CLARK COUNTY FINANCE COMMITTEE
Third 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 Nov. 15, 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, Nashida Cervantes, Hannah Swift, Kim Crowell, Deanne Woodring and Garrett Cudahey. Joining as a guest was Cherie Sabug.

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. Stubborn inflation, strong labor markets and hawkish talk from Federal Reserve members pushed rates higher in the quarter. We now sit near 15-year highs in yields. The curve remains inverted and important to the Pool, there are ample signs of economic cooling. As a reminder, before COVID, we had a 3% unemployment rate and a trillion-dollar deficit spending to stimulate the economy. The Federal Reserve updated their rate expectations in September and now signal they intend to raise rates up above 4% and continue to believe the long-run neutral rate to be around 2.5%. This path has, and will continue, to rapidly evolve as economic data comes in.

The good news is elevated inflation appears set to decline in the months ahead as commodity and input prices show signs of abating and the month-over-month changes have been muted. Month-over-month changes are now much more important than the year-over-year changes because we don't necessarily care what the prices were a year ago. We care about where they are right now and where we think they are going to go. We have seen multiple months in a row, muted price pressure. It appears relief is on the way. Inflation breakeven rates derived from the TIPS market is showing a high-level of confidence that inflation will snap back to target in quick fashion with the entire curve, from 1-year to 30-year, below 2.20% at the close of the quarter. This would be a very welcome sign for all. Kimsey asked for an explanation of how the breakeven concept works and what it means. Cudahey responded, in the treasury market there are two securities to focus on. There's the nominal security the treasury issues as a fixed rate, non-callable coupon bond; for example, a 10-year security at the 4% interest rate. Secondly, you could buy a 10-year TIPS bond where you get inflation plus the coupon on the bond. Based on the difference between how the market prices the two, you can impute the mathematics of what inflation would be to make those two securities equivalents. Otherwise, an investor, if they thought it was overpriced or underpriced, would switch between the inflation security or the nominal coupon security. Basically $30 trillion of money everyday reprices these to calibrate what their bet is on inflation and that's what you see on the presented inflation chart. Kimsey asked about the TIPS market and inflation linked bonds ("I-bonds") that have been in the media recently. Cudahey responded and clarified it was not the I-bonds that you see in the retail side if you go to Treasury Direct as those are very limited in the amount you can purchase, it's the liquid traded bond market for the institutional world. There are also a lot of exchange traded funds and mutual funds that invest in inflation bonds. Cudahey continued that he is optimistic that the worst is behind us, and we should start to settle into a little normality moving forward.

The Federal Reserve is concerned that continued above trend wage gains, despite them being negative in real terms, will allow inflation to continue above their target. The Fed seeks to pressure the labor market back to a more tolerable level. Thus far, job gains and unemployment gains have been resilient to policy tightening. Cudahey invited questions. Kimsey commented this was an interesting and well-done presentation and thanked Cudahey. Bowerman asked how we're seeing some evening outs and stabilization while the housing market is not on good footing? Cudahey responded that the housing market not being on good footing is a good thing because if you look at inflation today, excluding shelter, which is about 40-42% of inflation, the CPI reading on a weighted basis, is negative. Moving mortgage rates from 3% to 7%, makes home ownership unaffordable at current house prices forcing prices to come down, which bleeds into rents and other imputed measures of shelter inflation. Translating through inflation on a lag basis in the data we see in markets. If you look forward 6, 12 and 18 months, the strength that we still see inflation today is entirely driven by housing. Hopefully it stays that way, because we know that it will correct itself just given the housing market that we see today. He asked if that answered her question and Bowerman confirmed yes. Kimsey asked for confirmation of his understanding that if you remove shelter cost from inflation, there's a negative inflation rate. Cudahey explained yes, focusing on a month-over-month basis. The focus is to make sure that prices stop increasing and in fact turn the other direction and that's what we've seen the last few months if we take shelter out.

Total Investment Overview

Deanne Woodring, from GPA, explained how 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 $119 million and the investments are up to $903 million. In securities, we currently have about 27.4% in U.S. Agencies, 27.6% in U.S Treasuries, 15.3% in Corporates, and 11.6% 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. Rachel Wilson, Senior Management Analyst, commented that we are under weight to our benchmark. It has to do with the weight of maturities in that one zero to one year bucket. It will readjust and it's being watched carefully because we want to be where our benchmark is, that's how we want to manage the portfolio. As those monies mature, we can reinvest in the buckets that don't match our benchmark. Woodring continued that the other key in this type of market and the reason we're confident going out the curve is because when this market reverses, we will be locked into those longer attractive yields over time for the next 2-3 years. Whereas if rates come down and you're short, you just decrease with them. So that's the benefit of the longer core portfolio over time; that we're capturing, locking and balancing against the short-term rate.

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.

Investment Report

Wilson began by stating that we are currently operating on the worst bond market in our modern and recorded history, but eventually this will equate to greater earnings for our participants. Overall, a positive interest rate environment is better for savings and earnings, and we want to stay invested as much as possible. Wilson reported that as of Sept. 30, 2022, the Pool ending balance was $1.06 billion, of which 11.2% was invested in the State Pool (LGIP). The school districts balances continue to decline as bond proceeds are spent down and we have had no new bond issuances since February 2021. The overall balance of the portfolio has come down for the first time in about 10 years. Meaning there is more pull on our liquidity than historically and we are accounting for that and when money is being pulled out and not coming in, it leaves less investment opportunity. This is projected to be seen in Q4 due to debt service payments and standard cash outflows for the month of December. On the other hand, 45% of the portfolio is maturing within the 12 months, heavier than normal and that will give our portfolio a chance to reinvest in the higher rates.

Third quarter's average book return was 1.23%, the LGIP's average was 2.15%. The 12-month rolling average total market return, which includes changes in market value, was -3.26%. Our effective duration was 1.19 years, the custom benchmark was 1.34 years. As of Sept. 30, 2022, the NAV is $0.962515 which is outside of the policy's targeted bandwidth of $0.985 to $1.015. Kimsey commented that he was surprised that the net asset value did not show up as a non-compliance on the previous report. Second, his understanding is previously when the net value asset was so low, Wilson took the action of not allowing new and additional investments in the County portfolio. Topper responded to his first question that thanks to this committee we made an amendment to the policy that didn't require us to sell if we were outside of the bandwidth. Meaning there is not a compliance element to the NAV that needs to be reported. She referred to Wilson to respond to the second question. Wilson answered that we stick to our investment strategy, nothing in policy says that when our NAV is a certain rate, we won't make investment purchases. We are now making strategic movements in the environment that we have and in the second quarter we sold some at a loss and reinvested at higher rates as that was the best steps at that time. In the third quarter we sold some of our floating rate assets and reinvested those in fixed rate assets to lock in some of the higher rates. Ultimately, we want some of the lower yielding things to naturally roll off and then be reinvested at the higher rates. It will take some time for the portfolio to readjust to this higher rate environment.

Kimsey stated that he understood in the past, when the NAV was below the target limits, potential new investors could not put money into the Pool at that point in time and they were required to wait until the net asset value came back closer to the 1. He asked if that practice is being continued. In a rising rate environment like this, new money into the Pool only helps participants because we can reinvest in the higher rates. It is in a falling rate environment that new money can hurt participants. After Kimsey asked if it happened when the NAV was over 1, Wilson responded that the only time that has been done in the last 11 years was a couple of years ago with Evergreen and it was due to the sheer volume that they were depositing. They were depositing $280 million all at once into the Pool and it was not that we didn't want them investing in the Pool, it was because their portion of the Pool would become over 50%. They would have become such a large member of the Pool and it would not have benefited the other members. Per policy it is within the Treasurer's discretion to hold the money outside of the Pool, but it is not a common practice. Kimsey remembered now that the situation he was referring to was when the NAV was above 1, he thanked Wilson for the clarification.

The committee reviewed quarterly activity, notably the purchases of $5 million in municipal bonds $16 million in corporate bonds. We also had $21 million in maturities. The portfolio's positioned well to readjust to the higher rates, especially in the next six months. Woodring asked to go back to the County Pool Summary page of the presentation to verify it sates policy's bandwidth or policy's targeted bandwidth. It states "...policy's targeted bandwidth...". Cudahey added that the team strives to make sure liquidity is sufficient. One issue with the dynamic of being below NAV is if you have redemptions that you can't meet with liquidity than you're forced to book losses. The focus is to stick with the strategy if comfortable that were not going to have to sell these things. We have been very conservative in that regard, and it has gone as planned. Topper invited additional questions, hearing none.

Debt Report

Amira Ajami, Financial Services Manager, shared at the end of third quarter, the outstanding debt for Clark County was just over $59 million and the debt for all other districts was about $1.3 billion. Our bond rating continues to be Aa1, a high rating. After a recent meeting with Moody's, it was discussed they are updating their credit rating methodology to include environmental, social and governance (ESG). This change will not change our rating, our score is neutral to low impact which means we have a low exposure to added risk factors. 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 $1.1 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 Nov. 8, 2022; Ridgefield School District refunding on Oct. 11, 2022; semi-annual debt payment of approximately $80 million in December 2022. 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, hearing none. Topper added were in a healthy positing regarding our debt capacity.

Tax Update

Sara Lowe, Chief Deputy Treasurer, shared that concerning the second-half tax season, we are over 96% collected and that is slightly ahead of where we were this time last year.

We continue to process payments as they come in and although some will be considered delinquent now, we are inching towards 99% collected and that aligns with where we normally are at the end of the year. In total we took 3200 payments in-person. We also used the bulk processing equipment that speeds the processing time and increases our accuracy. 1100 of the payments collected were from the dropbox on the 1st floor of the building. In the final week before taxes were due, 252 payments were taken in-person and we took 757 phone calls. Per the required statue, delinquent postcards will be mailed on Dec. 6, 2022, going out to those with a past due payment for 2022 and prior years.

Due to a 2021 legislative change, there is no penalty assessed in this current year for delinquent taxes, only interest. This was a phased implementation of that legislation. Next year there will be the reintroduction of penalty at a different rate for property types. Lowe asked Topper to explain further. Topper explained parcels single family homes or fewer than 4 units will not be assessed penalties and will have a .75% interest per month. Penalty and interest revenues that are typically collected are declining, those monies go to the General Fund.

Kimsey asked if out of the 3,200, were they in person payments at the county building? How has that changed from past years? Lowe responded, to give a complete answer she would have to research. Many payments were processed on-site but not necessarily in person at the register. Hundreds of payments were put in the dropbox or taken at the Kiosk. In general, there's been a decline in the number of in-person payments because we did not have in-person services for part of the year. It is starting to level out and there are individuals that prefer to get their receipts or use their credit/debit cards. Overall, this tax season has been successful. We brought back the customer service survey and will share the results of that. In the past the feedback has been positive with comments like very low wait times.

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 10:16 am.

Prepared by: *Nashida Cervantes*
Nashida Cervantes

Submitted by: *Greg Kimsey*
Auditor Greg Kimsey