CLARK COUNTY FINANCE COMMITTEE
Third Quarter 2021

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

MINUTES

Call to Order & Introductions

The meeting was called to order on November 9, 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, Deanne Woodring Garrett Cudahey. Joining as a guest, was Cherie Sabug.

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 is in a tough spot and outsized inflation is leading to division amongst the members of the Federal Reserve. The Fed downgraded their near-term outlook for growth and the labor market despite the stimulus, while increasing their forecast for inflation in 2021 and 2022. Fed projections for the path of policy rate are increasingly divided with some members calling for sooner hikes and a quicker pace. The outlook for growth and inflation in the spring and summer of 2022 will decide the outcome. The challenge is when you have a labor market that hasn't fully healed, and the growth is underwhelming the only way you can stop demand in this market is by creating a recession; by raising rates fast enough to stop demand from occurring. The Fed is delaying this as much as possible. The hope is that the inflation comes back down for them. This uncertainty carries over into the market.

The yield curve has flattened since the end of the first quarter, which thus far marks the year-to-date high yield levels for longer-term bonds. The market shows that the Fed must act sooner to stop inflation. This means longer-term bond yields will come down and the economic cycle will be shorter, therefore not allowing the Feds to hike rates meaningfully which would send longer-term rates higher. The direction of the market today is pricing in sooner but with fewer rate hikes which drove up front-end yields and weighed on long-dated yields. Cudahey explains that inflation has risen sharply over the past several months led by a rebound in leisure and hospitality, energy prices. Much of the move to higher inflation has been isolated in narrow categories including a surge in all things auto – new cars, used cars and rental cars. Recent monthly readings have showed signs of cooling; however, we anticipate inflation will remain relatively high for several months to come.

The labor market healing continues, but at a slower pace than anticipated. The economy now has 5 million less jobs today than pre-covid and if adjusted for population growth, we are about 8 or 9 million jobs behind where the Fed would really consider us to be at full employment. The unemployment rate is at 4.6 percent and while that number is good, 2% have dropped 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. This leads to confusion as to how tight labor markets really are and what the true unemployment rate is.

In closing, Cudahey summarized that inflation is what the Feds see as problematic and will be watching closely. Growth and inflation data over the next twelve months will be key in determining the path of policy rates – uncertainty remains high. As benefits and payment moratoriums are set to expire, we will spend the next few quarters assessing the health of the underlying economy. Lastly, supply chain issues will likely take more time than previously expected and housing costs may keep inflation elevated in the months ahead. This is the biggest risk and largest unknown in markets today. If inflation does not moderate, the Fed will be in a very difficult position given asset valuations rely on low rates. Cudahey invited questions, hearing none.

Total Investment Overview

Deanne Woodring from Government Portfolio Advisors (GPA) reported that as of September 30, 2021, the Pool portfolio had about $209 million in liquidity. The Pool has about $882 million invested in securities. The overall book yield is 0.56% 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 stands at approximately 1.50 years. The investment portfolio is what is holding up the yield on the overall structure.

Woodring 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. Woodring invited questions, hearing none.

Investment Report

Rachel Wilson, Senior Management Analyst, began by reporting that the Pool balance is at $1.4 billion and growing, we are averaging a little over $300 million more this year than last year. Wilson provided a Pool summary stating as of September 30, 2021, the Pool ending balance was $1.09 billion, of which 17.8% was invested in the State Pool. Over the quarter Clark County's balance has increased from 33% to 36% and the school districts balances increased from 50% to 52%.

Third quarter's average book return was 0.57%, the State Pool's average was 0.12%. We have been able to hold onto yields as much as possible, and yields are steadily increasing. The 12-month rolling average total market return, which includes changes in market value, was 0.20%; 1-year treasury benchmark was 0.25%. Wilson added a reminder that as interest rates go up, market value goes down. Our effective duration is at 1.14 years, a little higher than the benchmark of 0.94 years. As of September 30, 2021, the NAV is $1.003532. The committee reviewed quarterly activity, notably the purchases of $25 million in municipal bonds, $10 million in supranationals and $10 million in corporates. We also had $90 million in maturities. Wilson invited questions, hearing none.

Sara Lowe commented that this year has been unusual, but similar to 2020 in that the County received additional federal COVID relief grant funding and there was continued growth with the schools continuing to have bond issuances. The current size of the Pool is the highest that it has ever been. Greg Kimsey noted that Wilson made a comment that there is not enough spread between the agencies to treasuries with there only being 3 basis points. He asked when yields are at .57%, what is enough spread to make that worthwhile? Wilson responded we are continually adjusting our expectations. She explained the reason why there should be spread is because the liquidity of the treasuries is a value. For example, if we were to get stuck in the low interest rate environment for longer than we think and it would be beneficial to buy a 2-year treasury and then sell it at a 1-year mark and take that gain, the treasury will get a better price than the agency and, in her estimation, the 3 basis points is not reward enough for the slight decrease in liquidity. Cudahey agreed that 3 is too narrow due to the volatility.

Debt Report

Amira Ajami, Financial Services Manager, shared at the end of third quarter, the outstanding debt for Clark County is just over $72 million and the debt for all other districts is about $1.45 billion. Our bond rating continues to be at a Aa1. Debt capacity remains high with remaining general obligation debt capacity at about $1.77 billion in general obligation debt and remaining non-voted general obligation debt capacity at

$1,106,504,872. This is still a very low outstanding debt for the County. The County's internal line of credit is $5 million.

Current and upcoming debt issues include the semi-annual primary debt payment of approximately $81 million in December 2021; Fire District 6 bond proceeds of $8.5 million in December 2021; Evergreen School District bond proceeds of $40 - $50 million in Q2 2022; Public Works will not add $15.7 million in low interest Public Works Trust Fund and Department of Ecology loans projected for Q4 2021; and public facilities district sales tax rebate extension. Secured Overnight Financing Rate (SOFR) will replace LIBOR for the internal credit line, timeline extended to June 2023.

Ajami explained that quarter-over-quarter there was about an $899 thousand decrease in debt. 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, hearing none.

Good of the Order & Adjournment
Topper asked for questions or comments for the good of the order. Kimsey commented that this is a great team with good work and presentation. Topper agreed and thanked him. Lowe provided a few updates for the Treasurer's Office. A draft of the revised debt policy is in review and the hope is to have a finalized draft by the end of the year and present that to the Finance Committee for review and approval at the fourth quarter meeting. Multiple offices will be reviewing components of the policy. An additional update is the contract with our financial advisor PFM is close to expiring. Lowe is in discussions with the County Manager to possibly extend the current contract short term - until the RFP is completed. We are reviewing the County's debt portfolio for savings opportunities; PFM and Key Banc have presented potential opportunities for first or second quarter of next year, there will be more to come on that. Lowe updated the committee on the recent closing of the second half tax season. We had strong collections and will send the delinquent post cards in the next two weeks for those that were late in paying. She added there is legislation that will affect delinquent collection rates in the future, and this will be discussed at a later time. Topper commented we were over 1% ahead of last year in terms of our collection rates. More property owners chose to drop off their payments using the drive through kiosk and drop box on the first floor of the Public Service building versus going to the Joint Lobby during our walk-in days. We are hoping people are more comfortable with our electronic payment platform and the U.S. Postal service and their payments being processed at our remittance center. We will continue to promote online payments.

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Topper asked Ajami to update the banking implementation project and where we are to date. Ajami reported in September we went live with the deposits and on October 1, 2021, we went live with outgoing payments. We have been live for two months and everything has gone smooth; it was a streamlined process with no issues to date. Were hoping to close Bank of America accounts by the end of this year starting in mid-December. Some accounts that were not being utilized are already being closed. We were able to streamline processes and went from 52 Bank of America accounts to 25 for J.P. Morgan. Topper thanked Ajami and the team acknowledging it was a lot of work but beneficial for the taxpayers and all the districts and departments that utilize those services.

Topper asked for questions or comments for the good to the order. Hearing none and with no other items of business, Topper adjourned the meeting at 10:11 am.

Prepared by: Nashida Cervantes
Nashida Cervantes

Submitted by: ____________________
Auditor Greg Kimsey