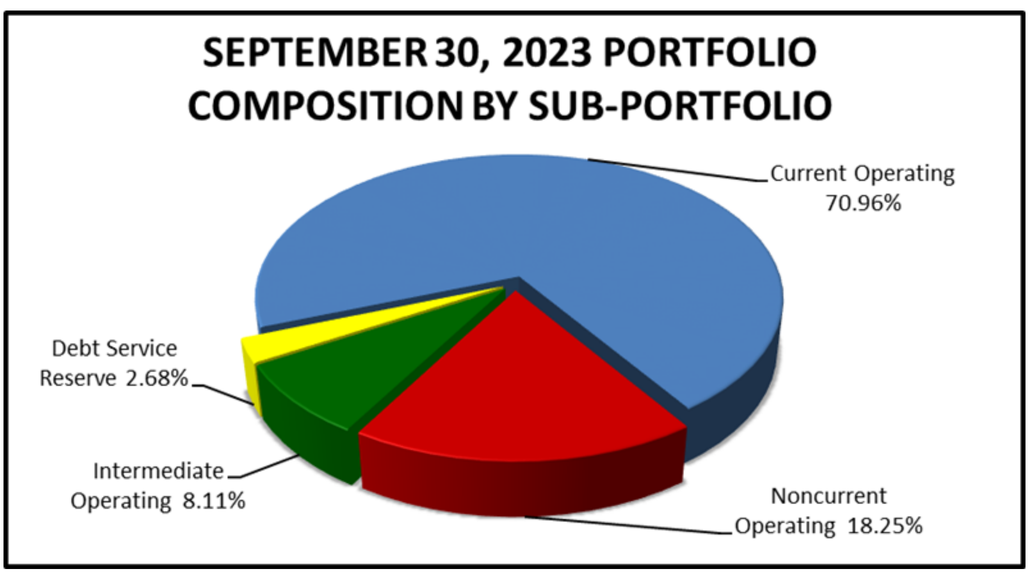


Chart 20 – September 30, 2023 Portfolio Composition by Sub-portfolio



In Fiscal Year 2024, current operating funds represented the largest percentage of the average portfolio composition. The overall average portfolio balance increased by $228.1 million year-over-year, most of which was invested in the current operating portfolio. However, balances increased on all sub-portfolios on a dollar basis. The change in average composition by sub-portfolio is presented below in Charts 21 and 22.

Chart 21 – FY 2024 Average Portfolio Composition by Sub-portfolio

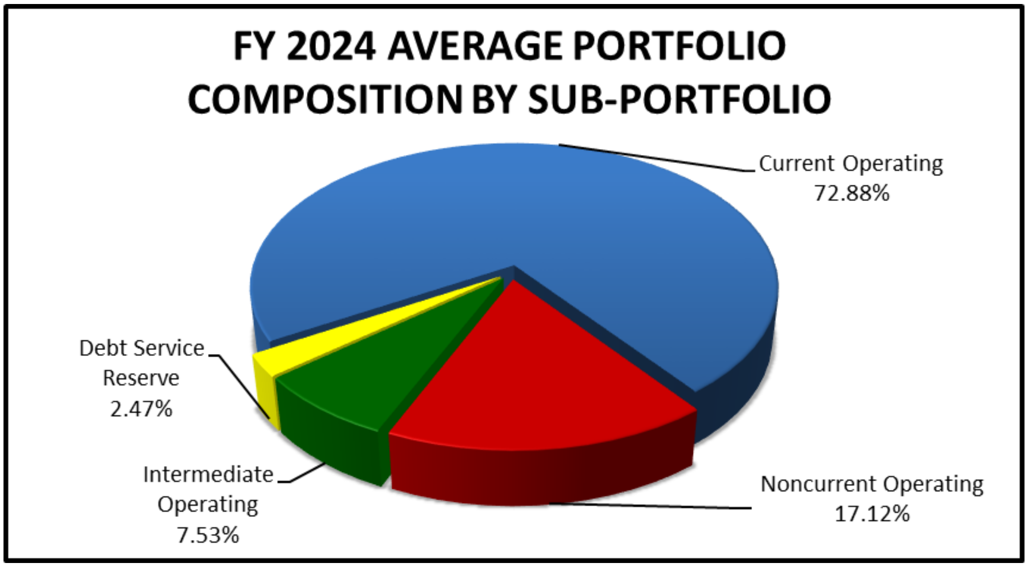
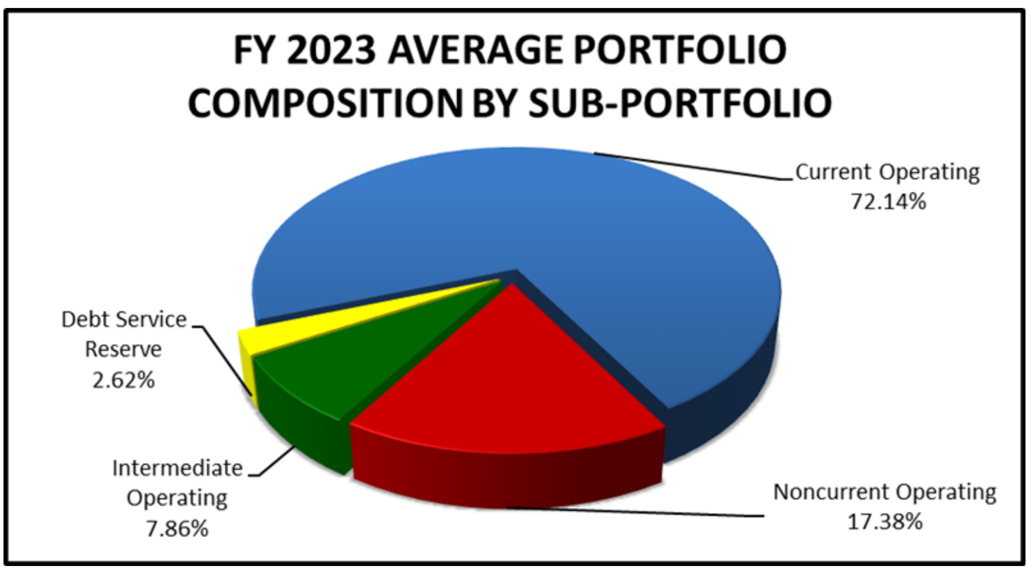


Chart 22 – FY 2023 Average Portfolio Composition by Sub-portfolio



C. Portfolio Maturities

The Policy requires sufficient liquidity and diversity in maturities. Shown in Table 3 are the average terms of each investment type at September 30, 2024 and 2023. Average term is the weighted average number of days from purchase to maturity of the investment. Average terms extend past 13 months in some cases due to the long-term investment of noncurrent operating funds, intermediate term funds and project construction funds.

Table 3 – Year-end Average Term by Investment Type (Days)

Investment Type	FY 2024	FY 2023
Florida PRIME (SBA)	1	1
Money Market Funds	1	1
Instrumentalities	237	302
Treasuries	861	885

Available balances were invested for an average term of 458 days in Fiscal Year 2024 compared with an average term of 542 days in Fiscal Year 2023. Table 4 below reports the average term of the portfolio for each month in Fiscal Years 2024 and 2023. Terms were reduced due to an inverted yield curve, where short-term yields are higher than long-term yields.

The portfolio's average days to maturity was 223 days in Fiscal Year 2024 compared with 282 days in 2023. Average days to maturity is the average number of days remaining to maturity for the portfolio. Table 5 below reports the average days to maturity for each month in Fiscal Years 2024 and 2023.

Table 4 – Average Term (Days)

Period	FY 2024	FY 2023
October	504	577
November	509	577
December	492	585
January	461	551
February	432	536
March	423	523
April	427	535
May	442	531
June	432	536
July	439	514
August	458	515
September	477	525
Average	458	542

Table 5 – Average Days to Maturity

Period	FY 2024	FY 2023
October	223	326
November	246	332
December	241	342
January	230	312
February	218	299
March	209	281
April	206	277
May	217	263
June	211	252
July	207	230
August	226	232
September	245	235
Average	223	282

D. Interest Earnings and Yields

The dollar amount of interest earnings is used in historical and budgetary comparisons, and in cash flow analysis. The portfolio earned $165,494,915 on an average daily balance of $3,607,910,924 in Fiscal Year 2024. For comparison, the portfolio earned $121,119,449 on an average daily balance of $3,379,777,482 in Fiscal Year 2023. Actual interest income was $139,761,582 more than the budgeted amount in Fiscal Year 2024. For comparison, actual interest income was $107,745,886 more than the budgeted amount in Fiscal Year 2023. Budgeted and actual interest earnings for both fiscal years are shown in Table 6 below.

Table 6 – Budget and Actual Interest Earnings

	FY 2024	FY 2023
Actual	$165,494,915	$121,119,449
Budget	25,733,333	13,373,563
Variance	$139,761,582	$107,745,886

The Fiscal Year 2024 interest earnings and effective rate of return on each sub-portfolio are shown below in Table 7. The Fiscal Year 2023 interest earnings and effective rate of return by sub-portfolio are provided in Table 8 for comparison.

Table 7 – FY 2024 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2024		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Current Operating	$141,193,085	5.36%
Noncurrent Operating	12,472,636	2.01%
Intermediate Term	7,338,553	2.69%
Debt Service Reserve	4,490,641	5.02%
Total	$165,494,915	4.57%

Table 8 – FY 2023 Interest Earnings and Effective Rate of Return by Sub-portfolio

FY 2023		
Sub-portfolio	Interest Earnings	Effective Rate of Return
Current Operating	$104,554,485	4.29%
Noncurrent Operating	9,758,685	1.66%
Intermediate Term	3,754,284	1.41%
Debt Service Reserve	3,051,995	3.45%
Total	$121,119,449	3.58%

The effective rate of return on the current operating sub-portfolio, which has a maximum maturity of 13 months, surged 1.07 percentage points to 5.36%. The higher rate of return was attributable to the Federal Reserve's series of interest rate hikes beginning in March 2022 and ended July 2023. The target range for fed funds was 5.25%-5.50%, the highest in more than 20 years, for nearly the entire year. On September 18, 2024, the Federal Reserve lowered the fed funds rate by 50 basis points to a range of 4.75%-5.00%.

The rate of return on the intermediate term sub-portfolio (3-year ladder) jumped by 1.28 percentage points to 2.69% and the noncurrent operating sub-portfolio (5-year ladder) increased by 35 basis points to 2.01%. Treasury notes purchased a few years ago during the pandemic, when market interest rates were near historic lows, matured and were reinvested at higher rates. Returns on the intermediate term and noncurrent operating sub-portfolios should continue to rise in Fiscal Year 2025. The remaining low-yield investments purchased during the pandemic years will mature in the intermediate term sub-portfolio in early Fiscal Year 2025, while these investments will take more time to roll off in the noncurrent operating sub-portfolio.

The yield on the debt service reserve sub-portfolio increased by 1.57 percentage points to 5.02%. The higher rate of return on this sub-portfolio was primarily due to higher short-term interest rates in Fiscal Year 2024. Investments in this sub-portfolio were made to match maturities to debt service due dates. All investments in this sub-portfolio had maturities of 12 months or less.

The dollar amount of earnings by itself has little meaning as a measurement of portfolio performance. A better gauge of portfolio performance is the effective rate of return, which is measured in percent and can be compared to rates in prior years and to comparable investments. For Fiscal Year 2024, the portfolio's effective rate of return was 4.57%. In Fiscal Year 2023, the portfolio's effective rate of return was 3.58%. Shown below in Table 9 are the effective rates of return for the permitted investment types during Fiscal Years 2024 and 2023.

Table 9 – Average Portfolio Effective Rate of Return by Investment Type

Investment Type	FY 2024	FY 2023
Florida PRIME (SBA)	5.52%	4.93%
Instrumentalities	5.21%	4.20%
Money Markets	5.18%	4.41%
Treasuries	3.77%	2.97%

The increase in returns was driven by substantially higher market interest rates. Returns on the SBA and the money market mutual funds jumped to 5.52% and 5.18%, respectively. These securities have weighted average maturities of 60 days or less and their returns are highly correlated with market interest rates. Yields on instrumentalities surged to 5.21% in a higher interest rate environment.

Investments in instrumentalities were added when yield spreads widened from Treasuries. The average return on Treasuries increased sharply on the reinvestment of maturing securities at higher yields on both short-term and long-term investments. Treasuries represent 100% of the noncurrent operating and intermediate term sub-portfolios, giving them the longest weighted average maturity of any investment type. When interest rates change, it takes longer for the book value returns on Treasuries to reflect market interest rates.

E. Benchmark Comparisons

Portfolio performance is best measured when compared with rates of return on comparable investments. The Comptroller has established benchmarks as a means to monitor portfolio performance. A benchmark is a passive portfolio rate of return that represents expected returns with given levels of risk. In establishing benchmarks for the portfolio, the Comptroller evaluated investments with maturities and credit, market and liquidity risks comparable to the permitted investments. The Comptroller continued using certain Treasuries, the ICE BofAML 0-1 Year Treasury Index and the effective federal funds rate as benchmarks for Fiscal Year 2024. The Comptroller also continued to use an internally calculated benchmark named the Committee Benchmark. This customized benchmark is computed using the yields on the effective federal funds rate, the 6-month constant maturity Treasury, the 2-year constant maturity Treasury and the 3-year constant maturity Treasury. Treasuries are defined in Section V above, and the effective federal funds rate is described in Section VII above. The ICE BofAML Index is the average yield of approximately 50 Treasuries with maturities of one year or less.

The overall portfolio's book value rate of return was 4.57%, exceeding the average yield on the 2-year Treasury benchmark by 3 basis points. Although the yield on the 2-year Treasury increased by 6 basis points to 4.54% from Fiscal Year 2023, it was lower than the rates on the shorter-term benchmarks. Yields on all other benchmarks were higher than the overall portfolio's return. Average interest rates increased across the yield curve except in the one-year section, where they were unchanged. It takes time for the returns on the portfolio to reflect changes in market interest rates. The returns on the SBA, money market mutual funds and other short-term investments in the current operating sub-portfolio adjusted more quickly because of the shorter weighted average maturities of those assets. The increase in the portfolio's rate of return was restrained by long-term, lower yielding Treasury investments made in the noncurrent operating and intermediate term sub-portfolios during the pandemic. In Fiscal Year 2025, reinvestments of maturing Treasuries in these two long-term sub-portfolios should be made at higher yields, while returns on the SBA and money market mutual funds should fall on anticipated rate cuts by the Federal Reserve.

Table 10 – Benchmark Comparisons

Benchmark	FY 2024	Variance	FY 2023	Variance
Portfolio	4.57%		3.58%	
3-Month Treasury	5.42%	-0.85%	4.94%	-1.36%
6-Month Treasury	5.26%	-0.69%	5.05%	-1.47%
ICE BofAML 0-1 Year Treasury	5.25%	-0.68%	4.87%	-1.29%
1-Year Treasury	4.93%	-0.36%	4.93%	-1.35%
2-Year Treasury	4.54%	0.03%	4.48%	-0.90%
Effective Fed Funds	5.31%	-0.74%	4.61%	-1.03%
Committee Benchmark	5.14%	-0.57%	4.82%	-1.24%

F. Brokers, Dealers and Direct Issuers

Management of the portfolio was also accomplished in compliance with the Policy, which requires the portfolio to be diversified by financial institution. The Policy indicates that the Comptroller shall purchase securities only from financial institutions that are qualified as public depositories by the Chief Financial Officer of the State of Florida, from primary securities dealers as designated by the Federal Reserve Bank of New York, from securities dealers certified by the County's Business Development Division as Minority/Women Business Enterprises and having offices in Florida, or from direct issuers of CP and BAs. The Policy also requires a minimum of three competitive offers.

The Comptroller records the number and amount of purchases and sales by financial institutions and dealers. Shown below in Table 11 are the primary dealers ranked by Fiscal Year 2024 percentage of total County transactions and compared with percentage of transactions in Fiscal Year 2023.

Table 11 – QPD, Dealers and Direct Issuers

Broker/Dealer	Status	FY 2024 % of Total	FY 2023 % of Total
RBC Capital Markets	Primary	28.20%	19.62%
Bank of Montreal (BMO)	Primary	26.39%	38.30%
Wells Fargo	Primary	17.31%	15.14%
Jefferies & Company, Inc.	Primary	16.73%	14.92%
Citigroup	Primary	11.37%	12.02%

X. DEPOSITORY BANKING

General banking and cash management services are provided by an Agreement for Banking Services with Wells Fargo Bank, N.A., for the period July 1, 2019 through June 30, 2022. Wells Fargo was selected as the County's banking institution in a competitive procurement process. The Agreement provides for three one-year extensions upon mutual consent of the parties. The last of the three one-year options was exercised and the agreement will run through June 30, 2025. Wells Fargo is a member of the Federal Reserve System and the National Automated Clearing House Association. Wells Fargo is also a QPD as defined by the Florida Security for Public Deposits Act.

Services provided by Wells Fargo under the Agreement include general banking, non-interest bearing and interest bearing transaction accounts, retail and wholesale lockbox, and electronic funds transfers. Discussed below is a brief description of each service.

A. General Banking

General banking services include deposits, check writing, credit card processing, stop payments, return item processing, money changing, account analysis, bank statements, full check reconciliation, electronic information reporting and positive payment. Positive payment is an electronic process involving the County's checking accounts that reduces the risk of check fraud and allows unauthorized checks to be automatically returned to the payee.

B. Bank Accounts

The County has the option to establish sweep investment, managed rate interest bearing or non-interest bearing accounts. The County maintains 24 accounts including collection and deposit, and disbursement accounts. Nine of the accounts are checking accounts. Fifteen bank accounts have their cash balances swept overnight into a money market mutual fund. Six bank accounts are managed rate interest bearing accounts where earnings in excess of fees are paid to the County. Three non-interest bearing accounts do not pay interest in excess of those needed to offset bank fees.

All bank balances are covered by the Federal Deposit Insurance Corporation (FDIC) up to a total of $250,000 and collateralized by the Florida Security for Public Deposits Act.

C. Lockbox

Wells Fargo provides wholesale lockbox services to the Fire Rescue Department, Solid Waste System and Payroll Department. Wells Fargo also provides wholetail lockbox services to the Water Utility System and the County's Red Light Running Program. A wholetail lockbox is a hybrid of a retail lockbox and a wholesale lockbox. A lockbox is a method of collecting regular, recurring payments from customers of the County. The County's lockboxes provide faster deposit of payments, reduce handling and processing time, and strengthen internal controls by separating the cash handling responsibilities from invoicing and billing responsibilities.

D. Electronic Funds Transfers (EFT)

EFT are electronic communications of financial transactions between banks and bank customers. Wells Fargo provides the County with the capability to receive and disburse funds through the Federal Reserve Wire System, immediately and overnight. Automated clearinghouse transfers (ACH) include the ability to directly draw from customer (Water Utilities) and taxpayer (Tourist Development and Public Service Tax) accounts for immediate credit to the County's accounts. ACH transfers also provide for direct deposit of employee payroll earnings for immediate credit to their accounts, and for the County's payment of various state and federal tax liabilities. The Comptroller utilizes comprehensive ACH debit blocking to prevent unauthorized disbursements.