CLARK COUNTY FINANCE COMMITTEE
Third Quarter 2019

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

MINUTES

The meeting was called to order on November 5, 2019 by Treasurer Alishia Topper at 9:30 am in room 243 of the Clark County Public Service Center at 1300 Franklin Street, Vancouver, WA 98660. The finance committee members present were Alishia Topper, Greg Kimsey, and Eileen Quiring. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Nick Bundy, Hannah Swift, and Nicole Antonacci, with Deanne Woodring attending via phone.

Call to Order & Introductions

Treasurer Topper began by inviting introductions.

Topper invited approval of minutes from the previous meeting. Quiring made a motion to approve the minutes. Topper seconded the motion and the motion was carried with unanimous approval.

Investment Pool Report

Investment Officer Wilson

Market Summary: Decreasing interest rate environment since November 2018. Descent has slowed. The stock market moved sideways in the third quarter, despite volatile markets. The yield curve remained inverted throughout the quarter. A third Fed cut went through in October. Our investment strategy in this declining interest rate environment is to have disciplined maturity diversification and stay as fully invested as possible.

Economic Summary: Employment growth is still happening, but the rate of growth is slowing down. The average year-to-date is 167 payrolls added per month. Last year's average was 223. It is still strong and much higher than what is needed to keep up with the labor market. Unemployment is at a 50-year low of 3.5%. The earnings rate declined 2.9% in September from 3.2%. Usually in such a strong employment environment, earnings are around 4%. The earnings rate is low compared to historical standards. With inflation as low as it is, there is still a real purchasing power increase, which is reflected in the consumer spending numbers.

GDP growth has been steady, but slowing, with 3.1% growth in the first quarter, 2% in the second, and the first estimate of third quarter is 2%. Housing is now a positive contributor to GDP. That is connected to mortgage rates coming down. Business fixed investment is still the "weak link" and is tied to trade uncertainty. Our continued risk is with increased trade tensions in the ongoing trade wars with China, as well as Brexit causing international trade uncertainty.

County Pool: We ended third quarter with $882 million, with 17% invested in the State Pool. Now, with Evergreen's bond proceeds settling and tax season revenue, we are at $1.3 billion, the highest we've ever been. Third quarter's average book return was 2.43% and the State Pool's was 2.33%. As short-term rates decline, our rates will also decline, but at a slower rate than the State Pool.

The 12-month rolling average total market return was 3.06% because we have a lot of gains in the portfolio. The benchmark was 3.15%, which is the new benchmark. September's duration was 0.95, the benchmark of the 1-year treasury was .94. September NAV was $1.004633, which is within our bandwidth.

Quarterly Activity: We purchased more corporate bonds. At the end of third quarter, we had 8% in high quality corporate bonds. We added $180 million in US Treasuries. Agencies tend to be about 3-4 basis points over Treasuries. When Agencies don't pay more than Treasuries, Wilson buys the Treasuries. The $30 million in Agencies is mostly callables. We have $5 million in a CD at Riverview with 2.65% for a 2-year CD.

Kimsey requested clarification about the CD with Riverview. Wilson explained that the banks that accept public funds must go through a process with the state for approval. Woodring explained that they monitor the capital ability of each of the banks and assign what level of collateral is required. The percentage collateralized is not public information. All banks that participate in the PDPC must agree to support each other in case of default. The amount of collateral is managed by the state.

Government Portfolio Advisors Report, Market Update

GPA President Woodring

There are four big influences over the market. The Fed is easing; they had a 25 basis point drop in October, and there is a 50% probability of another in the next quarter. The strategy the Treasurer's Office implemented to drill in to separate components has been extremely beneficial for the pool. This allows Wilson to isolate the investment component and the cash flow. As school districts or tax revenue comes in, she is able to lock down the investment component and manage the liquidity component. Another influence is the inverted yield curve, which heightens anticipation of a recession. There is also a lot of pressure from foreign countries, to include negative yields from countries throughout the world. There is a lot of pressure on our market and yields to expect declines. The portfolio is positioned at maximum maturity, which will anchor the portfolio through the continued decline in rates. It is expected that the pool will come down as the LGIP is coming down. The economic outlook is mixed. Employment numbers are down and we are starting to see wage pressure going up. Treasury inflation protection securities (TIPS market) have performed well. Trade tariffs with China pose another challenge.

$17 trillion in the market is trading with negative yields. Most of this is in Europe. As the investor, you are paying to put your money in the bank. We are the highest yielding developed country in rates, which will continue to bring demand towards our market. Market expectations for 2020 are lower rates. The focus will be on keeping clients fully invested and fully at their duration.

Debt Report

Financial Services Manager Ajami

The outstanding debt for Clark County is just over $94 million and the debt for all other districts is about $1 billion. Our last bond rating was in May 2018, which put us at Aa1. The total general obligation remaining debt capacity is 2.5% of the 2018 assessed value, just over $1.6 billion. With our current debt outstanding, we have just over $1.5 billion remaining general obligation debt capacity. The total non-voted general obligation remaining debt capacity is 1.5% of the 2018 assessed value, just over $976 million. With our current debt outstanding, we have just over $881 million remaining non-voted general obligation debt capacity. The county's internal line of credit is $5 million, with $1.7 million being utilized as of September 30, with $3.2 million remaining.

Lowe added that Moody's is preparing to perform its annual rate review. Regarding the Facilities Fund, they currently have about $2.3 million on the line of credit, which has been consistent for the last two years. Our guideline is that no one fund should obligate more than 50% of the line for not more than one year, and they consistently come close to that.

This is meant to be a short-term line of credit. They have three packages in the budget that would help to remedy the situation ongoing. This is an audit issue as well, so there needs to be council action taken to fully fund Facilities. Continuing to monitor this is very important, as there is a structural deficit within Facilities.

Ajami then detailed current and upcoming issues. The Evergreen School District bond issuance was $170 million, which settled in October. Public facilities district sales tax rebate extension, LIBOR rate is going away, possibility of the jail bonding and 179th street projects.

The net debt change between Q2 and Q3 was just over $157 million, of that, the Vancouver School District bond issuance makes up the majority. Camas School District also had a bond issuance of $5.2 million. There were also some debt payments for the county and ESD 112 totaling $1.4 million.

Good of the Order & Adjournment

With no other items for the good of the order, Topper adjourned the meeting at 10:05am.

Prepared by: ________________ 2/11/2020
Nicole Antonacci

Submitted by: ________________ 2/10/20
Greg Kimsey