CLARK COUNTY
FINANCE COMMITTEE
First 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 May 21, 2024 at the Public Service Center in room 243, both in-person and via 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 Sara Lowe, Amira Ajami, Shania Macfarlane, Rachel Wilson, Hannah Swift, and Deanne Woodring.

The meeting began with introductions, followed by the approval of the Q4 minutes. A motion to approve was made by Medvigy and seconded by Kimsey and was unanimously approved.

Topper initiated the annual review of the Clark County investment policy, explaining that the memo detailing amendments were posted online for public access. After the discussion, she sought approval for the policy amendments in a single motion. Wilson highlighted the primary changes involved reorganizing the document for improved coherence and readability, aligning it with best practices. General edits included terminology updates and the addition of prohibited investments and glossary items. The only investment-related changes were specifying prohibited investments and correcting a typo in the diversification chart.

Kimsey and Medvigy praised the thoroughness of the work. Subsequently, a motion to approve the policy amendments was made, seconded, and unanimously approved.

Market Update

Deanne Woodring presented the challenges posed by the current yield curve inversion, where short-term interest rates are higher than long-term rates. Specific figures included the LGIP pool yielding 5.40%, overnight money at 5.25%, the two-year note at 4.80%, and the five-year note at 4.34%. This inversion signals expected future interest rate cuts, complicating investment decisions. Analyst projections suggest the Fed Funds rate could drop to around 2.98% over the next two years, potentially making short-term investments less attractive.

Woodring emphasized the difficulty of maintaining a disciplined investment strategy amid market volatility and the Federal Reserve's shifting stance on rate cuts. The market has been pricing in expected rate cuts for the past 18 months, adding to the challenge.

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Economic data and inflation trends were also discussed, with a chart showing the correlation between the Fed funds rate, CPI, and two-year note rates. Despite inflation peaking at over 9% in 2022, it is now trending downwards, with the Fed aiming for a 2% target rate.

The portfolio's structure and performance were also covered. As of March 31, the total portfolio consisted of 38% in agencies, 17% in the state pool, 7% in treasuries, and 19% in corporate bonds. The book yield on the total pool is 3.71%, up from the previous year, with a goal of surpassing 4% before the market shifts. The portfolio's duration and years to maturity align with policy constraints, maintaining a balanced investment approach. Compliance reports show adherence to policy limits on asset allocation, maturity constraints, and credit ratings, with recent adjustments including a reduction in corporate bonds and an increase in municipals and supernationals.

In the Q&A session, Medvigy asked about the impact of potential Fed rate cuts on interest rates, to which Woodring explained that the market usually reacts swiftly, often pricing in expected changes ahead of time. Kimsey inquired about the calculation and comparison of average credit ratings and yields of the portfolio and benchmarks. Woodring clarified that the $12.2 million underwater reflects the difference between the portfolio's book yield and the higher market yield of the benchmark due to current interest rates. In conclusion, Woodring stressed the importance of holding the course and maintaining strategic discipline amid a volatile and uncertain economic environment.

Investment Report
Wilson provided an update on asset allocation, noting a significant compression in spreads from treasuries to other products. The allocation to treasuries was 7.9% at the end of the quarter, with plans to buy more treasuries due to current market conditions. Clark County's balance in the pool is unusually high at nearly 50%, with a notable decrease in bond proceeds from school districts compared to previous years.

Topper commented on the positive outcomes of bond proceeds, including new buildings for school districts. Wilson shared her personal observation of impressive new school buildings in Ridgefield, highlighting a 30-year building.

Wilson reported that the first quarter's average return was 3.1%, compared to the state's 4.2%. The yield curve was inverted, marking a historic period. The portfolio's book yield nearly doubled over 12 months from 1.94 to now closer to 4, and it is expected to continue increasing as lower-yielding securities roll off.

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Kimsey asked about the benchmarks used for comparison. Wilson clarified that the custom benchmark included the State Pool and other spread products, providing a more comprehensive comparison. She noted the importance of preparing the portfolio for April tax cash flows, aiming to maximize investment within the policy's weighted average maturity limit of 1.5 years.

Wilson explained that the Net Asset Value (NAV) was stable, indicating a balance between unrealized gains and losses. The NAV's proximity to a dollar signified that the portfolio's book yield was approaching the market yield. Topper and others agreed that the 1.5-year target for weighted average maturity was appropriate, allowing flexibility while maintaining the pool's strategy.

Wilson concluded by reviewing quarterly activity, noting the maturity and placement of funds. She anticipated a shift towards treasuries, given their attractive yields, and mentioned that the recent property tax season had increased cash, creating investment pressure for the next quarter.

Debt Report
Ajami began by presenting the quarterly debt report, noting that the debt portfolio stood at over $1.3 billion, with $48 million attributed to Clark County debt and $1.29 billion to district debt. Clark County's bond rating remains at Aa1 with a low debt burden. Total general obligation debt capacity is 2.5% of assessed value, leaving about $2.5 billion in remaining legal debt capacity, while the non-voted general obligation debt is 1.5%, with about $1.5 billion remaining. Medvigy inquired about whether the value of the railroad is included in the bond rating. Lowe indicated that this would need to be verified with the Assessor's Office.

Ajami addressed the use of the 2023 total assessed value for the report, explaining that the taxes collected in 2024 are based on 2023 values. She highlighted the internal line of credit, noting that there were no funds drawn on it this year, with the available balance remaining at $5 million. She mentioned that Evergreen School District's $35 million bond proceeds were invested into the pool, and they are working on a June 1 debt payment of approximately $30 million. Ajami also noted ongoing involvement in the Clark County Law and Justice Capital project and the anticipated full repayment of the Vancouver Housing Authority loan this year.

Kimsey raised a question about the internal line of credit status, suggesting it should be labeled as the amount available rather than showing an outstanding debt of $5 million. Ajami agreed to update the titles for clarity. She then reviewed the outstanding debt by district, noting a net increase of about $28.5 million, mainly due to the Evergreen School

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District bond proceeds. She outlined the total outgoing debt payments for the quarter, amounting to about $3.4 million, with $3.2 million applied to principal and $188,000 to interest.

Ajami concluded with graphical representations of county debt payments, highlighting a significant decrease in debt payments after 2026. She also mentioned that the appendix provides detailed issuance information for all outstanding debt by district. Topper and Medvigy confirmed that this information is publicly available on the county's website under the investments tab, ensuring transparency for interested parties.

Good of the Order & Adjournment

Lowe gave an update on first half tax season. Lowe reported that over 54% of the $935 million billed had been collected, which is typical for the first half tax season. Delinquent postcards will be sent out in early June. The Treasurer's Office handled 4,200 live phone calls during this busy period and achieved a 96.7% satisfaction rate for response time and similar high ratings for friendliness, ease of doing business, and overall satisfaction. They have increased customer feedback by updating comment cards and linking surveys on receipts.

Kimsey inquired about a potential reduction in the number of people physically visiting the Joint Lobby to pay taxes. Lowe noted a significant drop in mail-in payments over the past several years and an increase in electronic payments and payments through escrow companies. She did not have specific statistics on in-person payments for this year but promised to provide them later.

Kimsey also asked about the possibility of using artificial intelligence (AI) to handle some of the 4,200 calls, given the trend towards AI in various fields. Lowe mentioned that while they are exploring AI possibilities and attended some topical trainings, no AI solutions have been adopted yet. The implementation of AI would require integration with financial and tax systems and would involve financial considerations. Topper added that while AI could be useful, many taxpayers, especially seniors, prefer speaking to a live person, and the office aims to maintain that personal touch.

Medvigy expressed his preference for speaking to a live person over AI bots, citing frustrations with automated systems. Topper assured him that the office would continue providing live support.

With no further items for discussion, Topper thanked everyone for their time and participation, noted that there would be more discussions on investment policy updates, and adjourned the meeting at 10:25 AM.

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