CLARK COUNTY FINANCE COMMITTEE
First Quarter 2023

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

MINUTES

Call to Order & Introductions

The meeting was called to order on May 5, 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, and Garrett Cudahey. Joining as a guest was Councilmember Yung.

Topper began by inviting introductions and called for approval of minutes from the Q4 Finance Committee meeting. Bowerman made a motion to approve the minutes as presented. Kimsey seconded the motion, the motion carried with unanimous approval.

Investment Policy Update

Rachel Wilson, Treasurer's Office Investment Officer, presented the proposed amendments to the Investment Policy based on prior year legislative changes, updates to best practices and grammatical revisions. A memo outlining the changes was provided in advance of the meeting. Topper asked if there were any questions, hearing none Kimsey made a motion to approve the policy as presented. Bowerman seconded the motion, the motion carried with unanimous approval.

Market Update

Garrett Cudahey, from GPA, began by discussing the interest rate curve. The 2-year yield is below the feds funds rate. This is due to interest rates rallying sharply at the end of the first quarter driven by concerns emerging in the banking sector and more evidence the economy is slowing, and price pressures are easing. Re-steepening out of inversion is a typical occurrence before the end of a hiking cycle and the onset of an economic downturn.

Cudahey shared a chart showing the various measures of the interest rate curve. It is very common for the interest rate curve to re-steepen ahead of a recession. He highlighted that consumer and corporate balance sheets are stable and still solid, and the labor market is performing well.

He added that the saying, "the Fed typically hikes until they break something" is fitting once again as rate hikes and deposit outflows led to several bank failures including the second and third largest failures in U.S. history. While the causes appear unique and isolated, vigilance is needed to ensure contagion is avoided. In addition, we have seen the 2nd, 3rd and 4th largest bank failures in American history in the past two months and the borrowing at the Fed Discount Note window surpassed 2008 / 09 levels, leaving quite a bit of acute stress. These failures are isolated to the small and mid-sized banks and the large banks are coming out ahead - for example JP Morgan buying First Republic out of the FDIC. This stability makes these bank failures much different than the 2008/ 09.

What led to the bank failures was a combination of large and rapid deposit outflows combined with significant losses on securities held to satisfy those deposits. The true root of the issue was that banks were unable or unwilling to pay depositors the same rate that could be earned in money market funds or securities –hence the money left.

Softer economic data and jitters in the banking sector quickly altered the market's view on the Fed's course of action. One month ago, the market was pricing in two more 2023 rate hikes, now it is pricing in 3 rate cuts. Fed officials continue to talk up more rate hikes and a desire to leave rates high for the rest of the year –this divergence will need to be reconciled in coming months.

Cudahey provided an update on inflation which he states continues to moderate, albeit at a slower pace than most had hoped. Survey measures indicate more downward pressure is in the pipeline and the slowdown in housing is set to hit headline numbers in the coming months. While it is too early to declare victory, it appears the worst is behind us. Last month was only .1%, which of course is an annualized rate of about 1.25%. This pulled the headline CPI down to 4.9% . Visually this is coming down very symmetrically, while the labor market is still positive and growth is lower than trend. The Fed is taking out inflation without crushing the economy thus far, and it's not just symmetrical, it's also sequential.

Cudahey shared what started in the inflation pipeline was all the goods and commodities, shipping and logistics costs with supply chain scenarios, cars, semiconductors. Those have all come out and now the last bastion is housing and non-housing services. But we are seeing progress there now, which is good news and Cudahey believes the worst is well behind us.

Total Investment Overview
Cudahey reported April property tax revenue helped the county end the quarter with $176 million in cash, which was still below our average. Investments are at $805 million and the gap between book yield and market yield will improve rapidly as we turn the back half of the year since we will have low yielding securities rolling off. Unrealized losses have improved and bonds have started to roll down the curve. The portfolio was at 100%

compliance for the quarter. Cudahey paused for questions, hearing none he concluded his report.

Investment Report
Wilson began by thanking GPA for their management of the pool while she was out on maternity status. She reported the March 31 pool balance was $1.01 billion, of which 17.5% was invested in the state pool. While diversified, no purchases were made in the first quarter.

In reviewing the county pool allocation, Wilson noted school districts' balances continue to decline as bond proceeds are spent down. Clark County now has the largest share of pool investments. A much different allocation than a year ago. The first quarter's average book return was 1.79%, the State Pool's average was 4.59%. It was higher because it fallows the Fed funds rate and is a very short-term liquid pool where the county pool has a much longer duration.

Wilson shared that the two-year yield has leveled off despite a short increase in February due to the banking crisis, but came back down 100 basis points. There are hopes that the county pool will see our NAV increase with our book value to match the market value. The 12-month rolling average of total market return (which includes change in market value) was 1.04% and the duration as of March 31 was 1.01 years. The pool ended the quarter with a NAV of $0.974896.

Overall, it was a quiet quarter with only two maturities: $50 million in U.S. Treasury Bonds and $40 million in U.S. Agency Bonds. Wilson invited questions, hearing none she concluded her report.

Debt Report
Amira Ajami, Financial Services Manager shared that Q1 total debt portfolio was $1.39 billion. The outstanding debt for Clark County was $55.6 million and the remaining debt was for all other districts. The county continues to maintain a bond rating of Aa1, a high rating. The county's debt capacity is a calculation based on countywide assessed value and the general obligation debt is 2.5% of assessed value and non-voted is 1.5%. Notable was the significant increase in assessed value of $16 billion over the prior year. This affects the county's remaining debt capacity, increasing it to $2.4 billion for general obligation and $1.4 billion for non-voted general obligation debt. The county's internal line of credit is $5 million with no funds on the line of credit.

In June, the Treasurer's Office will present to council requesting to change the line of credit interest rate calculation from a base of LIBOR to (SOFR). Ajami explained that the remainder of the debt report is a table of all outstanding debt by district, detailed by issuance.

Chair Bowerman asked Amira to explain the implications of the countywide 2022 assessed value for flexibility in the county. Ajami explained that the county could take out more debt because we have greater debt capacity and the county currently has very low outstanding debt at $55 million. Kimsey asked if the $2.45 billion in debt capacity was a constitutionally determined limit. Ajami replied that it is either in statute or constitution, but is limited.

Chair Bowerman asked how the Treasurer's team feels about the use of debt capacity to pay for capital projects over time like the jail replacement or upgrade. Lowe responded it would be prudent and fiscally wise to at least examine the use of debt to complete a project like the jail since it is a long-term capital asset. The key is having the revenues to back any debt that is taken out for projects. The County team committed to bringing more information about the county's debt capacity to the next meeting.

Ajami added that June is the largest month for debt payment outflows for the county and the Treasurer's Office is preparing those payments. Ajami asked if there were any additional questions, hearing none she concluded her report.

Good of the Order & Adjournment

Lowe provided an update on the first half property tax season with collections at 49.4% collected as of May 2. She reported the team handled 732 phone calls and had a customer satisfaction rating of 98% by customers who visited the joint lobby. Lowe also reminded finance committee members that this is the first year where residential penalties were eliminated for real property with four or fewer units. This will result in a decrease in general fund revenue. Interest rates have been decreased from 1% per month on delinquent taxes to .75%. Kimsey mentioned he heard from a taxpayer that wanted an autopay option for their tax payment. The comment was noted. Topper asked for questions or comments for the good of the order, hearing no other items. Topper thanked everyone and adjourned the meeting at 10:09 am.

Prepared by: Sara Lowe
Sara Lowe

Submitted by: Greg Kimsey
Auditor Greg Kimsey