CLARK COUNTY FINANCE COMMITTEE

First Quarter 2020

Alishia Topper, Chair
Greg Kimsey, Secretary
Eileen Quiring, Council Chair

MINUTES

The meeting was called to order on May 19, 2020 by Treasurer Alishia Topper at 9:30 am via WebEx Conference Call. The finance committee members present were Treasurer Alishia Topper, Auditor Greg Kimsey, and Chair Eileen Quiring arrived at 9:45 am and departed at 9:56 am. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Nick Bundy, Hannah Swift, Nashida Cervantes, Deanne Woodring, Garrett Cudahey and Theresa Tschirky from the City of Gresham Oregon's Finance Committee.

Call to Order & Introductions
Treasurer Topper began by inviting introductions.

Topper called for approval of minutes from the previous meeting. Auditor Greg Kimsey made a motion to approve the minutes. Topper seconded the motion and the motion was carried with unanimous approval.

Market Update
Garrett Cudahey from Government Portfolio Advisors (GPA) began by providing a spread sector update. Reviewing Bloomberg Barclays 1-3 Year Credit Spreads; Bloomberg Barclays 1-5 Year Agency Spreads; Bloomberg Barclays 1-5 Tax-Exempt Muni Yields; and Bloomberg Barclays AAA-Rated ABS Spreads, each of which is the various spread sectors the county can invest in. The selloff was rapid and snap back was equally rapid. Corporate spreads were specifically stressful with unbelievable credits with a rush for liquidity and the feds came in with trillions of dollars in support for everything they constitutionally could support and everything the treasury would allow them to support. Spreads today remain at decent levels, but the risk remains, and we see that most notably in the corporate and muni-market as the damage to revenue channels is not equal for everyone. We believe there are pockets of opportunities but still risk that lies ahead.

The Feds in their actions was combating a liquidity problem this is evident in the LIBOR-OIS Spread, which is a bank funding level minus a fed funds level (risk free vs. bank risk). As markets sold off rapidly as the virus shuttered activity and movement, it gapped out significantly and remains elevated at .038 to .040 basis points, despite massive stimulus efforts – premium remains historically wide in comparison to normal markets.

Yields plummeted across the curve in the first quarter in response to the economic fallout from the ongoing global COVID-19 pandemic. The long-end of the curve hit all-time lows in yields with the 10-year yield reaching a low of 0.33% and the 30 -year reaching a low of

0.70%. The Fed sensitive 20-year yield closed the quarter at 0.025%. The curve steepened out during the quarter as front-end yields led the way lower. Yield markets will now face a test with an expected onslaught of issuance to fund massive stimulus programs offset by a Fed actively buying in the market to support the economy and ensure markets are functioning.

There isn't a single economic data point reported that doesn't beat historic records. Even this morning's housing starts, is the worst ever on record. Unemployment claims are at unthinkable levels, the US Labor Market indicate they are around 25% and officially stands at 14%. These levels are set to be higher than we have seen since the depression. All jobs gained in 10-year recovery post 2008/2009 have been lost in a month. These are certainly unprecedented times.

Despite zero interest rates and massive stimulus efforts, the market is pricing in very little inflation going forward. This is concerning and indicates that markets are pricing a long and tepid recovery. Inflation markets are pointing toward a really challenged backdrop that looks like Japan did 20 years ago and Europe did about 7 years ago. That's a problem, if we live in this low growth and low inflationary environment policy responses and interest rates don't have as much impact. Why market is pricing in little out of the fed and interest rates remain very low globally. Congress already allocated 3 trillion talking about another 4 trillion and the inflation market has hardly moved, normally the policy response would be traditionally be pro-growth, pro-inflationary, it would be stimulus that is not how the market reads it.

Cudahey provided an overview of the Federal Reserve's actions. They have acted swiftly and significantly in response to the COVID-19 pandemic and associated economic fallout by introducing a sweeping set of programs aimed to support markets and the flow of capital. Most noteworthy thing, we have seen a recovery in risk assets, but the Feds have not bought a single corporate bond or piece of corporate paper, or a single municipal bond and only purchased $305 million in ETFs that back corporate bonds. The markets have recovered without the Feds putting any money up. All the programs are a deep backstop and is a fall back plan that isn't easy or cheap to access. Maintaining capitalism and market functioning.

The Fed's balance sheet is growing rapidly and at a much faster pace than in response to the 2008/2009 crisis. We expect continued buying as the Fed is backstopping everything from municipals to cruise lines. The Fed has put $3.5 billion dollars per hour at work since the beginning of March. They were buying $70 billion of Treasury bonds per day for a while. Balance sheet grew to $2.49 trillion since March.

The federal funds futures market is flat as the market is expecting the Fed to stay at 0% for some time.

Compliance Report

Deanne Woodring with GPA reported in January the interest rates on the 2-Year Note was at 1.59% we are now at .15% on the 2-Year Note. All the work the Treasurer's Office did to divide and define the Pool's investment component and liquidity component has allowed the portfolio to hold up very well in yield. Woodring reviewed the compliance check list and all Policy Diversification Constraints were compliant. All Policy Maturity Structure Constrains, Policy Maturity Constraints and Policy Credit Constraint were compliant.

The committee reviewed the asset allocation changes over the quarter - March 31, 2020 with discussion of Corporate spreads. Also mentioned was the Treasurer's Office proactive inclusion of a business continuity plan in the last contract award with GPA and this was set in place prior to the Coronavirus allowing GPA to step-in and assist with the portfolio. It was implemented on March 15 when the Treasurer went to remote work.

Investment Report

Rachel Wilson provided a County Pool Summary stating as of March 31, 2020 the pool ending balance was $1.0 billion, of which 23.6% was invested in the State Pool. Our benchmark is 20% liquidity balance and is approximately $150 million more than it was last year currently due to school bond revenue.

First quarter's average book return was 1.94%, the State Pool's average was 1.57%. We are now seeing the gap widen between our rates and the State Pool's because we locked in longer duration investments. Today we have 36-40% in cash invested at the State Pool because we are at the tail end of tax season, with the State Pool at .50% yield, that will bring down our rate.

The 12-month rolling average total Market Return, which includes changes in market value, was 3.75%; 1-year Treasury Benchmark was 3.78%. When interest rates go down the price of bonds go up, so we see a huge return. We are working to keep our effective duration at 0.95 years we are at 1.02 years, exactly where we want to be. Because interest rates dropped so fast in March, our book value went up above our 1.01 which was our original bandwidth. With the policy change last year to wide to 1.015 which allowed us to have the flexibility to take a gain in a short treasury and take advantage of opportunities and be strategic. As of March 31, 2020, the NAV is $1.012495.

The committee reviewed quarterly activity, notably $7.5 million in Corporate Bonds, $3.9 million in Municipal Bonds, and $55 million in U.S. Agencies. We also had $89.4 million in maturities, and $71 million in U.S. Agencies.

Debt Report

Amira Ajami, Financial Services Manager shared the outstanding debt for Clark County is just over $88 million and the debt for all other districts is about $1.15 billion. Our last bond rating was in November 2019, which put us at Aa1. Debt capacity remains high with remaining general obligation debt capacity at $1.643 billion and remaining NON-VOTED general obligation debt capacity at $950, 841, 052. If the county chose to go out for bond proceeds, we would need a dedicated revenue stream to cover debt service payments.

The County's internal line of credit status as of March 31, 2020 is $4,970,714 remaining with only $29,286 on the line. Current or upcoming issues include Clark County Fire & Rescue's bond issuance of $1.7 million on February 5. Fire District 10's potential Bond Issuance of approximately $0.5 million set at the second half of 2020. They are attempting to secure land using the State's LOCAL program.

As discussed in last quarter's meeting the LIBOR rate goes away in 2021. Lowe added having the internal line of credit low is a good thing and gives flexibility if we were in a temporary cash flow crunch for the general fund.

Ajami shared the outstanding debt by district. There was not a lot of activity. Total debt payments for the County this past quarter was a little over $3 million with June being the big debt payment activity. –

The overview of the internal line of credit highlighting that Facilities has been paid off. Also included was the outstanding debt by district detail by issuance. All materials were included in the packets.

Kimsey commented that the first couple pages were a very nice summary.

Investment Policy Review

Topper stated it is best practice to review and approve the investment policy annually and the updates provided for consideration are typically a result of state statue change or changes to best practices. A redline copy of the policy was mailed in advance of the meeting.

Sara Lowe reported that Wilson had submitted Clark County's policy to the Washington State Treasurer's Association and the Government Investment Officer's Association for review and accreditation. Through that process the organizations provided suggested changes. The recommendations and changes are outlined in a separate memo provided to the committee members.

Wilson highlighted the proposed changes. There are no fundamental changes, mostly additional description and formatting. The recommended change that Kimsey provided were incorporated into the version being considered.
Lowe added that we did receive the accreditation from both organizations, but that accreditation is dependent on the approval of these changes by the committee.

Kimsey commented he believed we are obligated to review the policy every year and feels it may be too restrictive. Wilson clarified that the date and signature line would at least need to be changed. Kimsey also added that the change he hoped to have the acronym spelled out.

Kimsey motioned to approve the policy as presented, Topper seconded the motion and the motion was carried with unanimous approval.

<u>Good of the Order & Adjournment</u>
Lowe echoed the appreciation Wilson expressed earlier and thanked GPA again for being experienced advisors during these challenging times. Topper asked for public comment. Theresa Tschirky had no public comment and thanked the committee for allowing her to join and learn.

With no other items for the good of the order, Topper adjourned the meeting at 10:12 am.

Prepared by: *Nashida Cervantes*
Nashida Cervantes

Submitted by: *Greg Kimsey*
Auditor Greg Kimsey