

**CLARK COUNTY**  
**FINANCE COMMITTEE**

**SECOND QUARTER 2007**



**August 6, 2007**

**CLARK COUNTY**  
**FINANCE COMMITTEE**

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## **SECTION I – May 17, 2007 MINUTES**

**MEETING MINUTES**  
**SPECIAL CLARK COUNTY FINANCE COMMITTEE MEETING**  
**May 17, 2007, 1:30 p.m.**  
**PSC Conference Room 678A**

**Members in Attendance:** Doug Lasher, Chair  
Greg Kimsey, Secretary  
Steve Stuart, Chair, Clark County Commissioner

**Others in Attendance:** Jack Rasmusson, Cathy Huber Nickerson,  
Michelle (Murphy) Gable, Treasurer's Office  
Bronson Potter, Prosecuting Attorney's office

**Recording:** Kay Dixon

The meeting was called to order by Doug Lasher, Chair, at 1:50 p.m. with a quorum present. This special meeting was called to continue discussion of County's investment policy and practices regarding fair market value and approve in conception an agreement regarding the wording of the investment service agreement.

### **CONTINUED DISCUSSION OF FAIR MARKET VALUE**

Cathy Huber Nickerson described the two main issues involved:

1. **Reporting:** In 1999, the county adopted an approach to complying with GASB 31 fair market value (FMV) requirements resulting in two reported balances: (1) Treasurer's Office Financial Report (at cost); Fund Portfolio Report (also referred to as the "SymPro" report) showing the fair market value. The two reports confuse some of the pool participants.
2. **Stability:** Pool participants desire a safe, liquid investment vehicle with a return that exceeds what is available from the state pool. Participants with gains on their investments want the ability to spend all income earned, while participants with losses do not want to report or realize the losses.

Discussion ensued regarding the need for a single report to participants. Greg Kimsey asked if participants could be provided only the Fund Portfolio Report and questioned why any other report was needed. Cathy agreed that this would solve the problem but that language in the Investment Services Agreement would need to be changed to allow this.

- It was agreed that Bronson Potter and Cathy would review the Investment Services Agreement and bring to the committee suggested changes that would allow the Treasurer's Office to provide participants with a single report that told each participant what the fair market value of their investment in the county pool was on certain dates.

Discussion of stability in the pool centered on the Treasurer's proposal to convert all pool shares to two classes, Class A (regular) shares and Class B (stabilize pool, county owned subordinated shares) which would create a reserve that would mitigate losses in the future. The reserve would be built up over time.

- Bronson Potter stated that there is “tension” between participants’ desire to not realize or report losses, to enjoy earnings in excess of the state pool, and setting aside a portion of future earnings in a reserve that would be used to offset participants’ losses when they withdraw their investments. Bronson also said that any restructuring of the pool would have to be done in a manner that does not violate the prohibition in RCW 43.09.210 of one fund benefiting another fund. Bronson said the County cannot guarantee that a participant will not suffer a loss on their investment.
- Greg stated that if the goal is stability then an option is to construct a portfolio of investments with maturities of ninety days or less. While everyone is sympathetic to participant losses, we should be careful to not create an investment vehicle that is overly complex.
- Steve Stuart asked for an example of how the reserve would work and if it is used in other jurisdictions before taking a proposal to the Board.

Submitted by: \_\_\_\_\_

Greg Kimsey, Secretary

Prepared by: \_\_\_\_\_

Kay Dixon, Administrative Assistant

## **SECTION II – May 31, 2007 MINUTES**

**REGULAR MEETING MINUTES  
CLARK COUNTY FINANCE COMMITTEE MEETING  
May 31, 2007  
1:30 p.m.  
PSC 6<sup>th</sup> Floor Conference Room 678A**

**Members in Attendance:** Doug Lasher, Chair  
Greg Kimsey, Secretary  
Steve Stuart, Chair, Board of County Commissioners

**Others in Attendance:** Bill Barron, County Administrator; Steve Olson, Vancouver School District; Mike Merlino, Evergreen School District; Brett Blechschmidt, Educational Services District; Bronson Potter, Prosecuting Attorney's Office Jim Dickman, Office of Budget; John Payne, Cathy Huber Nickerson, Michelle Gable, Treasurer's Office.

**Recording:** Kathleen Smithline

The meeting was called to order by Doug Lasher, Chair, at 1:30 p.m. with a quorum present.

### **APPROVAL OF MINUTES**

**MOTION** was made by Greg Kimsey, seconded by Doug Lasher, and unanimously carried to approve the Minutes of February 23, 2007, and March 28, 2007.

### **APPROVAL OF COUNTY FINANCE REPORT**

Michelle Gable presented an overview of the first-quarter, 2007, County Finance Report, which included investment strategies, economic and market conditions, and a review of the portfolio as of March 31, 2007. Economic statistics were provided through Bloomberg.

### **Economic Factors During 1st Quarter, 2007**

- GDP was the slowest in four years due to the housing slump and bigger trade deficit. As of today's date, growth rate was 1.3% compared to 5.6% last year.
- Inflation grew at 2.2%, up from last quarter's 1.8%.
- Consumer spending increased to 109.8 compared to this time last year of 105.7.
- Unemployment rates continue to remain low.
- The housing market has continued to slow significantly.
- The Clark County Pool balance average decreased by 8.6% over 2006 which was \$353 million compared to \$386 million at this time last year.
- The average maturity of the pool decreased from 7.7 to 7.0 for the end of March.

## **Investment Strategy**

- Continue to maintain an average maturity between 7 and 8.5 months
- Add yield or extra earnings by purchasing callable securities which could be called by the issuer.
- Continue to watch the economic headlines, two-year treasury interest rate, and economic releases for the best investment opportunities in the 2<sup>nd</sup> quarter.

Greg Kimsey requested that the total return of the portfolio be reflected in all reports to be more easily read.

**MOTION** was made by Steve Stuart, seconded by Greg Kimsey, and unanimously carried to approve the County Finance Report for First-Quarter, 2007.

## **PFM REPORT**

Michelle Gable presented the Public Financial Management's overview of the County's investments for First-Quarter, 2007.

### **First-Quarter, 2007, Market Conditions**

- The economy continued its trend of temperate growth.
- There are concerns about whether the housing market has fully stabilized due to sub-prime mortgages.

### **2007 Outlook**

- The outlook for the economy is cloudy with the market remaining data-dependent in the near term.
- Contained inflation is at stake as the market leans toward lowering rates.
- Long-term rates have remained somewhat low indicating a lower inflation outlook.

### **Investment Strategy Recommendations**

- Look for opportunities to buy longer-term securities in order to maintain the average maturity of the Pool Portfolio.
- Place new investments when rates are at the mid to upper-end of the trading range.
- Increase allocation to callable securities.
- Consider other money market securities such as commercial paper and certificates of deposit.

## **OUTSTANDING DEBT REPORT**

Cathy Huber Nickerson presented the County Debt Status Report as of March 31, 2007. At the end of the first quarter, the total outstanding debt of Clark County and the junior taxing districts totaled approximately \$827 million - an increase of \$76,250 from December 31, 2006. The report reflects new issues for first-quarter, 2007; line of credit history; registered warrants history; Clark County Road line of credit, and a listing of outstanding debt as of March 31, 2007.

**MOTION** was made by Steve Stuart, seconded by Greg Kimsey, and unanimously approved to approve the outstanding Debt Report for first quarter, 2007.

### **APPROVAL OF NEW INVESTMENT SERVICES AGREEMENT TO REFLECT FAIR MARKET VALUE CHANGES**

Cathy Huber Nickerson explained changes to the Investment Services Agreement. As of May 31, the county will begin **Class A Shares**, which are regular shares of the Pool that reflect the Fair Market Value (FMV) balance as of May 31, 2007 and will immediately be available to cover warrant issues by the participants and other regular disbursements. Class A Shares will be reported on the Treasurer's Financial Statements and participants will receive fund portfolio reports.

**Subordinated Class B Shares** – A portion of Pool earnings will be set aside and be used to purchase Subordinated Class B Shares. Shares will be in the name of the County and used to reimburse participants with accumulative FMV losses as of May 31. These Class B Shares will accumulate earnings that will be set aside (30 basis points) in order to allow the \$2 million to build up. Class B Shares will be used on a quarterly basis to pay down the accumulated FMV losses. Class B Shares will be used to offset fair market value gains or losses and will be reported on a quarterly basis **for reporting purposes only** to the financial statements but not on the Sympro reports (fund portfolio reports). All of these shares will be held as a restricted asset of the County for the sole benefit of Participants with the amount of this class of shares to be a maximum of \$2 million.

Any participant who chooses to leave the Pool would be required to give a minimum 120-day written notice to the County to avoid penalties. Once the Class B shares of \$2 million have been established, they will be used only if a participant leaves the Pool.

Any investment bond proceeds will be discussed with the participant to determine whether the proceeds will be placed in the Pool or invested outside the Pool.

**Note: A portion of the minutes have been deleted here to protect confidential attorney-client communications.** Non members who were previously excused returned and the meeting reconvened. Bronson Potter advised them that anything he says should not be misconstrued as giving them legal advice and that they should talk to their own legal advisor. He believes that the state auditor may find that having participants cover prior losses from other participants may not be legal. Use of the reserve to offset future losses would more likely be permissible because the contribution of earnings set aside is made by all participants for the potential benefit of any or all participants. It is a risk mitigation measure for the benefit of potentially any member of the Pool. When the contribution is made, we do not know who would be in a gain or loss position at the time that a participant would withdraw.

It was noted that the SPI Report (financial statements) will balance to Sympro (fund portfolio reports) on a book value basis once all accumulated FMV gains and losses have been eliminated.

**MOTION** was made by Greg Kimsey that participants who want to withdraw the net value (investment balance plus any "fair market value adjustment") of their investment balance in the County Pool shall be given immediate access to those funds. Doug Lasher stated that he can not give immediate access to districts because there is no revenue stream for unrealized gains, and other districts with unrealized losses would then have to be realized. The motion died for lack of a second due to Commissioner Stuart's time constraints. Commissioner Stuart stated that the Committee needed to meet again, and he would address the motion at that time as well as

requesting Bronson Potter and Doug Lasher to bring a resolution to the accounting of fair market value to the next meeting.

**MOTION** was made by Greg Kimsey, seconded by Doug Lasher, and unanimously carried to adjourn the meeting.

Submitted by: \_\_\_\_\_  
Greg Kimsey, Secretary

Prepared by: \_\_\_\_\_  
Kathleen Smithline, Administrative Assistant

### **SECTION III – EXECUTIVE SUMMARY**

This report provides a review of the activities occurring during the second quarter, 2007, in compliance with our Investment Policy and Standards adopted July 2006.

As of June 30, 2007, the average maturity of the investment pool portfolio increased to approximately 8.9 months which is higher than the maturity at the end of the first quarter of 2007. The asset sector distribution of the total investment portfolio changed slightly during the second quarter, with approximately 48.58% of the portfolio invested in Federal Agencies, 37.11% invested in money markets, 9.85% invested in Certificates of Deposits, 3.82% invested in commercial paper, .26% invested in State and Local Government Securities and .38% invested in Municipal Bonds. This is compared with the first quarter of 2007's asset allocation of with 49.07% of the portfolio invested in Federal Agencies, 34.85% invested in money markets, 15.23% invested in Certificates of Deposits, .34% invested in State and Local Government Securities and .51% invested in Municipal Bonds. At the end of June 2007, the total book value of the portfolio was approximately \$518 million.

Residual balances for the second quarter of 2007 averaged \$99.4 million per month which was \$10 million more than the monthly average during the second quarter of 2006. Interest earnings distributed to the County's General Fund during the second quarter of 2007 were \$1,282,601 compared to \$987,205 for the second quarter of 2006. The increase is a result of higher average residual balances and interest rates in 2007. The average interest rate of the Clark County Investment Pool for the second quarter of 2007 was 5.09% compared to 4.31% in the second quarter of 2006. Interest earnings for 2007 were higher than the interest projections by approximately \$317 thousand.

County Pool balances averaged \$447 million in the second quarter of 2007, compared to an average of \$446 million during the second quarter of 2006. Interest earnings distributed to the County Pool participants for the second quarter of 2007 were \$5.8 million compared to \$4.9 million in the second quarter 2006. Clark County funds made up 48.1% of the County Pool. Other major Pool participants include the Evergreen School District at 14.7%, Vancouver School District at 8.5% and all other districts at 28.7%.

The annualized quarterly total return for the County Pool came in at 4.57% compared to the custom Treasury total return index of 5.02%. On a book value return basis, the County Pool rate yielded 5.08%, compared to the Standard and Poor's LGIP Index's book value return of 4.98%. The net asset value of the County Pool ended the quarter at 0.99714. An unrealized loss of \$504,386.46 was reported to the Clark County Pool participants for the fair market value adjustment at the end of June. This is in accordance with our investment policy, fair market value adjustments are reported four times per year.

The investment strategy for the second quarter was to continue to maintain high level of liquidity in Key Bank and the LGIP. Short term securities would be invested in when they out performed LGIP. Investments in Certificates of Deposit were selected when they out performed Federal Agencies. Commercial Paper were selected to add a little yield or interest. Further, the strategy was to capture value above current and future interest rate projections while still meeting the liquidity needs of the pool participates.

## **SECTION IV - 2007 YEAR-TO-DATE**

During the second quarter of 2007, County residual principle balances averaged \$10 million more than the second quarter of 2006 on an average monthly basis. Actual average County residual balances on a monthly basis during the second quarter of 2007 have exceeded projections by approximately \$26 million for the year to date as denoted in the chart below.

Date	2006 Residual Balance	2007 Residual Balance	2007 Projected Residual Balance
January	37,172,482	42,805,902	37,132,754
February	33,898,473	36,398,992	37,490,667
March	33,516,954	37,459,812	33,481,923
April	56,492,091	76,077,319	58,311,948
May	137,020,119	140,244,393	136,866,768
June	74,374,931	81,821,848	76,765,278
Average	62,079,175	69,134,711	63,341,556

Since June 2004, the Fed has raised interest rates seventeen times by 25 basis points each time. This action brought the Fed funds rate from a 45-year low of 1.00% to 5.25% by the end of June 2006. Since then, the Fed has held interest rates steady at 5.25% through the second quarter 2007. Actual interest earnings increased to \$1,282,601 during the second quarter of 2007 from \$987,205 during the same period in 2006 due to higher interest rates in 2006. As shown below, total interest earnings for the year are approximately \$317 thousand more than the projected interest earnings for the second quarter 2007.

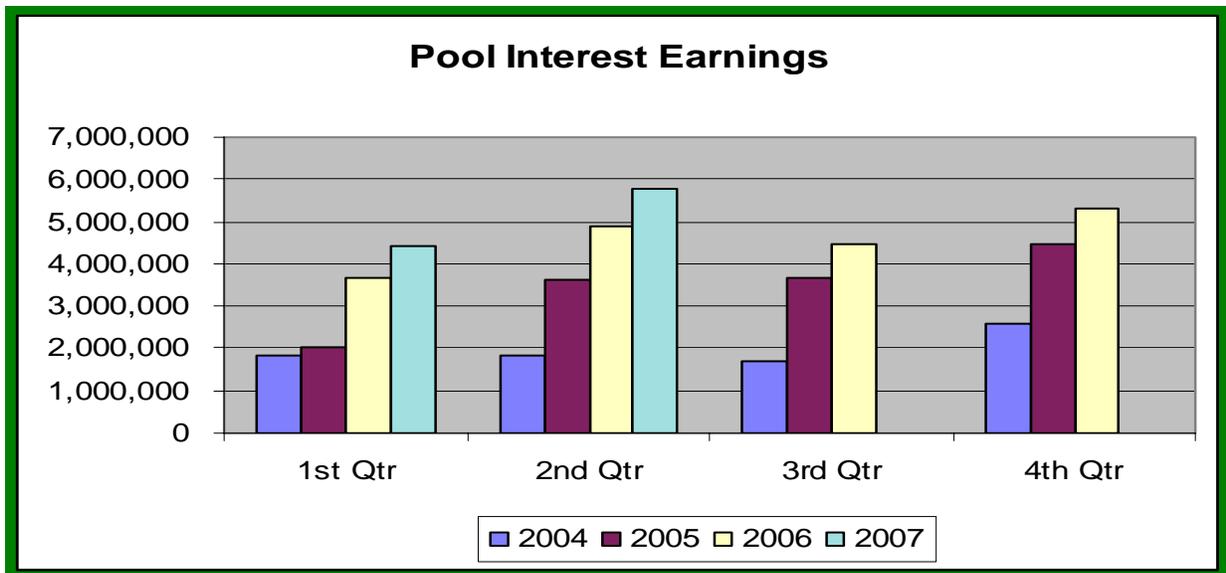
Date	2006 Interest Earnings	2007 Interest Earnings	2007 Projected Interest Earnings
January	122,180	185,864	149,645
February	103,400	149,284	137,924
March	110,237	152,023	137,527
April	190,160	326,425	224,501
May	518,096	609,805	526,823
June	278,948	346,372	276,355
Total	1,323,022	1,769,771	1,452,775

County Pool principle balances shown below, averaged around \$447 million for the second quarter of 2007, compared to \$446 million for the second quarter of 2006.

Date	2006 Pool Average Balance	2007 Pool Average Balance
January	407,102,676	358,967,445
February	382,941,849	347,997,1129
March	368,991,583	352,677,413
April	387,059,971	394,280,465
May	512,470,329	510,626,748
June	437,071,313	436,885,614
Average	415,939,620	400,239,136

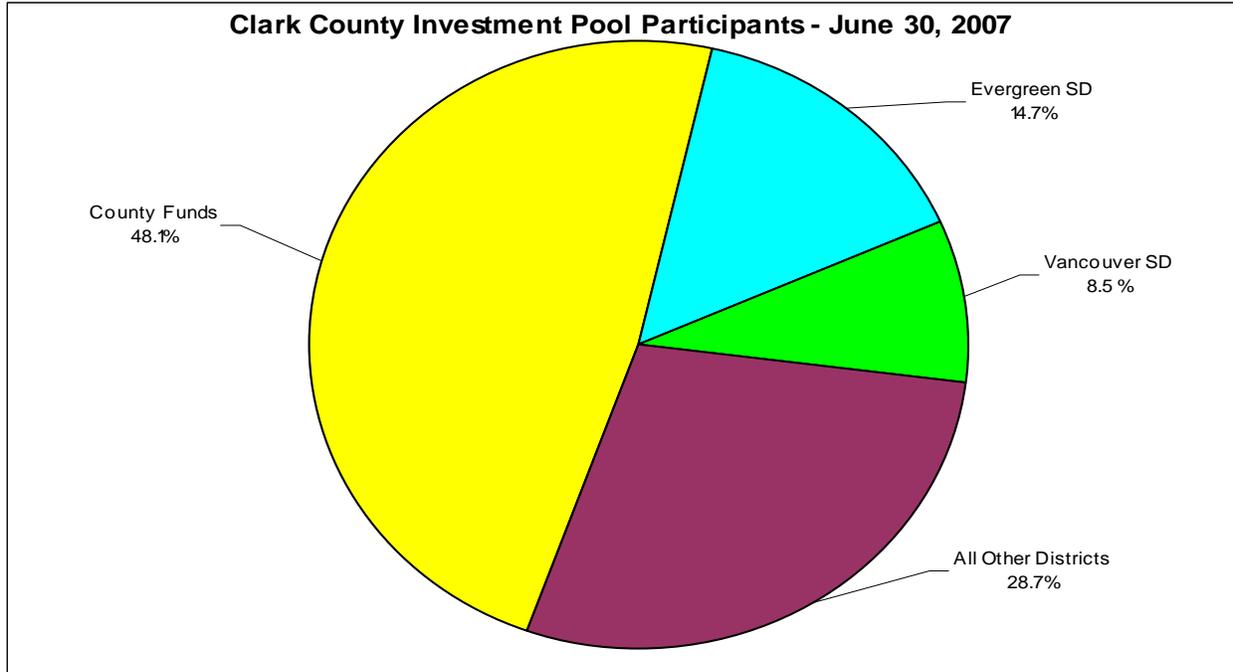
The table below reflects County Pool earnings of \$5.8 million for the second quarter of 2007, compared to \$4.9 million during the second quarter of 2006, resulting in increased earnings of approximately 15%. This is due to the raising interest rate environment that started in June of 2004 and has continued through the second quarter of 2006. Since the end of second quarter of 2006 interest rates have remained unchanged.

Date	2006 Pool Interest Earnings	2007 Pool Interest Earnings
January	1,334,998	1,557,831
February	1,128,046	1,424,443
March	1,216,416	1,429,609
April	1,298,123	1,691,524
May	1,935,565	2,218,694
June	1,637,008	1,845,998
Total	8,550,156	10,168,099



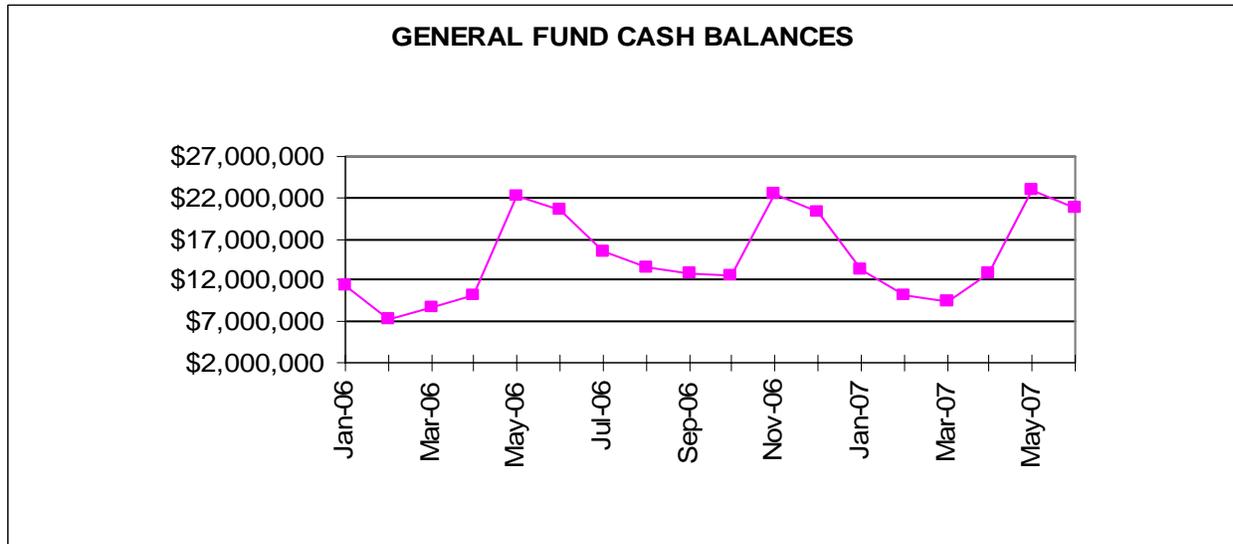
## SECTION V - QUARTERLY ACTIVITY

**Figure One** shows the major participants in the Clark County Investment Pool for the second quarter of 2007. As of June 30, 2007, County funds made up 48.1% of the pool, Evergreen School District – 14.7%, Vancouver School District – 8.5%, and all other districts – 28.7%.



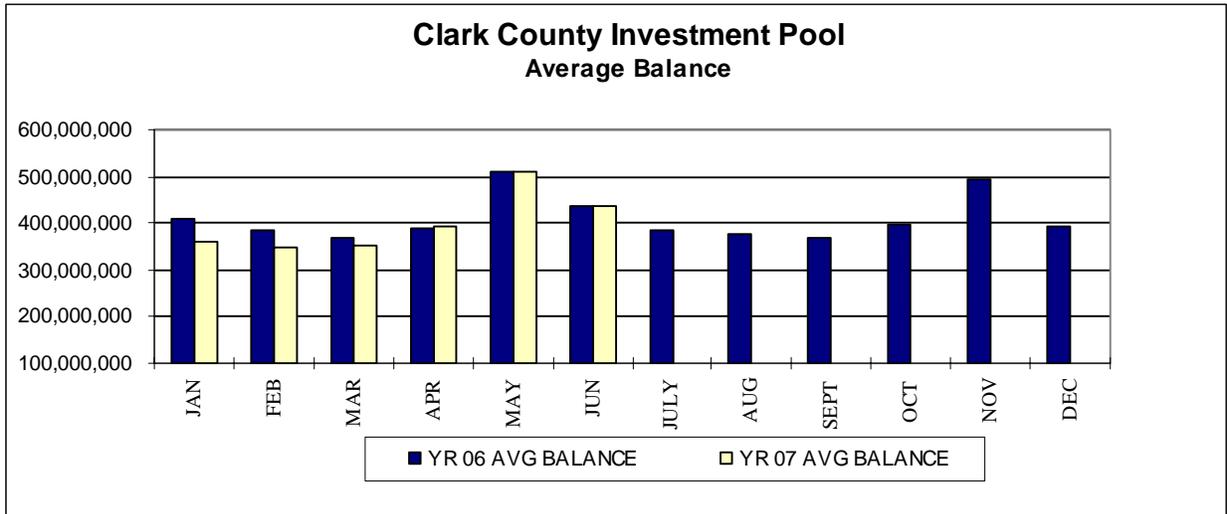
**Figure 1**

**Figure Two** illustrates month-end General Fund cash balances beginning with January 2006 through June 2007. For the second quarter of 2007, cash balances in the General Fund increased over the same period in 2006 by a monthly average of approximately \$1.5 million.



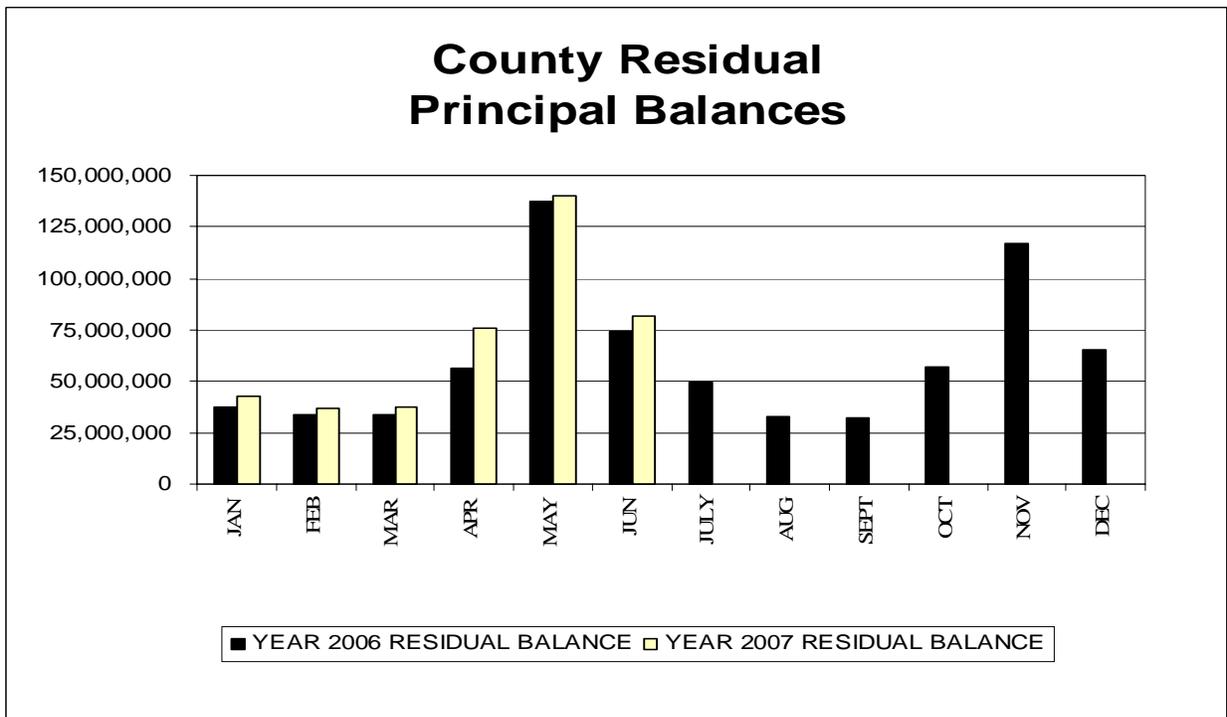
**Figure 2**

**Figure Three** reflects the average principle balances being maintained within the Pool in 2007 compared to 2006. For the second quarter 2007, the average monthly principle balance decreased during the same period of 2006 by an average of \$15.7 million.



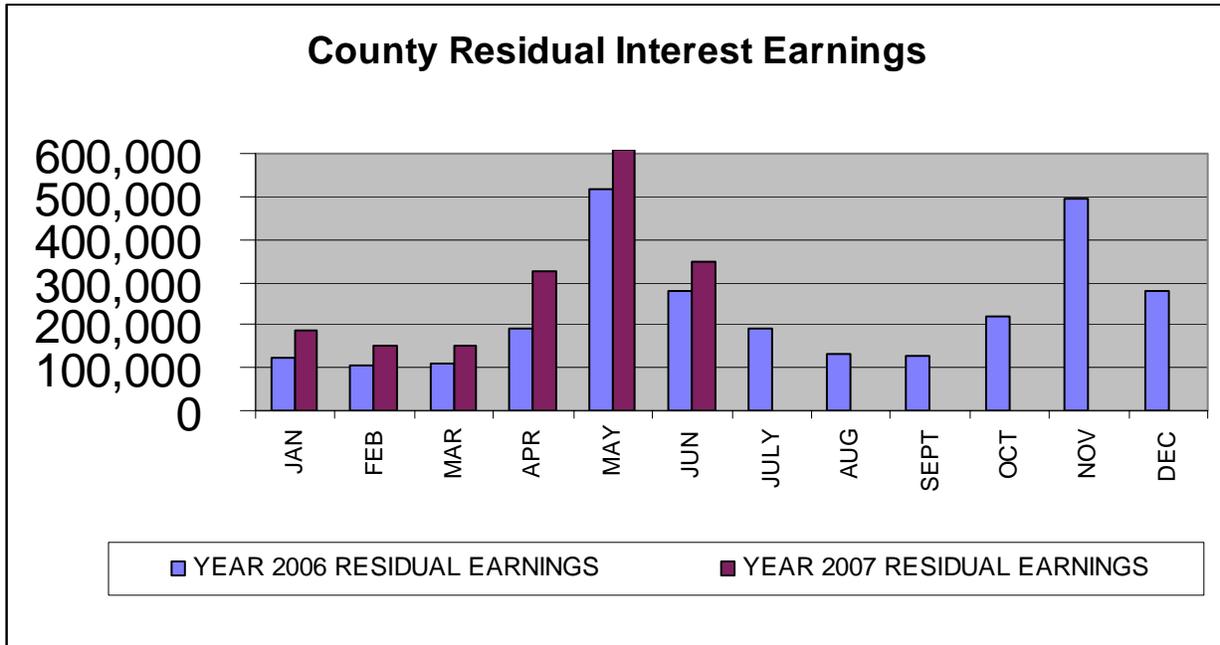
**Figure 3**

**Figure Four** reflects the actual monthly residual principle balances managed by the County for 2006 and 2007. For the second quarter of 2007, residual balances averaged \$10 million per month more than the same period in 2006.



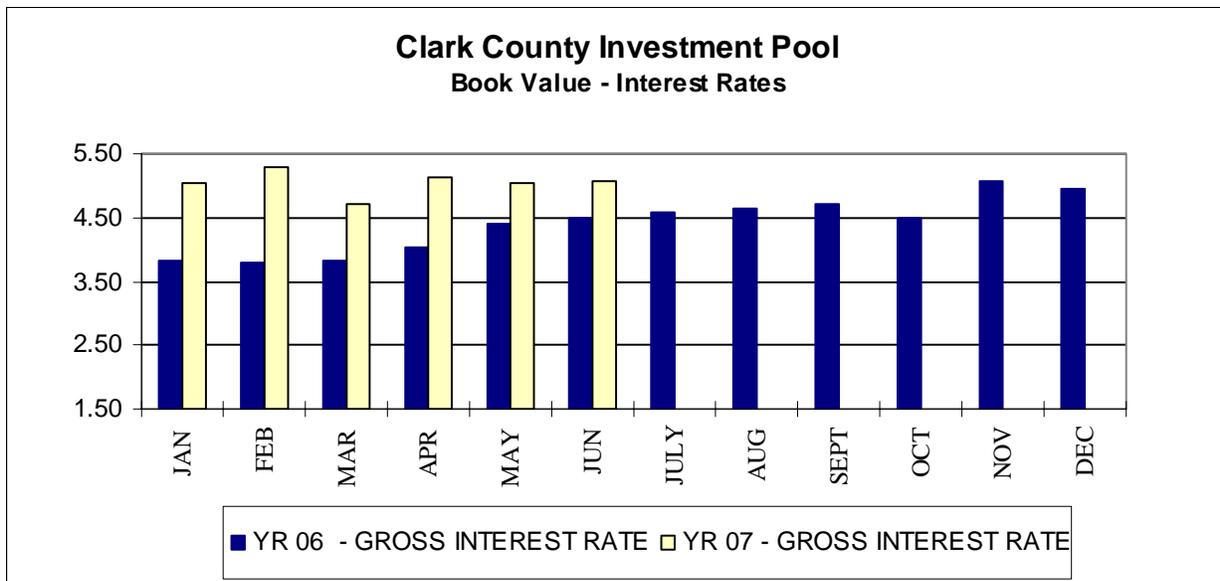
**Figure 4**

**Figure Five** shows interest earnings distributed each month to the County's General fund from 2006 through 2007. During the second quarter of 2007, interest earnings averaged \$98 thousand more per month than during the same period in 2006. This is due to an increase in interest rates from 2005 to 2006. On an average monthly basis, \$427,534 was allocated to the General fund during the second quarter of 2007. For the second quarter of 2006, an average of \$329,068 was distributed to the General fund per month.



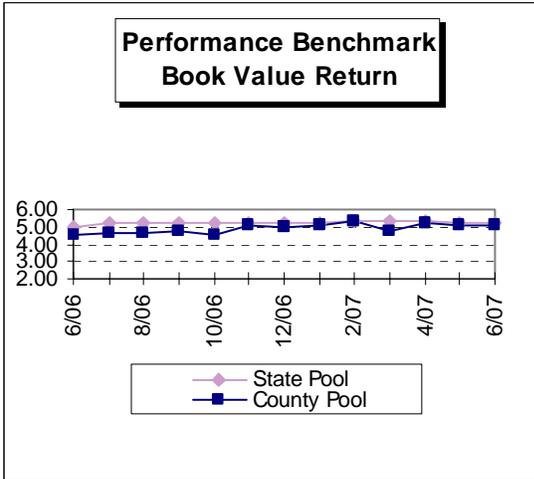
**Figure 5**

**Figure Six** shows the County Pool interest rates for 2006 and through the second quarter of 2007. The book value of the County Pool's gross interest rate at June 30, 2007 was 5.08% compared to 4.5% at June 30, 2006.

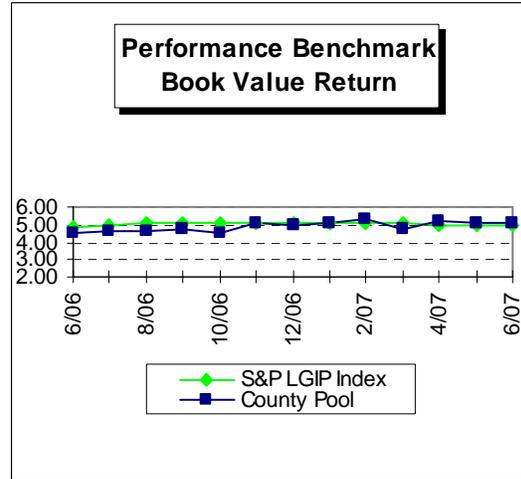


**Figure 6**

**Figures 7 (a) and (b)** compare performance on a book value return basis. The County Pool's interest rate is expressed as the net interest rate (the gross rate less the investment fee). The book value return of a portfolio measures the yield based on the yield of the securities at the time the securities are purchased. These performance benchmarks consist of the Washington State Local Government Investment Pool (LGIP) with an average maturity of approximately 46 days, Standard and Poor's LGIP Index with an average maturity of less than one month, and the Clark County Investment Pool with an average maturity of 8.9 months. The Standard and Poor's LGIP Index and the LGIP closely track current interest rates. At the end of the second quarter 2007, the County Pool's net rate, on a book value return basis was 5.08%, the S&P LGIP Index was 4.98%, and the State Pool's net rate was 5.24%.

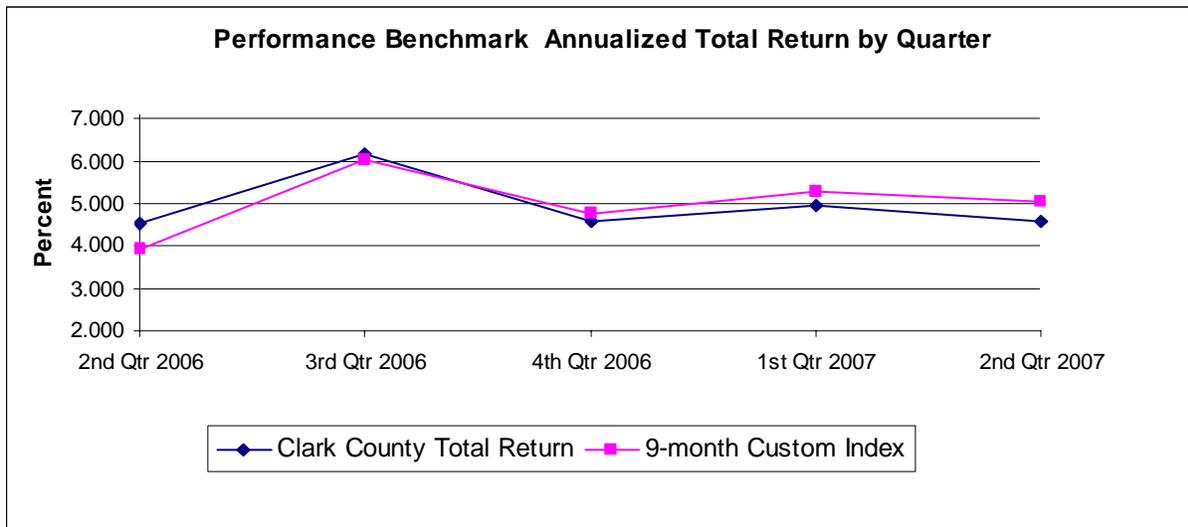


**Figure 7(a)**



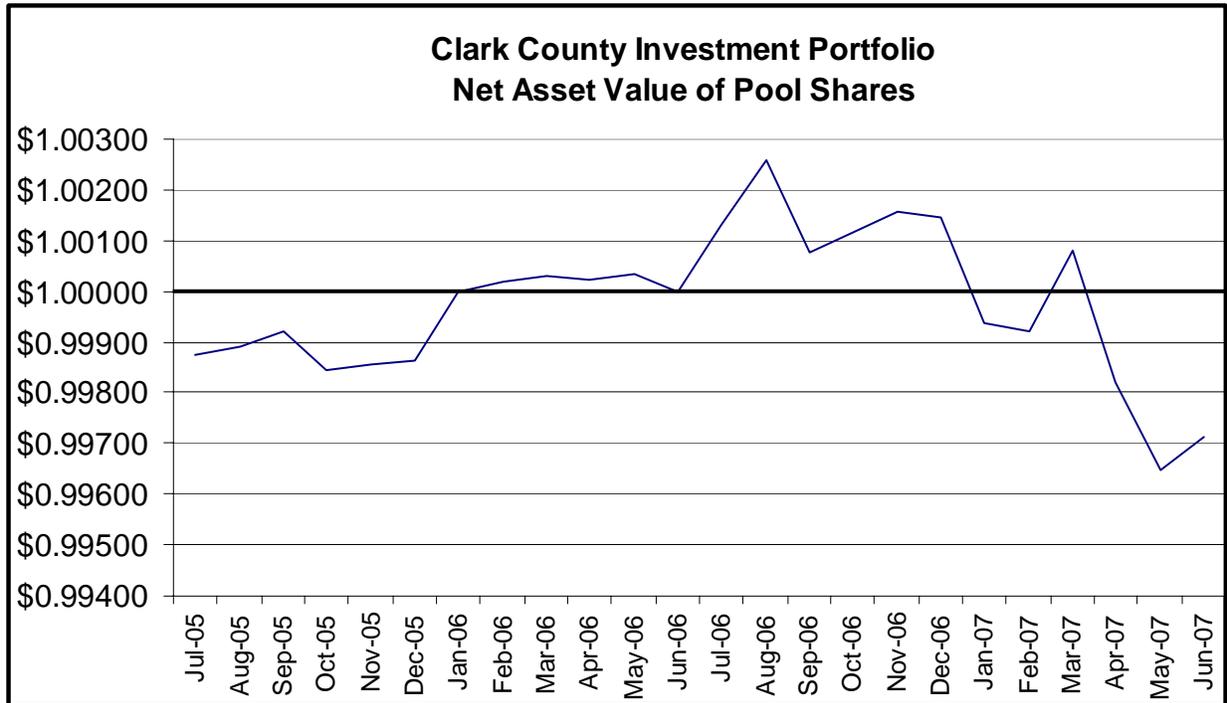
**Figure 7(b)**

**Figure Eight** compares performance on a total return basis. Total return measures the market value increase or decrease in the value of the portfolio over a given period of time and the interest earnings associated with the securities. The customized total return index consists of two Merrill Lynch U.S. Treasury Securities maturing from six months to one year. The annualized return for the second quarter of 2007 for the County Pool was 4.57% and the Treasury Index was 5.02%.



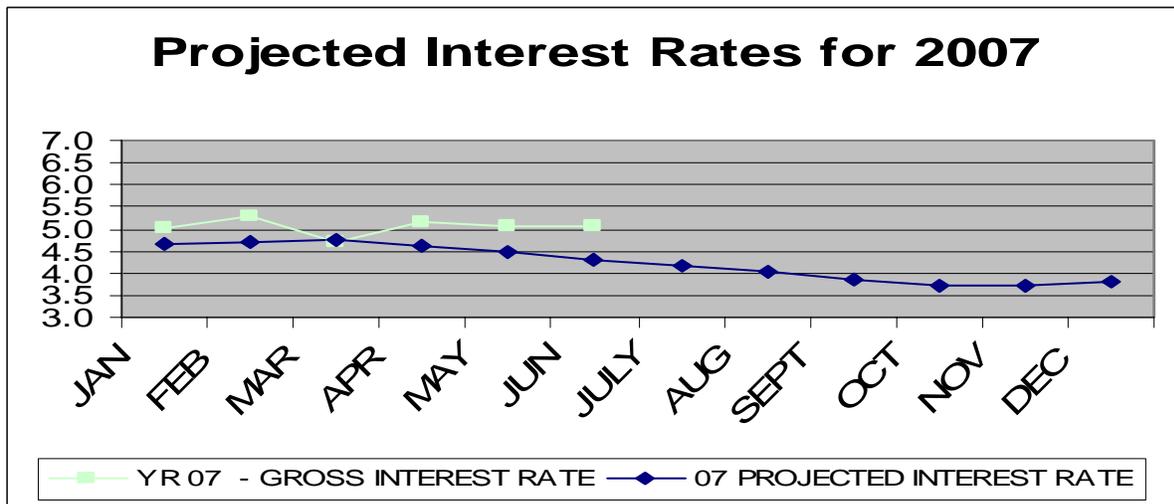
**Figure 8**

**Figure Nine** shows the market value of the Pool portfolio based on net asset value (NAV). As of June 30, 2007 the NAV was 0.99714. GASB Statement 31 requires that External Investment Pools report all investments at fair market value, if the average maturity of the Pool exceeds 90 days. On June 30, 2007, the Treasurer's Office posted approximately \$504,386 in unrealized losses to the County Pool.



**Figure 9**

**Figure Ten** shows revised projected County Pool interest rates for 2007 compared with actual interest rates.



**Figure 10**

## SECTION VI - INVESTMENT STRATEGY

The following table shows the percentage distribution of the Clark County Pool maturity periods. As the table indicates, during 2006 emphasis was placed on purchasing securities in the one year maturity sector to target an average maturity of 7 – 8.5 months. In 2007, the emphasis is to continue to purchase securities in the one year maturity sector and maintain the average maturity of 7 to 8.5 months.

<b>Period</b>	<b>0 - 1 year</b>	<b>1 – 2 years</b>	<b>2 - 5 years</b>
1 <sup>st</sup> quarter, 2006	83%	15%	2%
2 <sup>nd</sup> quarter, 2006	77%	22%	1%
3 <sup>rd</sup> quarter, 2006	72%	27%	1%
4 <sup>th</sup> quarter, 2006	77%	21%	2%
1 <sup>st</sup> quarter, 2007	77%	21%	2%
2 <sup>nd</sup> quarter, 2007	65%	33%	2%

During the second quarter of 2007, our weighted average maturity was 7 to 9 months. We continued to monitor our investment strategy and remain proactive as economic conditions fluctuate.

The first quarter 2007 report issued by Public Financial Management, Inc. (PFM) recommended the following sector distributions to maintain the Clark County Investment Pool at a 7.0 to 8.5 month average maturity.

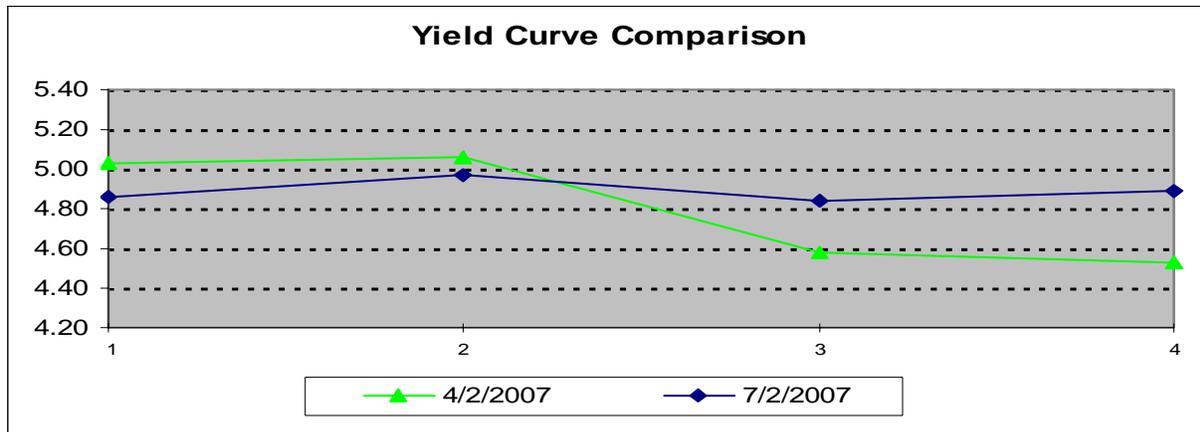
<b>Investment Sector</b>	<b>Recommended Average Maturity</b>	<b>Current Average Maturity</b>	<b>Recommended % of Portfolio</b>	<b>Current % of Portfolio</b>
US Treasury Notes	6 months – 2.00 years	N/A	0% - 20%	0%
Federal Agency Notes/Disc. Notes	6 months – 2.00 years	1.15 years	40% - 75%	59.6%
Municipal Obligations	0 months – 2.00 years	0 months	0% - 5%	.5%
Commercial Paper, Certificates of Deposit, Domestic Banker's Acceptances	0 – 9 months	3.6 months	0% - 40%	15.8%
State Pool, Bank Deposits	1 day	1 day	10% - 40%	24.1%
Aggregate Avg. Maturity	7 – 8.5 months	8.9 months		

## **SECTION VII - ECONOMIC/MARKET CONDITIONS**

The first quarter 2007 expanded at the slowest pace in four years of 0.7%. For the second quarter 2007, economists are predicting an expansion of 3%. The rest of the economic data supports second quarter's growth increase despite increasing gas prices and a sluggish housing market.

Housing starts have increase slightly to 1,462 thousand on an annual basis. This same time last year there were 1,861 thousand new homes started. Consumer confidence for the second quarter 2007 decreased to because of all the talk around the defaulting subprime loans. The prices for oil averaged \$67 per barrel for the second quarter compared to first quarter's average of \$62 per barrel. Finally, the unemployment rate remains at 4.5% for the second quarter.

On June 30, 2007, the 3-month T-bill yielded 4.86% compared to 5.03% on March 31, 2007. The yield curve has flattened out some in comparison to the prior quarter.



## **SECTION VIII - PORTFOLIO**

**Exhibit One** shows the make up of the entire portfolio at the end of the second quarter of 2007. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and the percentage each sector makes up of the total portfolio. All percentages are consistent with the current policy.

**Exhibit Two** shows the complete portfolio listings as of the end of the second quarter of 2007. This report shows the book value, the par value, and the market value of the portfolio as of June 30, 2007.

**Exhibit Three** shows the liquidity of the entire portfolio. All percentages are consistent with the current policy.

**Exhibit Four** reflects the percentage of securities purchased from each issuer relative to the entire portfolio. On June 30, 2007, the average maturity was approximately 7.3 months. All the percentages are consistent with the current policy and PFM recommendations.

**Exhibit Five** shows all investment purchases and maturities from April 1, 2007 through June 30, 2007.

**Exhibit Six** shows the make up of the Clark County Investment Pool at the end of the second quarter of 2007. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and related percentage of the total portfolio for each type of security. On June 30, 2007, the average maturity of the Pool was approximately 8.9 months. All percentages are consistent with the current policy.

**Exhibit Seven** shows the portfolio listings of the Clark County Investment Pool at the end of the second quarter. This report contains the book value, the par value, and the market value as of June 30, 2007.

**Exhibit Eight** shows the liquidity of the Clark County Investment Pool. All percentages are consistent with the current policy.

**Exhibit Nine** reflects the percentage of securities purchased from each issuer for the Clark County Investment Pool. All percentages are consistent with the current policy.

**Exhibit Ten** is a comparison of the Clark County Investment Pool to the Washington State Pool.