CLARK COUNTY FINANCE COMMITTEE
Second Quarter 2024

Alishia Topper, Chair
Greg Kimsey, Secretary
Gary Medvigy, Council Chair

MINUTES

Call to Order & Introductions

The Finance Committee meeting was called to order at 9:30 am on Aug. 20, 2024 at the Public Service Center, room 243, The public meeting was offered both in-person and virtually via Microsoft Teams. Finance Committee members present included: Gary Medvigy, Clark County Council Chair; Greg Kimsey, Clark County Auditor; and Alishia Topper, Clark County Treasurer. Also present were Treasurer's Office team members Sara Lowe, Amira Ajami, Shania Macfarlane, Rachel Wilson, Hannah Swift, Kim Crowell and Government Portfolio Advisors representatives Deanne Woodring and Ryan Haidar. Also in attendance was the Clark County Manager, Kathleen Otto. The meeting began with introductions, followed by the unanimous approval of the Q1 minutes, after a motion to approve by Medvigy, seconded by Kimsey.

Market Update

Woodring, provided an update on the market, highlighting continued and heightened volatility since June 30. She began by noting that the two-year Treasury note, while relatively stable year-over-year (4.90% in 2023 to 4.75% in 2024), experienced significant fluctuations throughout the year, reaching as high as 5.25% and as low as 4.25%. Currently, the note sits at 4%, reflecting ongoing volatility. This volatility has created opportunities to reset the portfolio's yields, leading to substantial increases over the past year, which aligns with the goal of keeping the portfolio agile and able to adjust to changing market conditions.

Woodring then discussed the inverted yield curve, where short-term rates remain higher than long-term rates due to the Federal Reserve maintaining elevated short-term rates, while the broader market expects them to decrease. This inversion, the longest on record, is a result of the Fed's efforts to manage inflation by keeping rates high. Looking ahead, there is a strong expectation that rates will drop by September 2024, with the key question being whether the cut will be by 25 or 50 basis points, pending incoming data.

Turning to economic growth, Woodring pointed out that GDP has been on a downward trend over the past year, signaling slowing growth. Similarly, inflation has eased, with various inflation components showing consistent declines. She emphasized a key chart that overlays inflation, the two-year Treasury note, and the Fed funds rate, illustrating how inflation tends to lead market adjustments, with the Fed following. However, she noted that the longer the Fed delays lowering rates, the more volatility is likely, as seen in recent dramatic rate movements, including those in early August.

Despite these economic challenges, Woodring noted that retail sales have remained surprisingly strong, particularly in online shopping, which has somewhat complicated predictions of rate cuts. She speculated that continued consumer spending, possibly fueled by high credit card borrowing, could be a factor to watch closely.

Woodring then outlined the tools used to manage the portfolio, focusing on duration strategy and asset allocation. The portfolio is slightly overweighted in treasuries but also includes corporates and municipals, providing diversification and spread opportunities. She emphasized the use of a "bullet bar" yield curve strategy, which allows the portfolio to take advantage of both short and long-term rates by focusing on the two-year area, helping to position the portfolio for future rate adjustments.

Overall, the portfolio has seen significant improvements, with the yield on the county pool rising to 4%—a substantial increase over the past year. This improvement was achieved through careful management of maturities and strategic reinvestments. The portfolio is currently valued at approximately $900 million, with a diversified asset allocation of 15.7% in treasuries, 40% in agencies, 12% in corporates, and 6.4% in other securities. Woodring stated that the portfolio remains well-positioned to benefit from further rate declines, with its current structure expected to perform well in a downtrend market.

Woodring concluded by presenting the compliance report, confirming that the portfolio's weighted average maturity stands at 1.496 years, ensuring that it is positioned to take advantage of future market changes. She also highlighted the portfolio's balance between liquidity and core investments, noting that while tax inflows in October and April lead to fluctuations, the overall structure remains strong.
The report ended with a brief question and answer session, with no further inquiries from the committee members.

<u>Investment Report</u>
Wilson expanded on Woodring's comments, noting that their teams work closely together to discuss market trends and investment strategies. She shared that as of quarter-end, asset allocation has leaned more toward U.S. Treasuries due to tight spreads in other investment products. Corporate bond allocation has decreased through maturities, allowing the opportunity to reinvest in those sectors if spreads widen. However, at present, the market is not offering much spread, prompting a focus on treasuries and federal agencies.

Wilson also noted that participant balances in the pool have remained relatively stable over the past year, particularly in school districts, which have seen historically low balances without much fluctuation from bond proceeds. Stability in the pool's balances is expected to continue, with only slight declines anticipated in the next couple of years.

Discussing interest rates, Wilson echoed Woodring's points about the Federal Reserve holding the Fed funds rate at elevated levels since July 2023, creating a restrictive environment. While the market is forward-looking, often anticipating rate cuts, it has inaccurately predicted such cuts for over two years. The curve remains inverted, reflecting market expectations of future rate declines, but the exact timing remains uncertain.

Wilson explained that as yields have decreased, the value of the portfolio has steadily risen, and reinvestments at higher rates have further increased the portfolio's market value. As of June 30, the portfolio's duration was 1.31 years, just below the maximum allowed maturity of 1.5 years, positioning it well for the anticipated rate environment. The strategy to extend the portfolio's duration before the July rate drop proved effective, locking in favorable rates. The portfolio is expected to maintain a yield around 4% for some time, even as short-term rates face significant volatility.

Wilson also reviewed the busy activity in the second quarter, with $115 million in sales and maturities, and $217 million in new purchases, mainly in treasuries and agencies. $15 million was also placed in a money market account. This period of market volatility has allowed the portfolio to be optimally positioned before rates declined and remain prepared for continued fluctuations.

In response to questions from Medvigy, Wilson clarified that the portfolio balance has remained largely stable over the past year, with only minimal changes. She explained that bond proceeds, such as those from school districts, have the largest impact on balances, but there has been limited activity in this area recently. While smaller bond proceeds don't significantly affect the overall pool balance, larger issues like the $600 million Evergreen bond can move the needle considerably. However, the overall stability of the pool has minimized any dramatic changes in the fund size.

Medvigy raised concerns about fund balance policies across the county, particularly the need for consistent, approved policies to guide fund management. He questioned whether individual fund balances were adequately managed, noting instances where departments sought increased funding despite having significant reserves. Wilson and Topper explained that while they focus on overall pool liquidity and investment policies, individual government entities, such as school districts, are responsible for their own reserve policies. The Treasurer's Office manages cash forecasting, ensuring liquidity for operational needs and investment opportunities but does not track reserve policies for other entities.

Topper further noted that cash flows, such as property taxes, contribute to high fund balances, but much of this is earmarked for specific expenditures. Otto added that while capital expenses for certain projects, like those involving the Sheriff's Office, could be supported through bond processes, the greater challenge lies in securing ongoing funding for maintenance and operations, which remains unresolved. The finance team remains open to suggestions for addressing these ongoing funding needs. The meeting concluded with a discussion about how fund balances and policies influence long-term financial planning and bond ratings, with further comments from Lowe regarding the county's efforts to establish clear fund balance policies for major funds, ensuring financial stability and aligning with best practices.

Debt Report

Ajami presented the Q2 debt report, stating the total debt managed was over $1.3 billion, with Clark County's portion at $46.8 million. She noted the county's Aa1 bond rating from 2018 and discussed available debt capacity, which includes $2.5 billion for voted GO debt and $1.5 billion for non-voted GO debt. The internal line of credit had a $5 million balance, with no funds drawn in 2024. Ajami highlighted key issues, including a $30 million biannual debt payment and ongoing work with the Vancouver School District to issue registered warrants until they receive state funding.

Topper discussed financial challenges faced by schools across the state, where many are entering "binding conditions" requiring state intervention due to cash flow issues. Loans from the county to schools, though recorded as cash on state reports, may obscure financial strain.

Lowe mentioned that if the Council approves the capital project debt issuance, a new credit rating assessment will occur in September, with Moody's reviewing the county's financials and broader planning efforts.

Ajami closed by reviewing debt payments, noting $30 million in payments during Q2 and a forecasted reduction in debt payments after 2026. Both Topper and Lowe praised the increased detail in the debt report, which has helped provide transparency to the Council on the county's financial situation.

Good of the Order & Adjournment

Topper opened the floor for final updates or questions. Kimsey had none, and Topper expressed gratitude to the team, Kimsey, and Medvigy for their contributions toward

getting the investment policy certified, noting it's a distinction held by only 11 entities in the state.
Wilson added that the Washington Public Treasurers Association (WPTA) certified the most recent investment policy, with only minor recommendations for improvement. She praised the team for maintaining a strong and impressive policy.

Lowe mentioned that property tax season is approaching, with bills going out in mid-September. She highlighted that this year they will administer their first tax increment financing (TIF), with two more expected next year.

Topper concluded by thanking the team and adjourning the meeting at 10:17 am.

Prepared by: Shania Macfarlane
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Submitted by:
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