



CLARK COUNTY FINANCE COMMITTEE

Fourth 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 Feb. 7, 2023, 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, Garrett Cudahey and Rashad Masri. Joining as a guest was Cherie Sabug.

Topper began by inviting introductions and stating that Bowerman has a council meeting and will need to leave the meeting before 10:00 am. As an order of business, Topper proposed the 2023 Finance Committee dates and with no objections or special calendar requests, the meeting dates were agreed on and she announced email invitations would be sent out.

Topper called for approval of minutes from Q3 Finance Committee meeting. Bowerman made a motion to approve the minutes as presented. Kimsey seconded the motion, the motion carried with unanimous approval.

Market Update

Garrett Cudahey, from GPA, began by discussing the implied Federal Reserve Funds target rate chart. It was reported that it is comparable as last quarter and front-end interest rates continue to climb as the Fed seeks to overtighten to reduce demand and stabilize labor markets. The interest rate curve entered 2023 deeply inverted with the front-end responding to rate hikes while the long end, ended lower on the view that inflation is set to cool in the year ahead, leading to a less hawkish central bank. The main take away is longer term yields remain more muted and inflation expectations have come back in check. That's leading the markets longer term yields to stay in the range of about 3.75%, which is more consistent with where we expect to operate once we get through this more difficult period that we're going through with combating inflation. This is a historically inverted yield curve and may take a year or two to get back to where we expect it to be.

Last quarter, inflation rose higher than expected. The good news is monthly price movements have slowed dramatically since the summer leading to a decline in headline inflation. Food and energy prices and some of those items that can move fast will be the dictator of how quick we get back to 6.5% which is where we expect to go. This path has,



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and will continue, to rapidly evolve as economic data comes in. Shelter is the leading driver of headline inflation. The housing element of inflation remains firm due to the lagged nature of the series, however real-time rent and housing measures have firmly turned lower which will help keep inflation readings more muted in the months to come. In the next few quarters, housing in this data series will start to come down, which will be quite powerful for moving inflation. Inflation has been going down despite the largest category still actually going up at near record levels at a monthly basis. At the same time, goods prices have been deflating and those are not going to deflate forever. There will be a handoff in the summer months where housing starts will go down and we start to see firming in the goods categories that have been in outright deflation. For example, used cars will start to firm up as well. If that all happens, we should start to stabilize in the back half of the year, which will normalize markets and the interest rate curve.

Cudahey explained that the St. Louis Federal Reserve pointed out that market expectations around inflation are back to normal, surging in 2022. Now that the Fed has reengaged the economy, market-based forecasts for inflation point toward a stabilized backdrop ahead. This will allow the Federal Reserve to ease off tight policy and should calm markets that have experienced very elevated levels of volatility. Economic data points toward a slowing of activity with services and manufacturing gauges both at contractionary levels. Such levels are consistent with slowing normal growth with is helpful in cooling price pressures that are already on the decline. This leads us to believe we may not have a recession. Job growth remains positive and on a downward trend while labor force participation is slowly recovering – both are welcome news for policy makers who want to ensure a wage price spiral does not emerge because of price pressures and strong labor demand.

Cudahey expressed optimism that the worst is behind us, and we should start to settle into a little normality moving forward. Cudahey invited questions, and Bowerman asked about slide number seven on the presentation, regarding apartments as the lowest line. Bowerman asked for clarification. Cudahey answered that there's been a record amount of supply in the pipeline for multifamily apartment builds. It turns out 3% mortgage rates caused a lot of building to happen and therefore, rents were going up. Much of it is supply demand rebalancing as the new apartment buildings come online. With inflation, it seems many people had to move into shared housing options. We have seen the apartment market go from scorching hot to cooler than normal. That is why you see the apartment rental growth the lowest as it is the fastest to adjust. With no further discussion moved to total investment overview.

Total Investment Overview



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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. The main thing that controlled the portfolio was liquidity needs and it's the constraints and the guardrails that are put on the portfolio that really help and force the decisions to be made.

Over the last quarter, cash continued to be needed, which was expected. That has prevented the opportunity to reinvest coming into this last quarter and its light coming into this next quarter. Once the cash flow comes back in April and May, we will reinvest at higher rates. Woodring continued stating the structure of the portfolio remains stable along the lines of the targets that have been established. Treasuries remain slightly higher at 22%. That's because we're still working through the spread relationships that are now back. Agencies, corporates and supranationals are wider and attractive. We'll start to see that Treasury band come down more and more. The book yield of the portfolio is 1.70%, market yields are 4.54% and the duration of the portfolio is 1.16 years. This means everything is in alignment. The portfolio is being managed to the core component. Currently, there is about \$903 million in market value and the book yield on those securities is at 1.36% and the duration is at 1.31. This was monitored carefully to make sure the balances remained at the 10% limit level.

Woodring stated we have a detailed compliance report and at the oversight level, ensuring everything is compliant. The report shows that the Treasurer's Office was in full compliance. Woodring ended saying as maturities come due and more cash comes into the market, it should be able to help turn around the higher rates and come back up for everybody. Woodring invited questions, hearing none.

Investment Report

Wilson began by stating that we are currently operating in an historic bond market where interest rates are going up, everything in the portfolio is at a loss, but at the same time the overall pool balance is declining because we have not had those same level of bond issuances from schools. We've got a couple of things going on, making liquidity something important to watch. She explained that the instinct is to stay invested at the higher rates but when the maturities are rolling off and the cash is needed for liquidity, we don't reinvest it. As the lower rates roll off, the overall balance of the portfolio shrinks.

Wilson reported that as of Dec. 31, 2022, the Pool ending balance was \$1.04 billion, of which 11.6% was invested in the State Pool (LGIP). The school districts balances continue to decline as bond proceeds are spent down. Evergreen School District had a \$60 million bond issuance in Q4, the last issuance since February 2021. There has been a long stretch



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of having no bond proceeds and this has a strong influence on the cash outflow. The overall balance of the portfolio has declined from previous years, this year we are starting with about \$100 million of total bond proceeds in the Pool. Lowe asked if this is historically reflective of how it's been in Clark County? Rachel responded, yes, bond proceeds in the last five years was out of the norm. Currently we are working in an historical/normal environment. Wilson acknowledged Bowerman left the meeting at 10:00 am.

Wilson continued reporting that the fourth quarter's average book return was 1.65%, the LGIP's average was 3.65%. The 12-month rolling average total market return, which includes changes in market value, was -2.06%. Our effective duration was 1.15 years, the custom benchmark was 1.34 years. As of Dec. 31, 2022, the NAV is \$0.967686 which is outside of the policy's targeted bandwidth of \$0.985 to \$1.015. The committee reviewed quarterly activity, notably the purchases of \$7 million in municipal bonds \$20 million in corporate bonds. We also had \$70 million in maturities. The portfolio's positioned well to re-adjust to the higher rates, especially in the next six months. Topper invited questions and Kimsey commented, there's almost 12% of the funds in corporates. He asked, if that is a high point for the pool? Wilson responded, no. We look at corporates and commercial paper together as the credit portfolio and that can go up to 25%. Depending on what spreads are doing, it's best to be around 20%. It also depends on if there's spread. If there isn't spread, then it's best not to take the additional risk. Second, he asked to be reminded of what the corporate credit requirements are. Wilson answered that it's single A across the board, but we often don't place there. We have some single A's but most of it is Aa and we lean heavily on GPA for that credit analysis. It's complex when you're buying corporates and GPA reviews the names. It has been our partnership with GPA that has allowed us to enter the corporate market. Topper added that if there is a downgrade, we're immediately notified, and we can decide whether we want to maintain that security or sell it. They are a very active partner.

2023 Investment Fee

Amira Ajami, Financial Services Manager, 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. The actuals came in for 2020, and we were able to under collect. We're about \$100 thousand and over collections from starting in 2018. We still need to under collect about \$23 thousand which we set for the forecast for 2023. It's also based on what we project the average monthly balance to be, and this will be the first year where we're seeing the pool decline. We're estimating the



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balance to be about \$1 billion, and the total fees assessed will be about \$389 thousand, that rate is 3.89 basis points. The total cost to manage the pool last year was about \$393 thousand and this year it will increase slightly to \$412 thousand.

Some contributing factors to the change in cost is that we saw an increase in salary and benefits, with Wilson being out on leave, there will be a decline in her salary, there was an increase in supplies and trainings, contracting services have increased and we will be using GPA while Wilson is out for business continuity services. Ajami invited questions. Lowe commented, the service we provide to our participants for the costs they incur, is a good value. I know that at one time we did do an RFP where they provided information on what it would cost to do all the investments associated with the pool and it was incredibly higher. Without stating the exact amount, it was exponentially more money. We provide a good value for the participants for the cost. Topper added that she wants to highlight how close they were to meeting their projection last year.

Debt Report

Ajami shared at the end of 2022; the total debt portfolio was \$1.39 billion. The outstanding debt for Clark County was almost \$59 million and the remaining debt was for all other districts we are treasurer for. Our bond rating continues to be Aa1, a high rating. 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 issuances include the 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. In addition, a table was added for transparency purposes to show the external county loans. Ajami explained this is not an internal loan but loaned funds to the Vancouver Housing Authority in 2003, with the balance set to be paid off in 2043 but will be reaching out about any possible early payoff options. Ajami invited questions, hearing none.

Good of the Order & Adjournment

Topper commented that first-half statements will be going out late. There may be a delay, if it is abnormally late, she will send out a letter to the districts. 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 10:03 am.



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Prepared by: Nashida Cervantes
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Auditor Greg Kimsey