CLARK COUNTY FINANCE COMMITTEE
Second Quarter 2022

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

MINUTES

Call to Order & Introductions

The meeting was called to order on Aug. 16, 2022, by Finance Committee Chair Alishia Topper at 9:30 am via Teams and in-person at the Public Service Center, room 243. The Finance Committee members present were County Council Chair Karen Bowerman, Treasurer Alishia Topper and Auditor Greg Kimsey. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Deanne Woodring and Garrett Cudahey. Joining as a guest was County Manager Kathleen Otto.

Topper began by inviting introductions.

Topper called for approval of minutes from Q2 Finance Committee meeting. Karen Bowerman made a motion to approve the minutes as presented. Greg Kimsey seconded the motion, the motion carried with unanimous approval.

Market Update

Garrett Cudahey from GPA began by discussing the implied Fed Funds target rate chart. Yields rose and the curve continued to flatten in the second quarter led by Fed action and continued elevated inflation readings. The current yield curve, as measured by 2-year 10-year spread, is inverted which typically occurs before an economic recession. It is the most inverted it has been since the early 2000's. Markets continue to expect the Federal Reserve to hike rates quickly to a level around 3.5%. Current pricing indicates the Fed will cut rates multiple times in 2023.

One cause of inflation was driven by excess demand and supply disruption. Commodity prices declined rapidly in the last month as investors begin to weigh a weakening growth outlook throughout much of the world. Containing key commodity prices over coming months will prove to be critical in the fight to lower inflation. A slowing economy and declining commodity prices led to a re-pricing of inflation expectations in the bond market with 5-year inflation break even rates challenging the lows of the past 18 months. Economic activity in both the manufacturing and services sector are cooling rapidly and are approaching contractionary territory. Mortgage rates moved up rapidly and sent a chill into the housing market with both existing and new home sales trailing off. Building permits and new building starts also slowed rapidly as builders adjust to a new reality. Slowing sales and a robust pipeline of building in response to high prices led to a spike in supply. Rents are also beginning to cool at a rapid clip led by the hottest markets.

Regarding the labor market update, despite strong headline jobs gains, total employment has flattened out in recent months as households are reporting a less rosy picture. Wage growth is also beginning to cool which is a welcome development for the Federal Reserve. Spreads retraced back toward their 1-year high levels. While the economic backdrop is negative, fundamentals remain strong and support adding in high-quality issuers to take advantage of attractive yields.

Cudahey invited questions. Bowerman asked, with the information Cudahey has on the new home supply, what effect does he see on affordable housing, both in terms of availability and purchases? Cudahey responded that we have more new homes in the pipeline today, about 1.8 million more than we did in 2008 and 2009. The reality is those were being purchased but we only have about 700,000 of the 1.8 million under contract creating a large imbalance. There may be a small decline in home prices but, when it comes to the broader affordability issue, it's not a panacea. Especially looking forward, once we move through the next six to nine months of building pipeline, building permits and new housing starts have fallen again, which means supply is going to re-anchor itself to lower demand, which will probably set us up for the next supply crunch in a handful of years. It may not help the big national issue we face today; it will just make it a little easier to digest for a few years.

Total Investment Overview

Deanne Woodring from GPA explained the structure of our portfolio ties to our Policy. GPA reports on what types of securities we are holding and a compliance report showing what we own relative to the Policy constraints. Whenever we are in a rising rate environment our first key is on the structure of the overall portfolio. We have the two components of both liquidity and core investments. The liquidity part is the cash equivalents at $182 million and the investments are up to $954 million. The portfolio continues to be over a $1 billion, and we continue to see those stable balances within the portfolio. The overall duration of the portfolio ended the quarter at 1.23. In securities, we currently have about 25.0% in U.S. Agencies, 25.0% in U.S Treasuries, 14.3% in Corporates, and 14.7% in the State Pool.

We must remember, the reason for the bifurcated portfolio in the liquidity and core is because they work together over a long interest rate cycle period, investing longer over long cycles achieves higher returns and that is going to tie to our benchmark. While it's going to lag as those rates come up fast on the front end, over time, the combination of the two portfolios achieves better returns for the pool participants.

Woodring stated we have a detailed compliance report and at the oversight level, what we're looking for is making sure everything is compliant. The report shows that the Treasurer's Office was in full compliance. Woodring invited questions, hearing none.

Proposed Benchmark Update (action item)

Woodring, explained that over the last several months they have been working on making sure that the portfolio is represented by the benchmark. Benchmarks are used to monitor both risk and return asking if the portfolio is doing what it should be doing and what is the structure. The County Pool investment policy allows for single investment maturity of 5 years. Through extensive analysis, the investment officer identified a mismatch in the core investment portfolio benchmark that only captures 0–3-year maturities despite utilizing the 3–5-year sector.

The new proposed benchmark includes an allocation to include the 3-5 sector. GPA and the County reviewed alternative custom benchmarks that includes the 3–5-year sector, while maintaining a weighted average maturity of the total portfolio maximum of 1.5 years. The investment officer will be able to leverage strategies in the 3–5-year sector to add value for pool participants. Such activity has always been allowed in statute and the County's investment policy but has only been added to the strategy within the last 2 years. The proposed benchmark for the core portfolio is a weighted custom benchmark comprising of 90% ICE BofA 0–3-Year US Treasury Index (G1QA) and 10 % ICE BofA 3-5 Year US Treasury Index (G202).

Topper reminded the committee members that when we had our policy discussion and we made amendments, we had an amendment added regarding the committee approving and reviewing this custom benchmark. This is an action item on the agenda today. If committee members have any questions on the custom proposed benchmark, now would be the time to ask. Kimsey commented that this looks to be a better benchmark than what we have ever had. He asked if the one-month Treasury Bill percentage should change as the county pool percentage changes in the state pool. He commented it will make it more complex, but also more accurate of a comparison. Woodring responded that when those balances jump up in November, the duration shortens, and everything shifts. She explained they used the average balance because it does a better job of picking up the spaces that Wilson is working within and helps drive decisions when she's adding in that 3–5-year sector; giving her guidance to not get too exposed.

Topper invited questions and hearing none she called for a motion for approval to incorporate the proposed custom benchmark into our investment strategy. Kimsey made a motion to approve. Bowerman seconded the motion, the motion was unanimously approved.

Investment Report

Rachel Wilson, Senior Management Analyst, began by reporting as of Jun. 30, 2022, the Pool ending balance was $1.17 billion, of which 14.3% was invested in the State Pool (LGIP). Over the quarter Clark County's balance changed slightly. The balance increased from 40.3% to 42.8% and school district balances decreased from 43.0% to 39.0% as bond proceeds were spent down. This is the first time since 2014 that we've seen even a slight decline in balances and that's because there has been no new bond issuance since February of last year. The school districts continue to spend down the bonds that are in the portfolio and the Clark County balance has gone up as a counter to that. Second quarter's average book return was 0.75%, the LGIP's average was 0.71%. We have been able to hold onto yield as much as possible. The 12-month rolling average total market return, which includes changes in market value, was -2.38%. Our effective duration was1.23 years, higher than the benchmark of 0.95 years. As of Jun. 30, 2022, the NAV is $0.975990.

Rachel explained that this is the worst first half bond market we have ever seen but it's great for yields, noting there's always a flip side. We are investing in yields over 3%. It's exciting, and hopefully we can keep these yields for a little longer because the longer we have them, the more money matures, and we get to reinvest at higher rates and the faster our yield will climb up. The committee reviewed quarterly activity, notably the purchases of $50 million in U.S. treasuries, $17 million in U.S. agencies, $14.3 million in municipal bonds and $52.9 million in corporate bonds. We also had $9.5 million in maturities. Topper invited questions, hearing none.

Debt Report

Amira Ajami, Financial Services Manager, shared at the end of second quarter, the outstanding debt for Clark County was just over $64 million and the debt for all other districts was about $1.3 billion. Our bond rating continues to be Aa1. The county has a low debt burden with remaining general obligation debt capacity at about $1.9 billion and remaining non-voted general obligation debt capacity at $1.2 billion, The county's internal line of credit is $5 million with no funds on the line of credit.

Current and upcoming debt issues include the refinance of the Clark 2012R bonds, which closed July 14, 2022. It achieved net present value savings of $857 thousand, with the Expo Center component of the debt extended another 15 years resulting in an additional $30 million in projected state sales tax credit revenues to spend on Public Facilities District related capital projects. Additional debt activity included Evergreen School District bond proceeds of $60 million in Q3 2022; semi-annual debt payment of approximately $32 million in June 2022; REET internal loan early payoff on May 12, 2022, of $5.6 million resulting in $75 thousand in interest savings. The timeline to change the internal line of credit to the Secured Overnight Financing Rate (SOFR) from LIBOR is extended to June 2023. Ajami explained that the remainder of the debt report is a table of all outstanding debt by district, detailed by issuance.

Ajami invited questions and Bowerman asked, when you have interest savings like you did this time on REET, where is that interest money deposited? Ajami responded that with this saving, it's between the REET I fund and the REET II fund. Since it's an internal loan, it means that with the additional money from REET I, there will be less money owed to the REET II fund. Sara Lowe further explained they're future savings that are not yet expended or budgeted; that's what we would have spent had we continued making those payments. Kimsey asked if the future savings are brought back into a net present value. Lowe responded this was correct and that's what those amounts represent, the $857 thousand on the refinancing of the 2012 as well as the savings for the internal loan. Kimsey asked what rate is used to calculate the net present value of that savings? Lowe responded we use the difference between the rates we were going to pay and the new rates we will pay. Our financial advisor supported us with those calculations and has the background details to share upon request. Kimsey did not wish to request details currently. Topper invited additional questions, hearing none.

Good of the Order & Adjournment
Topper asked for questions or comments for the good of the order, hearing none. Topper thanked everyone. With no other items of business, Topper adjourned the meeting at 10:10 am.

Prepared by: Nashida Cervantes
Nashida Cervantes

Submitted by:
Auditor Greg Kimsey