



# CLARK COUNTY FINANCE COMMITTEE Second Quarter 2021

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

## MINUTES

The meeting was called to order on August 11, 2021 by Treasurer Alishia Topper at 9:30 am via Webex. The Finance Committee members present were Treasurer Alishia Topper and Auditor Greg Kimsey. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Nick Bundy, Hannah Swift, Nashida Cervantes, Garrett Cudahey. Joining as a guest, was Kevin Balaod.

### Call to Order & Introductions

Treasurer Alishia Topper began by inviting introductions.

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

### Market Update

Garrett Cudahey from Government Portfolio Advisors (GPA) began by discussing the implied Fed Funds target rate chart. He explained that the Fed improved their near-term outlook for growth and inflation while leaving their long-term projections for growth and inflation largely unchanged. While the 2023 and beyond outlook remained stable, the Fed is increasingly uncertain on the path of interest rates. The dispersion on rate hikes is increasing as headline inflation draws attention. The yield curve flattened in the second quarter as the Fed shifted the frontend higher which led to an impressive rally in long-term bonds. The market is now forecasting sooner and fewer rate hikes. This was a change since the Fed had been reporting they would look through the inflation and uncertainty and side with the employment market.

Cudahey explains that we knew inflation would be high, partly because of what we call the base effects that are measured on a year-over-year basis and the price levels were very depressed in a lot of categories such as hotels, hospitality and airfare roughly a year ago. That has now reversed, but it has reversed more than was first expected and now sits at multi-year or multi-decade highs on most measures of inflation. Much of the move to higher inflation has been isolated in narrow categories such as car prices and re-opening sectors such as travel. Thus far it is transitory, however, residential rent trends will be key in whether it stays transitory. Rents are accelerating quite rapidly at this point, more than they have in years. It's not believed to be a long cycle; it's thought to be a temporary issue as people relocate as well as eviction moratoriums get pushed around. He reiterated that the outliers to take this from transitory to problematic and either damage the economy or



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cause the Fed to get off course is going to be wages and rents as they are the big components that could get inflation moving.

The labor market healing continues, but at a slower pace than anticipated. We ended the quarter with 6.8 million less people employed than pre-COVID. Cudahey explains that the unemployment rate can go down for two reasons; people become employed, or they drop out of the labor force. We show many have left the workforce to retire and are not planning to come back. Charts are also showing the female labor rate was disproportionately affected largely due to schools, day care and the pace of hiring being slow to build. Early evidence suggests the removal of enhanced benefits is not enticing people back into the labor market. While we have 6.8 million less employed, we have 14.6 million drawing benefits that will expire in the fall and as of September 4, 2021, only 3.3 million will continue receiving benefits. If the labor market does not heal quickly, we may face an income shock. This won't cause a recession, but it will certainly slow progress.

In closing, Cudahey summarized that we are likely past peak growth and peak inflation for the cycle. As benefits and payment moratoriums are set to expire, we will spend the next few quarters assessing the health of the underlying economy. Rent and wages are the wild card and looking at the labor markets and hoping this fall will make a difference. Cudahey invited questions, hearing none.

### **Total Investment Overview**

Cudahey reported that as of quarter end the Pool portfolio had about \$245 million in liquidity. The Pool has about \$944 million invested in securities. The overall book yield is 0.62% 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, and this is a benefit because it's an uncertain future and this is the best way to defend it. The total years to maturity duration stand at approximately 1.44 years. The investment portfolio is what is holding up the yield on the overall structure.

Cudahey stated that the compliance policy monitoring has been set-up well and noted that the Treasurer's Office is in full compliance and has consistently remained compliant. The portfolio has grown over time; some through bond issuances, good times, and stimulus dollars. The historical balances chart shows growth is happening and investment returns are good. Cudahey invited questions, hearing none. Topper thanked him and stated she was pleased we are complying in all of our categories.

### **Investment Report**

Rachel Wilson, Senior Management Analyst, began by reporting that the pool is growing, and we are averaging a little over \$200 million more this year than we were last year.



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Wilson provided a County Pool summary stating as of June 30, 2021 the pool ending balance was \$1.19 billion, of which 19.4% was invested in the State Pool. Over the quarter Clark County's balance has increased from 28% to 33% and the school districts balances decreased from 58% to 50% as bond proceeds were spent down. This will likely continue until November when we get another \$100 million from Evergreen School District and some of Evergreens outside bond money will be coming back into the Pool so the school districts balance will increase.

Second quarter's average book return was 0.64%, the State Pool's average was 0.09%. Year-to-date we have earned \$4.2 million in additional earnings for our participants. We have been able to hold onto yields as much as possible, but as we reinvest in lower rates, there will be a steady decline. We are still happy how the portfolio has held up. The 12-month rolling average total market return, which includes changes in market value, was 0.18%; 1-year treasury benchmark was 0.28%. Wilson added a reminder that as interest rates go up, market value goes down. Our effective duration is at 1.24 years, a little higher than the benchmark of 0.96 years. As of June 30, 2021, the NAV is \$1.003625. The NAV has trended down but is still very healthy which suggests that we have gains in the portfolio which is holding up our overall book yield. Wilson stated she is proud of the diversification that has been added and, as of the end of the quarter, we have added \$40 million in floating rate notes. This means that if the Fed were to move early or unexpectedly, that would immediately be reflected in those floating rate notes. The State Pool also invests in floating rate notes and has a great program. The committee reviewed quarterly activity, notably \$25 million in municipal bonds, \$25 million in supranationals, \$145 million in U.S. treasuries, \$10 million in U.S. agencies, \$50 million in corporate bonds and \$65 million in commercial paper. We also had \$90 million in maturities, and \$6 million in U.S. agencies called. Wilson invited questions, hearing none.

### **Debt Report**

Amira Ajami, Financial Services Manager, shared the outstanding debt for Clark County is just over \$72 million and the debt for all other districts is about \$1.4 billion. Our bond rating continues to be at a Aa1. Debt capacity remains high with remaining general obligation debt capacity at about \$1.7 billion in general obligation debt and remaining non-voted general obligation debt capacity at \$1,033,999,608. This is still a very low outstanding debt for the County. The County's internal line of credit is \$5 million. At the end of the second quarter the only fund that was on the line of credit was the Weatherization Fund 1936 for a little over \$162 thousand, leaving an unused balance of about \$4.8 million.

Current and upcoming debt issues include the East County Fire & Rescue debt payoff of \$350 thousand in April 2021; ESD112 debt payoff of about \$1.4 million in May 2021;



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Whipple Creek debt payoff of \$275 thousand in June 2021; Public Works is likely to add \$15.7 million in low interest Public Works Trust Fund and Department of Ecology loans; and public facilities district sales tax rebate extension. Our office will be putting together a staff report for the Council, to change how we calculate interest on our line of credit and how we are currently using LIBOR, but that will be replaced with SOFR, the Secured Overnight Financing Rate

Ajami explained that quarter-over-quarter there was about an \$11 million decrease in debt and of that from Clark County, was a little over \$2.4 million. New upcoming debt issuances are the Department of Ecology loan for \$6.7 million and the Public Works Trust Fund loan for \$9 million. June 1 is part of our semi-annual debt payment; most of the debt payment is interest. The Q2 debt activity shows we paid out about \$28.6 million to interest and \$11.8 million to principal for a total debt payment of \$40.4 million. At the end of June, the Weatherization Fund 1936 was the only fund on the line of credit, and it was paid off in July. As of today, there is no balance on the line of credit. Ajami explained that the last page of the debt report is a table of all outstanding debt by district, detailed by issuances. Topper invited questions from the committee members, hearing none. Topper commented that she continues to appreciate the work and detail that Ajami outlines in the report, adding transparency.

### Good of the Order & Adjournment

Topper explained that the Treasurer's Office is moving banking services from Bank of America to J.P. Morgan based on a competitive request for proposal and asked Ajami to provide a brief update to Kimsey on the banking implementation project. Ajami explained that this year we have been going through the business process overview and gearing up and now we're nearing the end stage of going live with the new accounts. As of now we're planning to go live with the deposits September 1, 2021. October 1, 2021 is when we will go live with outgoing payments and Districts are ordering check stock, were getting those tested and making sure vendors are updated with all the new bank account information. Kimsey thanked Ajami and acknowledged the Treasurer's Office has been very busy. Topper complimented and gave credit to the IT Department for their support our efforts in this project and stated that Ajami is doing great as project lead. Topper asked for questions or comments for the good to the order from the Treasurer's Office team.

Sara Lowe mentioned the Treasurer's Office is currently working to update the dept policy and are coordinating those efforts with PFM, the County's financial advisor; they are assisting us with some of the more technical components of the policy. We will also be involving bond counsel for a review prior to submitting it to the Finance Committee for final review and approval; she is hoping to have the Policy to the Committee by the Q3 meeting. Secondly, Lowe stated that we are approaching second-half tax season. The



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statements will be sent out around, September 15 and explained that this money will also flow into the Pool.

Kimsey said for good to the order, we should make note and congratulate Treasurer Topper's election to President of the Treasurer's Association; it's an honor. Topper thanked him and is looking forward to the year ahead.

Topper explained that we do not have an agenda item to open the floor to public comments and explained that our materials will be posted on the Clark County Treasurer's website at [clark.wa.gov/treasurer](http://clark.wa.gov/treasurer), and it will be found under the investments tab. If there are other questions following this meeting, emails or phone calls are welcome and our contact information is located on our website.

With no other items of business, Topper adjourned the meeting at 9:59 am.

Prepared by: *Nashida Cervantes*  
Nashida Cervantes

Submitted by: *Greg Kimsey*  
Auditor Greg Kimsey

