CLARK COUNTY FINANCE COMMITTEE
Fourth Quarter 2021

Alishia Topper, Chair
Greg Kimsey, Secretary
Karen Dill Bowerman, Council Chair

MINUTES

Call to Order & Introductions

The meeting was called to order on February 15, 2022 by Treasurer Alishia Topper at 9:32 am via Webex. The Finance Committee members present were Chair Karen Bowerman, Treasurer Alishia Topper and Auditor Greg Kimsey. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Nick Bundy, Hannah Swift, Nashida Cervantes, Deanne Woodring and Garrett Cudahey. Joining as guests were PFM Advisor Duncan Brown and County Manager Kathleen Otto.

Treasurer Alishia Topper began by inviting introductions.

Topper opened remarks by sharing the voting members of the committee are Greg Kimsey as Auditor, Chair Bowerman as the County Council Chair, and her as County Treasurer. The three members execute all action items and formal business. She further shared that the treasurer's office team attends to provide support and answer questions. She stated that meeting minutes were emailed ahead of the meeting. Topper called for approval of minutes from Q3 Finance Committee meeting. Kimsey made a motion to approve the minutes as presented. Karen Bowerman seconded the motion, 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 chart is showing higher than expected inflation, combined with a uniquely tight labor market, is leading the Fed to a path for removing accommodation from markets. This time last year no one expected to have any rate hikes in 2022. As of the end of the quarter, markets are pricing in four rate hikes for 2022. As of today, odds are, there will be a shocking number of seven rate hikes for 2022. We had more persistent inflation start picking up in the fall and even though people were not entering the labor market, demand was more than expected for labor. That started to push the narrative up for rate hikes coming in 2022.

Peak Fed funds continues to hover around 1.50%-1.75%; much like the rate we experienced pre-COVID. Inflation for December hit 7% with continued pressure in the goods sector, ongoing dislocation in the auto market and the much-expected rise in rents and housing. Inflation is expected to cool in the back half of 2022 but how much and how fast will prove important. Another reason inflation picked up was wage growth has accelerated as current demand for labor is outstripping supply. Elevated CPI readings combined with wage growth is leading the Fed to be more hawkish to keep a lid on price growth. Tight labor markets came as a surprise as large swaths of eligible workers are staying out of the labor market despite ample job openings and wage increases, leaving the question, is their return an if or a when? Labor market shows there is about 5 million people less employed today than what was expected in the economy. Intermediate and longer-term yields have mostly retraced their declines from pre-COVID interest rate levels. As the Fed hikes, front-end yields will elevate back up.

Cudahey invited questions; Bowerman asked about inflation. She asked what impact inflation would have on County revenue? Cudahey responded it could impact sales tax, housing development since there is more demand for housing, and less spending by consumers. We must wait to see if consumers slow spending and if they do, this will slow down the economy and could be a negative offset.

Total Investment Overview

Deanne Woodring from GPA explained that GPA provides both the compliance and a strategic overview for this committee. The portfolio is being managed with two components. There is a liquidity component which is the cash balance at the LGIP and the investment component. Over the last year the Pool continued to grow. At the end of the year the Pool portfolio ended at approximately 1.45 duration to maturity and we are well within compliance. Topper asked for an explanation of the LGIP. Woodring explained LGIP stands for the Local Government Investment Pool. It is a Pool that is managed by the State Treasurer's Office and is allowed by all public entities within the State of Washington to participate in. This Pool is managed to a 60-day maximum average maturity and it trades very similar in yield to money market and other common instruments. It has a maximum investment maturity in the portfolio of 167 days. In summary, you put your cash in and you can get your cash back any and every day within this portfolio; its highly liquid and a tool to provide liquidity for the Pool. Rachel manages the investment portfolio, making individual investment selections to create a portfolio structure that aligns to a benchmark. The key to managing the Pool is making sure there is always cash available when needed.

Woodring explained the structure of our portfolio ties to our investment policy. GPA reports on what types of securities we are holding and a compliance report showing what we own relative to the policy. In securities we currently have about 24.9% in U.S. Agency, 22.9% in U.S Treasury, 14.7% in Corporate, and a Pool fund of 13.1%.

Woodring stated that the compliance policy monitoring has been set-up well and noted that the Treasurer's Office monitors compliance along with GPA. The Treasurer's Office is in full compliance and has consistently remained compliant. The historical balances chart shows growth is happening and investment returns are good. Our trend shows we will go up in in certain months because of the tax payments that come in or because of school district bonds. The balances are staying healthy and stable. Woodring and Topper invited questions, hearing none.

Investment Report

Rachel Wilson, Senior Management Analyst, began by reporting as of December 31, 2021, the Pool ending balance was $1.08 billion, of which 13.1% was invested in the LGIP. Over the quarter Clark County's balance slightly changed. The balance has increased from 36% to 37.5% and the school districts balances decreased from 52% to 44% as bond proceeds were spent down.

Fourth quarter's average book return was 0.55%, the LGIP's average was 0.095%. 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 -0.36%; 1-year treasury benchmark was 0.03%. Wilson added a reminder that as interest rates go up, market value goes down. Our effective duration is at 1.34 years, higher than the benchmark of 0.94 years. As of December 31, 2021, the NAV is $0.998246.

Wilson reported that she has been working with GPA to have a benchmark for the total portfolio including cash and investments that is more representative of how the total portfolio is structured. Currently in policy we use the 1-year treasury for evaluation purposes. We have started using the new proposed benchmark and we will run both reviews at the same time until we review the investment policy next quarter.

The committee reviewed quarterly activity, notably the purchases of $25 million in U.S. Agencies, $25 million in supranationals and $5 million in corporate bonds. We also had $82.5 million in maturities. Wilson invited questions and Bowerman asked for clarification on why there is such a big difference between the two book yields. Wilson reported earlier that the book yield was .55% versus the LGIP at .095%. = Wilson answered that based on having a longer duration of a year versus the LGIP of an average of 60 days. This means we can invest in longer dated maturities which have historically had a higher return. When interest rates fell to zero in March 2020 the LGIP went almost to zero whereas we had been buying securities at 2.5% and they were 3-year securities meaning our portfolio was able to earn that 2.5% for those 3 years. The spread between our Pool and the LGIP has to do with our duration and longer dated securities earning a higher yielded that we can hold on to for longer. Woodring added that by utilizing the benchmarks that Wilson is bringing in she is staying accountable to our risk profile. Sara

Lowe added that we have a chart we can show in our next meeting showing how our Pool has performed versus the state in the last 15 years.

Debt Report

Amira Ajami, Financial Services Manager, shared at the end of fourth quarter, the outstanding debt for Clark County was just over $69 million and the debt for all other districts was about $1.3 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 $1,037,079,532. 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 million in December 2021; Clark-Cowlitz Fire Rescue bond proceeds of $1.6 million in December 2021; Educational Service District 112 debt payoff of $4.9 million in December 2021; Evergreen School District bond proceeds of $40 - $50 million in Q2 2022; 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 a $2.9 million decrease in debt. As of today, there is a balance of $95.6 thousand 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. Ajami invited questions and Bowerman asked since we have $30.5 million in interest, how does that compare to other counties? Ajami explained that Clark County's portion of debt in the portfolio is low, but currently does not monitor other counties. Majority of the debt payments made are attributed to districts, mainly schools, and the first few years of a debt issuance are mainly paid towards interest. Lowe agreed it should compare well.

Debt Policy Review and Approval

Topper explained the Debt Policy is an item on the agenda that needs to be reviewed and adopted. The Debt Policy by state statue is the responsibility of the Finance Committee, per RCW 36.48.070. We went through a rigorous process because the current Policy had not been reviewed in over five years. We wanted to make sure we are adhering to best practices. Topper asked Lowe to give an overview of the process we took to get a final document for consideration today.

Lowe began by welcoming Duncan Brown with PFM to the conversation. Brown was a partner in the process of revising the Debt Policy. The Treasurer's Office worked with

Brown in reviewing the Policy along with Mark Gassaway from the Auditor's Office. We sought to update the Policy to reflect current references and terminology. Edits were made to reflect updated SEC disclosures rules, and alignment with Debt Policy guidelines. Edits were also needed to combine the Debt Policy and the internal Treasurer's Office Debt and Compliance Policy into one document. Once there was a solid draft, it was sent to the County Manager and the County's Budget Director for review. When the review was completed and edits incorporated, the draft went to the County's Bond Counsel, Foster Garvey, for review. Lowe stated we have a great final product and the Policy was sent to Bowerman and Kimsey before today's meeting for review. Lowe invited Brown to provide additional comments and invited questions. Brown agreed with Lowe's summary. Kimsey thanked Lowe for providing an advanced copy of the Policy and made a motion to approve the Debt Policy. Bowerman seconded the motion, the motion carried with unanimous approval. Topper thanked everyone and their teams for their work. Lowe added there will be a training for county staff on the internal process for preparing to issue debt. Topper added that the Policy will be sent to Bowerman and Kimsey for their signature and once signed will be posted on the Treasurer's website.

Investment Fee

Ajami shared that every year we look at the projected cost to manage the investment portfolio and determine the fee charged to pool participants. This fee is strictly cost recovery for the cost to manage the Pool. Basis points are charged with one basis point equaling 100th of a percent. Our 2022 forecast is to lower the fee to 2.6 basis points, 0.026%. This is a fee that will get charged as a percentage of each participant's average monthly balance that they are investing in the Pool. We perform an historical look back to review if there is an over or under collection and readjust the fee accordingly. Last year the fee was set to under collect by approximately $50 thousand but ended the year over collecting due to the balance of the Pool growing more than anticipated. As the Pool continues to grow it allows us to charge significantly lower fees to our participants.

Contributing factors to the change in costs were salaries, benefits, supplies, training and contract services. The county saw increased costs in healthcare and benefits, as well as increased hours for the investment officer; reduced costs in 2021 due to limitations to in-person training and travel; and the bank transition credit in 2022 decreased banking fees, as well as no longer using business continuity services with investment advisors. Ajami invited additional questions. Kimsey asked for clarification on why we are no longer using the business continuity services. Ajami explained that we used those services during Covid when many of us were working remote as well as when Wilson was out for maternity leave. Lowe added, we still have the option to utilize this service, but we are not projecting to need them. Kimsey asked how our management fees compare to similar sized counties? Lowe answered we have done some analysis in the past and ours was lower. Cudahey commented we are doing a lot of management for the Pool for a small fee of 2.6 basis points.

Good of the Order & Adjournment
Topper asked for questions or comments for the good of the order, hearing none. Topper thanked everyone and again welcomed Bowerman. She stated we will review the Investment Policy in next quarters meeting. With no other items of business, Topper adjourned the meeting at 10:31 am.

Prepared by: Nashida Cervantes
Nashida Cervantes

Submitted by: Greg Kimsey
Auditor Greg Kimsey