CLARK COUNTY FINANCE COMMITTEE
First Quarter 2021

Alishia Topper, Chair
Greg Kimsey, Secretary
Eileen Quiring O'Brien, Council Chair

MINUTES

The meeting was called to order on May 18, 2021 by Treasurer Alishia Topper at 9:30 am via Webex. The Finance Committee members present were Treasurer Alishia Topper and Chair Eileen Quiring O'Brien. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Nick Bundy, Hannah Swift, Nashida Cervantes, Deanne Woodring and Garrett Cudahey. Joining as a guest, was John Jokela. Auditor Greg Kimsey joined at 10:01 am.

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

Topper called for approval of minutes from the previous meeting. Eileen Quiring O'Brien made a motion to approve the minutes. Topper seconded the motion and the motion carried with unanimous approval.

Annual Review of Investment Policy Memo – Two Proposed Amendments
Rachel Wilson, Investment Officer, stated that to the amendments align our policy with best practices. The Clark County Investment Policy was last reviewed and approved by the Finance Committee on May 19, 2020. Government Finance Officer's Association's recommends the Investment Policy be reviewed and updated annually if needed.

The first recommendation adds additional diversification to the portfolio by modifying how our weighted average maturity (WAM) is calculated based on a security's maturity or coupon structure. Wilson contacted the State Treasurer's Office and they have this definition in their policy. Currently, when variable rate securities are purchased, the weighted average maturity calculation uses the security's final maturity date instead of the security's coupon rate reset date. The purpose of the weighted average maturity calculation and the policy's maximum 1.5-year WAM is to manage the interest rate risk in the portfolio. This calculation should more accurately reflect the interest rate risk. Quiring O'Brien commented that she agrees with the change.

The second recommendation is to update the language relating to registered warrants. State statue authorizes investments in registered warrants of a local government in the same county as the government making the investment. Currently, the County's policy only allows these to be invested outside of the pool. Allowing these as investments within the pool will benefit pool participants from the interest earned on these investments and is a more appropriate practice than funding them with residual cash and investing them outside the pool.

Sara Lowe added in the last three years we have issued no registered warrants; in the last five years we have issued two that were in increments under $10,000. It's rare we issue registered warrants, but state statue does require the Treasurer to have the ability to perform registered warrants and this recommendation offers the risks and the benefits to be in alignment. Topper asked for additional comments. Hearing no additions, Topper explained that a formal action is needed to accept the two recommendations to the Investment Policy. Quiring O'Brien made a motion to approve the two recommended language items be added to the policy. Topper seconded the motion and the motion carried with 2-0 unanimous approval. Topper thanked Wilson and stated she was proud of the work performed and the current Investment Policy. Wilson commented that Deane Woodring and Garrett Cudahey with GPA were very helpful with the update and for working with the Treasurer team. Wilson added, it's helpful to review the policy every year because the updates are more manageable. Topper and Lowe said the Debt Policy will be reviewed and amendments to the policy brought to the committee.

Market Update

Garrett Cudahey from Government Portfolio Advisors (GPA) reported that the first quarter was one of the largest and worse bond market selloffs in decades as a rapid rise in longer-term rates, combined with low coupons, led to poor performance. The Fed is forecasting a stronger economy in the short-run and still signals no rate hikes through 2023. This is a different Fed with a new reaction function. Prior to COVID the Fed was cutting rates in a good economy. What the Fed was showing, especially after COVID hit, is they have reformulated their view in their reacting function and they will keep reinforcing it. They are not going to try to get ahead of inflation and are going to wait to see inflation sustain itself before raising rates. The Fed is also showing they will favor employment over inflation which is historically not what the Fed has done. For employment they are looking for inclusive measures rather than just the unemployment rate. For example, they are looking at different levels of employment around different demographic groups and income groups.

Cudahey stated about $5.3 trillion was spent on stimulus for COVID and it came at a cost. Per the Congressional Budget Office, it is estimated in 30 years forward time, almost 27% of federal budget will be to pay for interest on outstanding debt. Soon we will start issuing debt to pay for debt. This is not a good forward-looking projection. It's our hope that we can grow into the debt. We have never seen a bigger shock to income, transfer payments, and consumption patterns. The goods sector, which makes up 1/3 of consumption, faced a surge of demand as stimulus dollars, plus a locked down service sector, sent outsized volume their way.

Cudahey advised not to pay a lot of attention to the unemployment rate. If people drop out of the labor force the employment rate goes down for the wrong reasons; largely due to schools, day care and the pace of hiring being slow to build. The economy has added 1.6 million jobs thus far in 2021 – we remain 8.4 million below the pre-pandemic employment level. Pay close attention to the participation rate, we need this to move higher to fully heal. A few upcoming strategic items to focus on is the economy has all the ingredients for very robust growth in the next 12-24 months, inflation will accelerate in the coming months, and labor markets should exhibit rapid healing in coming months. Cudahey invited questions, hearing none.

Total Investment Overview

Deanne Woodring from Government Portfolio Advisors (GPA), reported that as of quarter end the Pool portfolio had about $426 million. We are working to get the Pooled funds to 35.7%. The Pool has about $730 million invested in securities. The overall book yield is 0.73% and that is the value driver. The discipline that has been built is a guide for investments and is holding up well. The portfolio is well diversified. The total years to maturity duration stand at approximately 1.37 years with some maturities out about five years, so the curve is being used. The investment portfolio is what is holding the yield on the overall structure up. The investments earnings are occurring at a 1.10 book yield and there are also unrealized gains of about $5 million. This gives options to bring the liquidity down because there are many places to pull in cash quickly if funds need to be liquidated, although this is not an issue today.

Woodring stated that the compliance policy monitoring has been set-up well. The report has all the rules in full detail, and they are watched closely daily and reviewed during weekly meetings. Woodring advised that the Treasurer is in full compliance. The volatility of the balances is what makes managing a Pool Portfolio challenging due to money coming into the portfolio from multiple sources such as school district money (when bonds are issued), relief funds, and additional factors that are constantly changing the dynamic. The balances continue to grow and having investment liquidity will help the portfolio maintain discipline in this rate environment.

Investment Report

Rachel Wilson, Senior Management Analyst, began by reiterating what GPA reported earlier, that the 2-year has not changed since June of last year and as Cudahey said, we reached a new record low for the 2-year Treasury in January. She also noted at the end of last quarter, the pool was $1.1 million and is now almost $1.4 million, the Pool has grown substantially. Currently we are investing in the 2-year area and the 2-year treasury is at 15 basis points. Wilson explained, when coming from yielding 1% for participants, then reinvesting, in best case at 15 basis points, a dramatic drop in yield can be expected. It was decided to extend the portfolio, especially the core investments, as far as possible. The benchmark that we measure to for our core investments is an average duration of about 1.5 years and we are at 1.7 years.

Wilson provided a County Pool summary stating as of March 31, 2021 the pool ending balance was $1.15 billion, of which 35.8% was invested in the State Pool. Evergreen School District's balance was 25.74% of the pool, Evergreen's percentage does not include the $101 million that is managed outside of the pool or else it would be higher. The high balance is the result of November's bond proceeds. Value has been added by holding out the duration and this is very significant. It will come down as we reinvest in the lower rate.

First quarter's average book return was 0.91%, the State Pool's average was 0.31%. This rate variance equated to $2.33 million in additional earnings for our participants in the first quarter. We have been able to hold onto yields in this declining interest rate environment, providing added value and additional earnings to our participants. The 12-month rolling average total market return, which includes changes in market value, was 0.60%; 1-year treasury benchmark was 0.21%. Our effective duration is at 1.12 years, a little higher than what we want as we want it closer to a year. As of March 31, 2021, the NAV is $1.004543. The NAV has come down as our earnings have come down. The committee reviewed quarterly activity, notably $15 million in corporate bonds added, $23 million in municipal bonds, and $30 million in U.S. agencies. We also had $101 million in maturities, and $16 million in U.S. agencies called.

Wilson stated that we have grown and although were in a tough rate environment were sticking to the strategic goal of the portfolio and we will continue to see benefits. Wilson invited questions. Lowe commented that Wilson did a great job explaining how the pool has grown and how it will continue to grow. Lowe stated that we will be getting Federal stimulus money in two allotments, the first should be approximately $45 million. We will also be receiving some upcoming bond proceeds from Evergreen for $95 million and we have the collection of the second-half property taxes in April and May. Lowe added we will continue to see the growth of the pool over the rest of the year. Topper shared that the Treasurer's Office billed just under $800 million in property taxes this year and about 53% was collected in first-half so all of that liquidity is going into the State pool and that is why the balance is high and were trying to get it invested and placed. Not all the $800 million are county funds, included in that amount are state schools, voter approved bond revenue, as well as Fire Districts, Cities and Ports who collect property taxes. Greg Kimsey commented that Wilson is doing a great job of fitting in with the requirements of the investment portfolio. Kimsey stated lower rates are not always bad. He said the policy reflects that when you are earning 90 basis points versus13 basis points for the State pool, it's a great program. Topper agreed.

Debt Report

Amira Ajami, Financial Services Manager, shared the outstanding debt for Clark County is just over $75 million and the debt for all other districts is about $1.4 billion. Debt capacity remains high with remaining general obligation debt capacity at $1.7 billion in general obligation debt and remaining non-voted general obligation debt capacity at $1,031,553,978.

At the end the first quarter there were no funds on the County's internal line of credit, the unused balance is still at $5 million. Current and upcoming debt issues include the Clark-Cowlitz Fire Rescue bond proceeds of $1.7 million in January 2021; Vancouver School District bond proceeds of $80 million in February 2021; East County Fire & Rescue debt payoff of $350 thousand in April 2021; And Whipple Creek possible debt payoff estimated at $275 thousand in June 2021.

In 2021, the Treasurer's Office will review the portfolio for any refinancing opportunities. Public facilities district sales tax rebate extension is ongoing. Secured Overnight Financing Rate (SOFR) will replace LIBOR at the end of 2021, this is the rate used for the internal credit line. June 1, 2021, we have our semi-annual debt payments of about $38 million that will be going out mostly towards interest. Back in 2018 the County had a debt issuance for conservation futures of about $7 million. Those bond proceeds were supposed to get spent down within 3 years and there is about $4.5 million remaining as unspent. Since rates are low, there is not a problem with holding those funds in the pool. Our office has been working with Public Works on upcoming projects and they provide a memo on unanticipated circumstances on the delay and why there is a slow spend down. They are expected to have about $4 million spent down by the first quarter of next year. Lowe commented that this will be going to Council in the form of a work session and we will follow up with the Public Works team. It's a broad general rule that bond proceeds are spent within 3 years.

Kimsey had a question regarding Ajami's statement that the Treasurer's Office will be reviewing the portfolio for any refinancing opportunities. He understood this to be an ongoing effort and asked if that was correct, or if there was something special about this year. Ajami answered yes, the review is ongoing, and with the optimal interest rate environment this year, refinancing's are being reviewed closely for addition opportunities. Lowe further explained that as debt continues to age and costs for refinancing go down, we need to look at them on a quarterly and semi-annual basis. Reviewing the portfolio is continuous. Kimsey asked do we do the refinance analyst for others like the School District or just county? Ajami answered, just the county. She invited additional questions, hearing none.

<u>Good of the Order & Adjournment</u>

Topper asked for questions, updates, comments and public comments, hearing none. She thanked the Treasurer's Office team members and the GPA team for their support. Topper summarized the two action items were completed in this meeting; the Q4 minutes and the two amendments to the Investment Policy which will be reflected in next quarters meeting.

With no other items for the good of the order, Topper adjourned the meeting at 10:19 am.

Prepared by: *Nashida Cervantes*
Nashida Cervantes

Submitted by: *[signature]*
Auditor Greg Kimsey