



# Clark County Finance Committee

Third Quarter 2010

**CLARK COUNTY TREASURER'S OFFICE**

Produced by: Kristin Anderson - Investment Officer

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# CLARK COUNTY FINANCE COMMITTEE

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THIRD QUARTER 2010

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## SECTION I – EXECUTIVE SUMMARY

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This report provides a review of the activities occurring during the third quarter, 2010, in compliance with Clark County Investment Policy adopted January 2008.

As of September 30, 2010, the average maturity of the total investment portfolio decreased to 6.1 months from June's 6.2 months. The asset sector distribution for the total investment portfolio changed slightly during the third quarter with approximately 30.68% of the portfolio invested in Federal Agencies, 62.46% invested in the Washington State LGIP, 1.39% invested in money market instruments, 0.32% invested in State and Local Government Series, 3.10% invested in Certificates of Deposits, and 2.05% invested in Bankers Acceptances. The total book value of the portfolio was \$485.7 million on September 30, 2010. This is compared with the second quarter's 2010 book value of almost \$513.9 million. Last quarter's asset allocation contains 32.73% of the portfolio invested in Federal Agencies, 56.53% invested in the Washington State LGIP, 1.22% invested in money market instruments, 0.30% invested in State and Local Government Series, and 6.85% invested in Certificates of Deposits, 1.94% invested in Bankers Acceptances, and 0.43% invested in Registered Warrants.

Residual average monthly balances year to date averaged \$24.4 million per month which was \$12.8 million less than the same period in 2009. Interest earnings distributed to the County's General Fund for the year through September of 2010 totaled \$172.8 thousand compared to \$475.4 thousand for the same period in 2009. The decrease is a result of a continuing decline in interest rates and lower average residual balances. Residual interest earnings for 2010 were less than the interest estimated in October of 2008 by \$1.96 million through the third quarter of 2010. The most recent earnings estimates (calculated on June 14, 2010) reveals earnings of \$932,338 for the 2009-2010 budget years compared to the original estimate of \$5,694,042 in October of 2008. Actual residual earnings from January 2009 through September 2010 were \$740,626.

Clark County Investment Pool balances averaged \$472.7 million for the year through September of 2010 compared to an average of \$451.3 million for the same period in 2009. The average interest rate of the County Pool for the second quarter of 2010 was 0.82% compared to 1.46% for the second quarter of 2009. Interest earnings distributed to the County Pool participants for the year through September of 2010 was \$3.5 million compared to \$5.9 million in the same period of 2009. As of September 30, 2010, Clark County funds made up 29.9% of the Investment Pool. Other major Pool participants include the Evergreen School District at 14.2%, Camas School District at 10.4%, City of Vancouver at 9.1%, Vancouver School District at 8.2%, and all the other districts at 28.2%.

The annualized total return for the County Pool came in at 0.53% for September 2010 compared to the custom treasury Benchmark total return index of 0.81%. On a book value return basis, County Pool yielded 0.74%, compared to the Standard and Poor's LGIP Index's book value return of 0.31%. The net asset value of the County Pool at

the end of the quarter was \$1.002016 with an unrealized fair value gain of \$612,549.50 on September 30, 2010.

The investment strategy for the quarter was to continue to maintain slightly higher liquidity balances than the benchmark, maintain duration between 0.4 and 0.6 years, maintain high credit quality in portfolio, and work to add yield in callable securities and treasury securities. In the upcoming quarter, we will concentrate on adding more bullet securities and treasuries to our portfolio.

## SECTION II – 2010 YEAR-TO-DATE

For the year through September of 2010, the monthly County residual principal balances averaged \$12.8 million less than this same time period for 2009.

Date	2009 Residual Balance	2010 Residual Balance
<b>January</b>	\$36,142,513	\$18,302,013
<b>February</b>	29,478,156	14,028,283
<b>March</b>	32,007,901	15,314,231
<b>April</b>	42,773,073	26,429,245
<b>May</b>	80,747,190	50,912,445
<b>June</b>	46,468,260	30,024,305
<b>July</b>	34,060,415	23,899,372
<b>August</b>	17,829,152	25,034,102
<b>September</b>	15,432,728	15,635,938
<b>Monthly Average</b>	\$37,215,487	\$24,397,770

Actual interest earnings totaled \$172,817 for the year through the September 2010 down from \$475,434 during the same period in 2009. As shown below, interest earnings were \$1,962,451 less than they were projected to be through September 2010.

Date	2009 Residual Interest Earnings	2010 Residual Interest Earnings	2010 Budgeted Interest Earnings <sup>1,2</sup>
<b>January</b>	\$80,749	\$18,124	\$237,252
<b>February</b>	48,666	14,541	237,252
<b>March</b>	49,451	14,003	237,252
<b>April</b>	63,008	23,456	237,252
<b>May</b>	91,808	36,466	237,252
<b>June</b>	58,578	21,668	237,252
<b>July</b>	43,702	19,593	237,252
<b>August</b>	20,874	15,428	237,252
<b>September</b>	18,599	9,538	237,252
<b>Total</b>	\$475,434	\$172,817	\$2,135,268

<sup>1</sup> As of 06/14/2010 for 2009-2010 Biennium Interest Rate Projections total \$932,338, \$364,528 are the earnings estimated for 2010.

<sup>2</sup> As of 10/10/2008 for 2009-2010 Biennium Interest Rate Projections with \$75,000 credit adjustment.

County Pool principal balances shown below averaged \$21.47 million more through 2010 compared to 2009.

<b>Date</b>	<b>2009 Pool Average Balance</b>	<b>2010 Pool Average Balance</b>
<b>January</b>	\$434,125,081	\$446,666,758
<b>February</b>	415,843,454	433,695,710
<b>March</b>	411,190,769	425,057,199
<b>April</b>	431,586,171	445,980,917
<b>May</b>	553,116,146	563,046,982
<b>June</b>	474,301,094	509,196,924
<b>July</b>	462,671,982	483,574,046
<b>August</b>	446,199,277	477,372,041
<b>September</b>	432,291,007	469,947,482
<b>Monthly Average</b>	\$451,258,331	\$472,726,451

The table below reflects County Pool earnings of \$3.5 million through the September of 2010, compared to \$5.9 million for the same period in 2009, resulting in decreased earnings of approximately 40.9%.

<b>Date</b>	<b>2009 Pool Interest Earnings</b>	<b>2010 Pool Interest Earnings</b>
<b>January</b>	\$1,001,013	\$456,804
<b>February</b>	641,115	419,524
<b>March</b>	657,299	401,490
<b>April</b>	635,452	395,635
<b>May</b>	648,340	415,416
<b>June</b>	597,768	367,462
<b>July</b>	612,909	409,433
<b>August</b>	539,864	304,098
<b>September</b>	520,326	286,984
<b>Year-to-Date</b>	\$5,854,085	\$3,456,846

## SECTION III – QUARTERLY ACTIVITY

**Figure One** shows the major participants in the Clark County Investment Pool for the third quarter of 2010. As of September 30, 2010, County funds made up 29.9% of the Pool, Evergreen School District – 14.2%, Camas School District – 10.4%, City of Vancouver – 9.1%, Vancouver School District – 8.2%, and all the other districts – 28.2%.

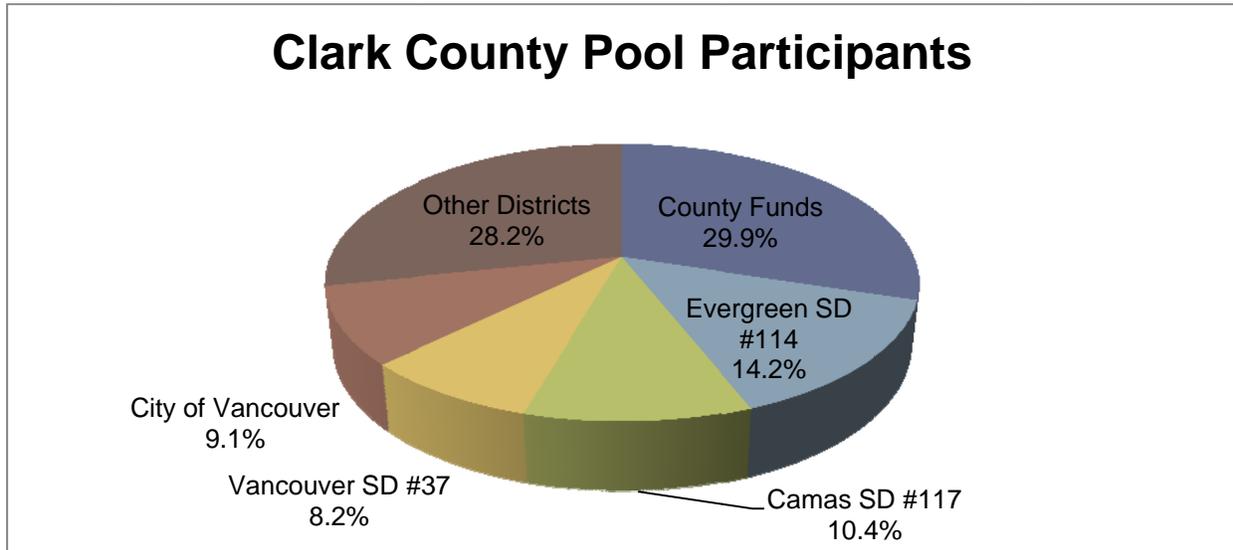


FIGURE ONE

**Figure Two** illustrates month end General Fund cash balances beginning with January 2008 through September 2010. For September 2010, the cash balances in the General Fund were \$2.5 million higher than in the same month end of 2009 but \$2.1 million less than the same month in 2008.

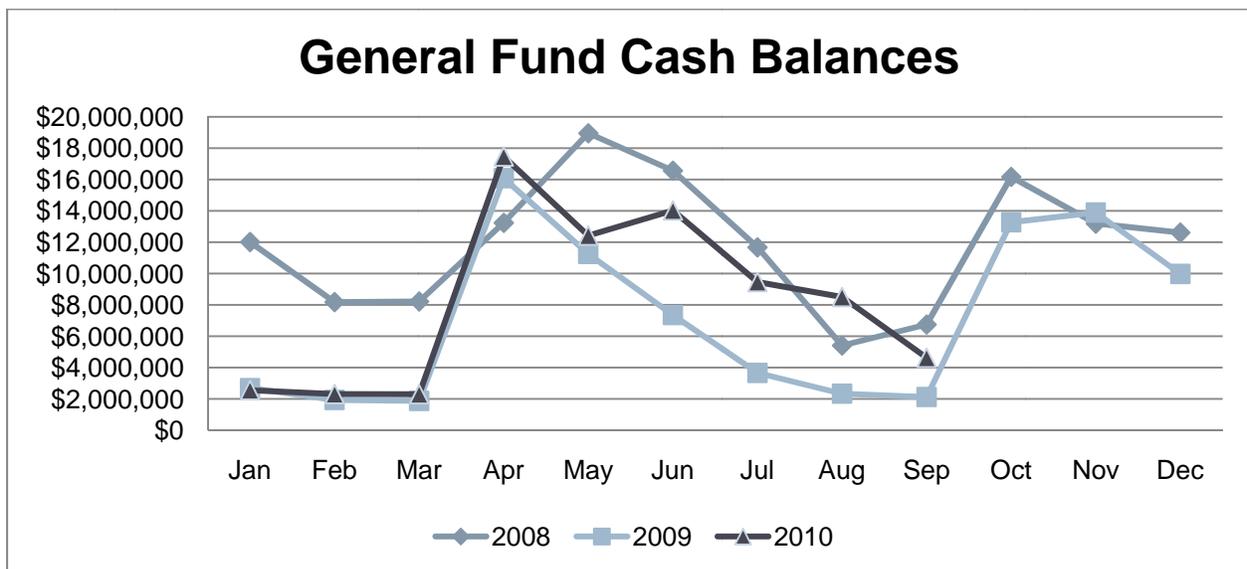


FIGURE TWO



**Figure Three** reflects the average principal balances being maintained within the Pool in 2010 compared to 2009 and 2008. Through September of 2010, the average monthly principal balance increased an average of \$21.4 million from the same period in 2009 and \$43.1 million over the same period in 2008.

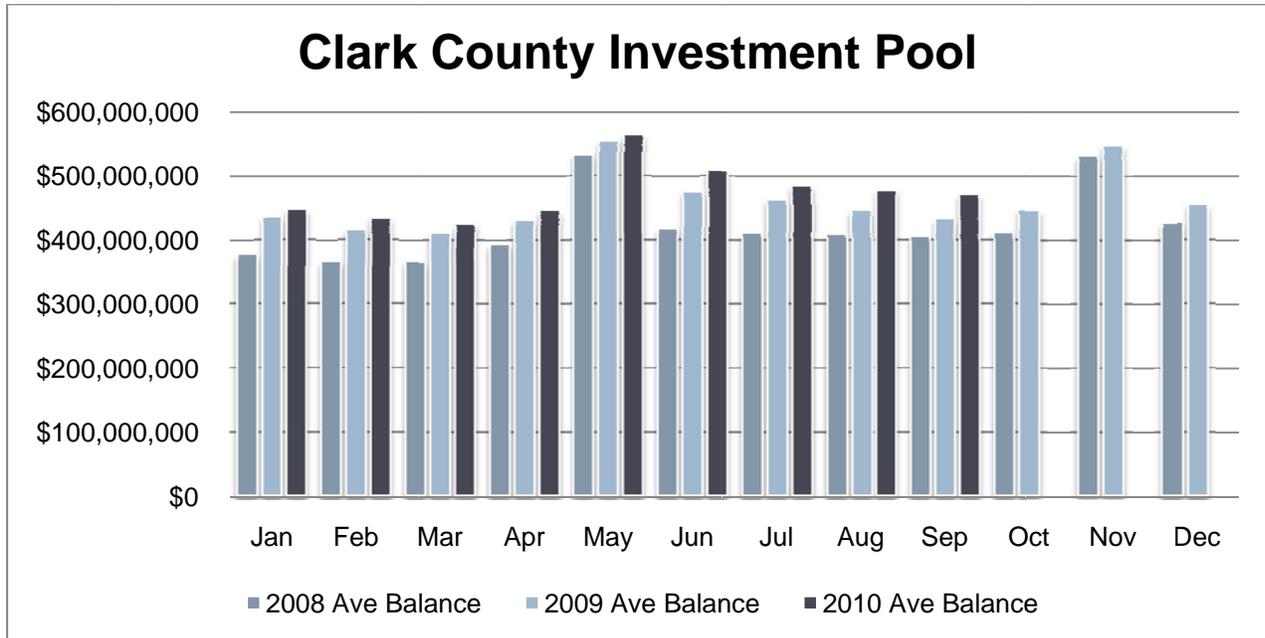


FIGURE THREE

As of September 30, 2010, we have 56.53% of the entire portfolio invested in the Washington State LGIP. **Figure Four** shows the WA State LIGP's credit quality by issuer; whereas **Figure Five** shows the maturity structure of the WA State LGIP.

Investment Type	Credit Quality	Ave Balance 09/30/2010		Ave Balance CY 2010	
Agency Callables	AAA	\$11,666,667	0.13%	\$8,974,359	0.10%
Repurchase Agreements	AAA	\$1,216,433,733	14.03%	\$1,851,956,418	21.14%
Reverse Repo Agreements		\$0	0%	\$0	0%
Treasury Securities	AAA	\$1,322,362,744	15.25%	\$975,857,326	11.14%
Agency Coupons	AAA	\$0	0.00%	\$27,655,111.99	0.32%
IB Bank Deposit	PDPC	\$717,428,258	8.27%	\$789,930,770	9.02%
NOW Account	PDPC/FDIC	\$95,701,397	1.10%	\$112,449,080	1.28%
Agency Floating Rate Notes	AAA	\$1,351,562,118	15.58%	\$1,516,504,229	17.31%
Agency Variable Rate Notes	AAA	\$687,049,090	7.92%	\$675,501,710	7.71%
Discounts Notes	AAA	\$3,178,713,002	36.65%	\$2,743,572,307	31.32%
Certificates of Deposit	PDPC/100% Col	\$91,981,667	1.06%	\$56,644,542	0.65%



<b>Commercial Paper</b>	<u>\$0</u>	<u>0%</u>	<u>\$0</u>	<u>0%</u>
<b>Total Avg Daily Balance</b>	<b>\$8,672,898,676</b>	<b>100%</b>	<b>\$8,759,045,853</b>	<b>100%</b>
<b>Avg Days to Maturity</b>	54 days			

FIGURE FOUR

<b>Days To Maturity</b>	<b>\$ Maturing (Par Value)</b>	<b>% Maturing</b>	<b>Cumulative % Maturing</b>
<b>1</b>	1,004.69	11.7	11.7
<b>2-30</b>	1,700.00	19.6	31.3
<b>31-60</b>	948.20	10.9	42.2
<b>61-90</b>	903.00	10.4	52.6
<b>91-120</b>	559.32	6.4	59.0
<b>121-180</b>	1,150.00	13.3	72.3
<b>181-270</b>	350.00	4.0	76.3
<b>271-397</b>	50.00	0.6	76.9
<b>Floating Rate Notes</b>	1,325.00	15.3	92.2
<b>Variable Rate Notes</b>	<u>687.00</u>	7.9	100.0
<b>PORTFOLIO TOTAL</b>	8,677.21		

FIGURE FIVE

**Figure Six** reflects the actual average monthly residual principal balances managed by the County for 2009 and 2010. Through September of 2010, residual balances averaged \$12.8 million per month less than the same period in 2009.

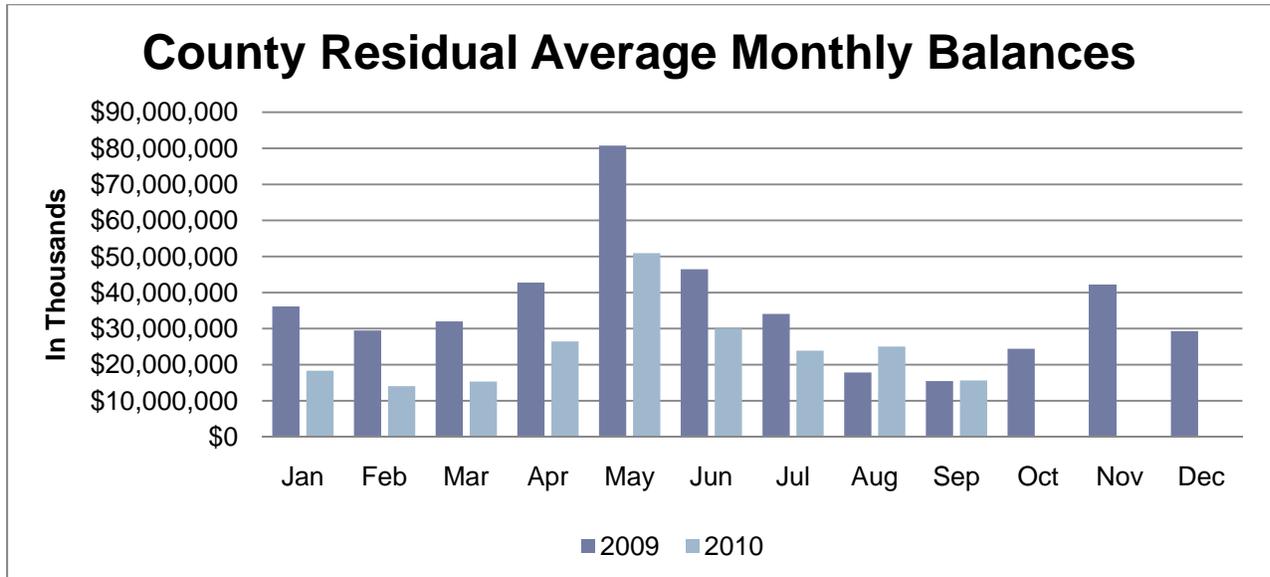


FIGURE SIX

**Figure Seven** shows interest earnings distributed each month to the County’s General Fund from 2009 through 2010. During the third quarter of 2010, interest earnings totaled \$38.6 thousand less than during the third quarter in 2009. This is due to a decrease in residual cash principal balances and a decrease in interest rates. On an average monthly basis, \$19.2 thousand was distributed to the General Fund per month.



FIGURE SEVEN

**Figure Eight** depicts the County Pool's interest rates for 2008 through the third quarter of 2010. The County Pool's gross interest rate, based on the book value of the portfolio, at September 30, 2010 was 0.73% compared to 1.45% at September 30, 2009 and 3.19% at September 30, 2008.

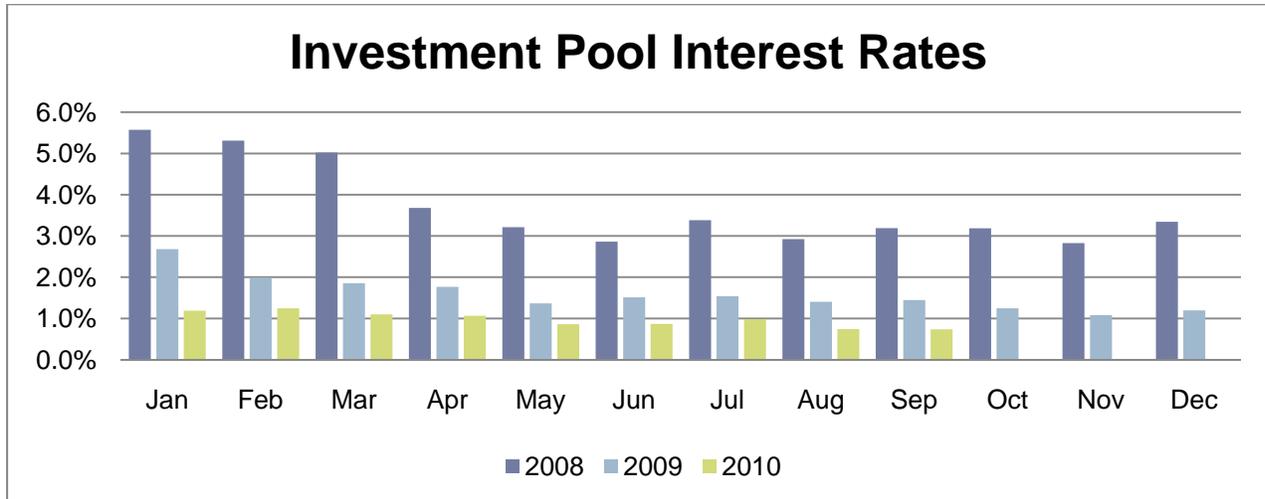


FIGURE EIGHT

**Figure Nine** compares 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 of securities compared to their book value at the time of purchase. The performance benchmarks consist of the Washington State Local Government Investment Pool (LGIP) with an average maturity of approximately 54 days for September, Standard and Poor's LGIP Index with an average maturity of less than 30 days, and the Clark County Investment Pool with an average maturity of 185 days. The Standard and Poor's LGIP Index and the Washington State LGIP closely track current interest rates. At the end of the third quarter 2010, the County Pool's rate on a book value basis was 0.73%, the S&P LGIP Gross Index was 0.31%, and the Washington State LGIP's gross rate was 0.33%.

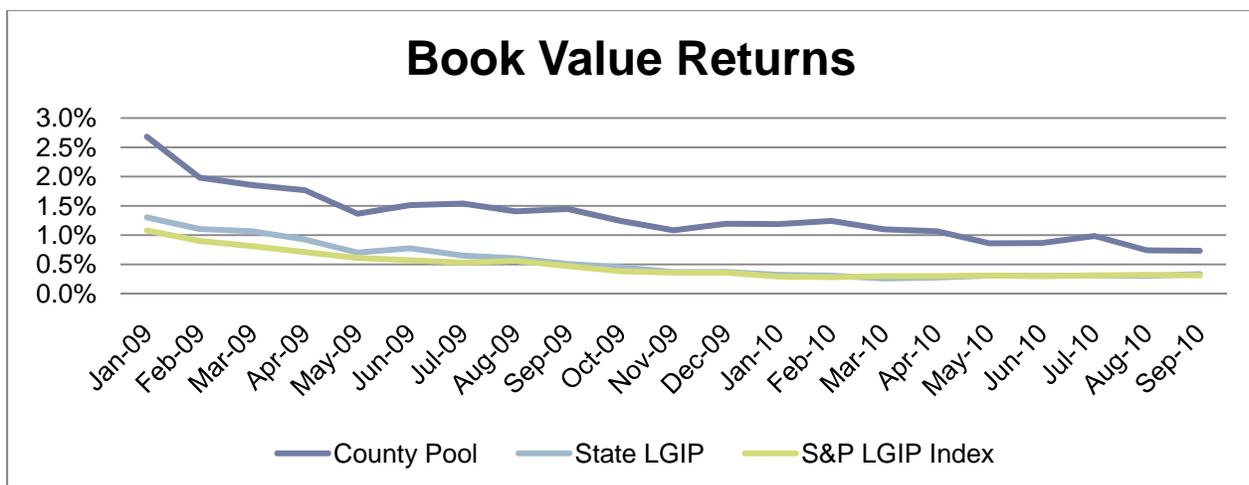


FIGURE NINE

**Figure Ten** compares performance on a total return basis. Total return measures the market value increase or decrease in the value of the portfolio plus interest earnings on securities, over a given period of time. The customized total return index consists of 75% Merrill Lynch 0-1 Year U.S. Treasury Index and 25% 1-3 Year Agencies Index with a modified duration of 0.723 years as of September 30, 2010. The annualized total return for September of 2010 for the County Pool was 0.530% and the Custom Benchmark Index was 0.807%. The Benchmark held a longer duration and was therefore able to obtain higher yields than the County Pool.

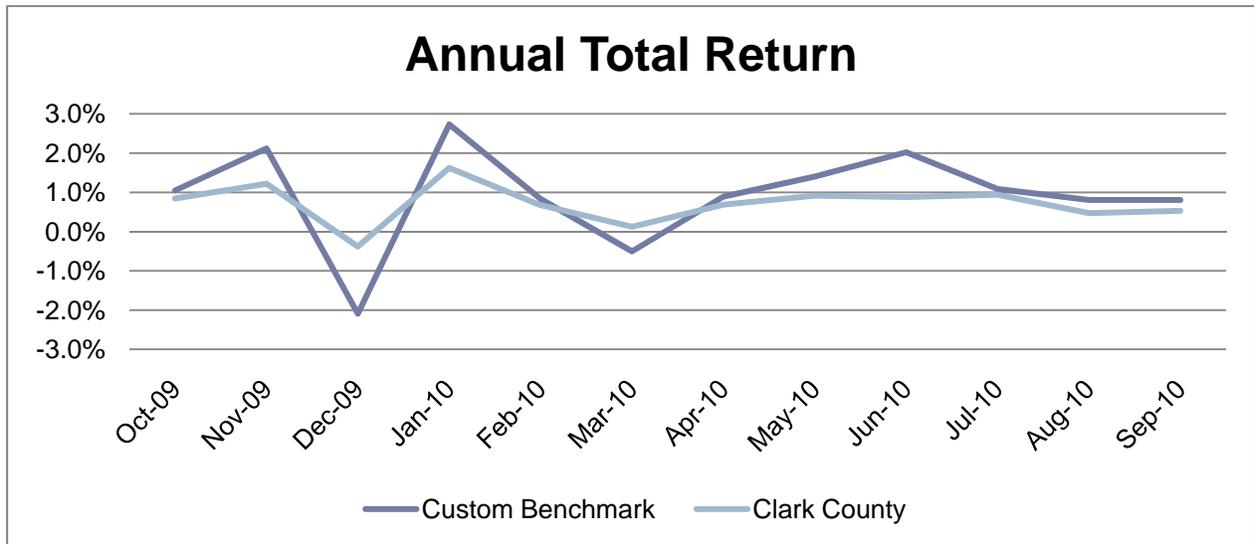


FIGURE TEN

**Figure Eleven** shows the market value of the Pool portfolio based on net asset value (N.A.V.) per share. N.A.V. is the market value of the portfolio’s securities, less liabilities, divided by the total number of shares outstanding. As of September 30, 2010, the N.A.V. per share was \$1.002016. GASB Statement 31 requires that External Investment Pools like the County Pool report all investments at fair market value if the average maturity of the Pool exceeds 90 days. The fair market value of the Pool was \$480,385,991.63 on September 30, 2010.

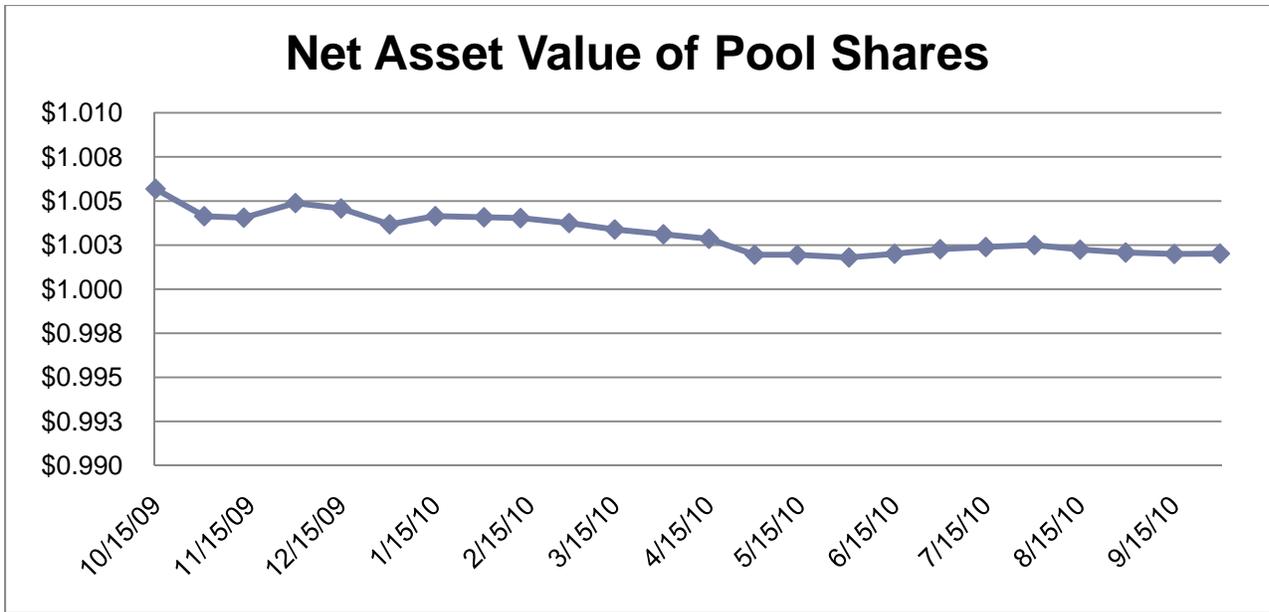


FIGURE ELEVEN

Net Asset Values:

Date	Value	Date	Value
10/15/2009	\$1.005684	04/15/2010	\$1.002858
10/31/2009	\$1.004138	04/30/2010	\$1.001954
11/13/2009	\$1.004054	05/14/2010	\$1.001948
11/30/2009	\$1.004881	05/31/2010	\$1.001801
12/15/2009	\$1.004578	06/15/2010	\$1.002010
12/31/2009	\$1.003678	06/30/2010	\$1.002271
01/15/2010	\$1.004141	07/15/2010	\$1.002392
01/31/2010	\$1.004077	07/31/2010	\$1.002506
02/12/2010	\$1.004031	08/15/2010	\$1.002245
02/28/2010	\$1.003751	08/30/2010	\$1.002082
03/15/2010	\$1.003385	09/15/2010	\$1.001997
03/31/2010	\$1.003113	09/30/2010	\$1.002016

**Figure Twelve** shows projected County Pool interest rates for 2010 compared with actual gross interest rates.

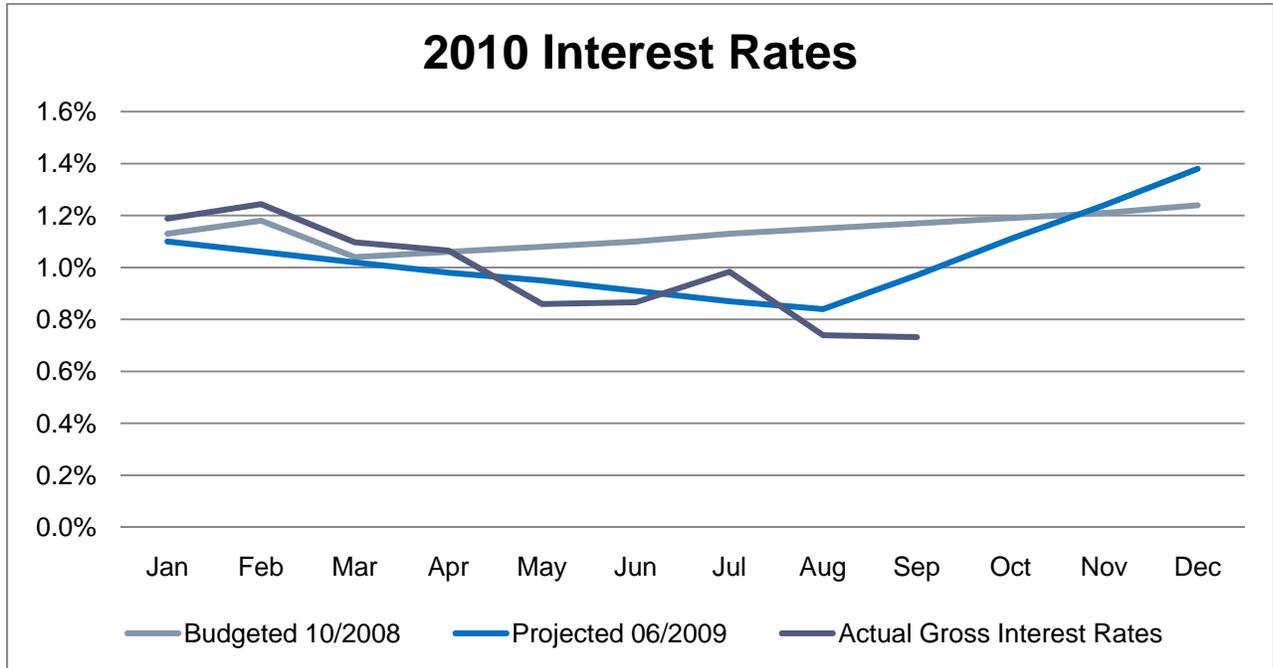


FIGURE TWELVE

## SECTION IV – INVESTMENT STRATEGY

The following table shows the percentage distribution of the Clark County Pool maturity periods. In the beginning of 2008, the emphasis was to purchase securities in the 2 – 5 year sector. As we approach the bottom of lower interest rates, we began purchasing securities in the 1 – 2 year maturity sector so we will be ready when there is a rise in interest rates. The economy is showing very sluggish signs of recovery from the recession that officially ended in 2009. We continue to purchase securities in the 2 year maturity sector to keep our average maturity around 6 months.

Period	0 – 1 Year	1 – 2 Years	2 – 5 Years
1 <sup>st</sup> quarter, 2008	77%	4%	19%
2 <sup>nd</sup> quarter, 2008	68%	15%	17%
3 <sup>rd</sup> quarter, 2008	72%	21%	7%
4 <sup>th</sup> quarter, 2008	67%	18%	15%
1 <sup>st</sup> quarter, 2009	63%	20%	17%
2 <sup>nd</sup> quarter, 2009	80%	10%	10%
3 <sup>rd</sup> quarter, 2009	86%	7%	7%
4 <sup>th</sup> quarter, 2009	72%	26%	2%
1 <sup>st</sup> quarter, 2010	69%	24%	7%
2 <sup>nd</sup> quarter, 2010	76%	16%	8%
3 <sup>rd</sup> quarter, 2010	74%	15%	11%

During the third quarter of 2010, our target range for duration was between 0.4 and 0.6 years. We continue to maintain high credit quality in portfolio and we continue to monitor our investment strategy. We remain proactive as economic conditions fluctuate.

Davidson Fixed Income Management provides a third party review of the Treasurer’s Investment Portfolio and provides investment advice.

## SECTION V – ECONOMIC/MARKET CONDITIONS

Retail sales rose 0.6% in September along with a slight upward revision to the August numbers. The main drivers of growth in sales were in autos and electronics. Clothing and department store sales are continuing to remain stagnant.

The GDP grew at a 2% annual rate in Q3 with an increase in consumer spending from 2.2% to 2.6%.

On September 30, 2010, the 2-year US Agency yielded 0.43%, compared to 1.24% on December 31, 2009. That is a decrease of 81 basis points.

The CPI in September rose a meager 0.1%, driven by an increase in gasoline prices. In the current quarter, crude oil has been in the mid to upper \$80's per barrel since October of this year, leading to the increase in pump prices and transportation costs.

A second round of quantitative easing, QE2, was announced in early November. The Fed announced their intentions to purchase \$600 billion in bonds in the open market, which in turn pumps more cash into the economy. The Fed is hoping this will jump start further economic recovery by leading us into a modest inflationary period. Inflation has been running relatively flat, which concerns the government that the economy would drift into a deflationary period without any intervention.

The unemployment rate jumped up to 9.8% in November. According to Bloomberg, it is projected that unemployment will end 2010 at a 9.7% average, and will remain at continuing elevated levels of 9.4% for 2011 and 8.7% for 2012.

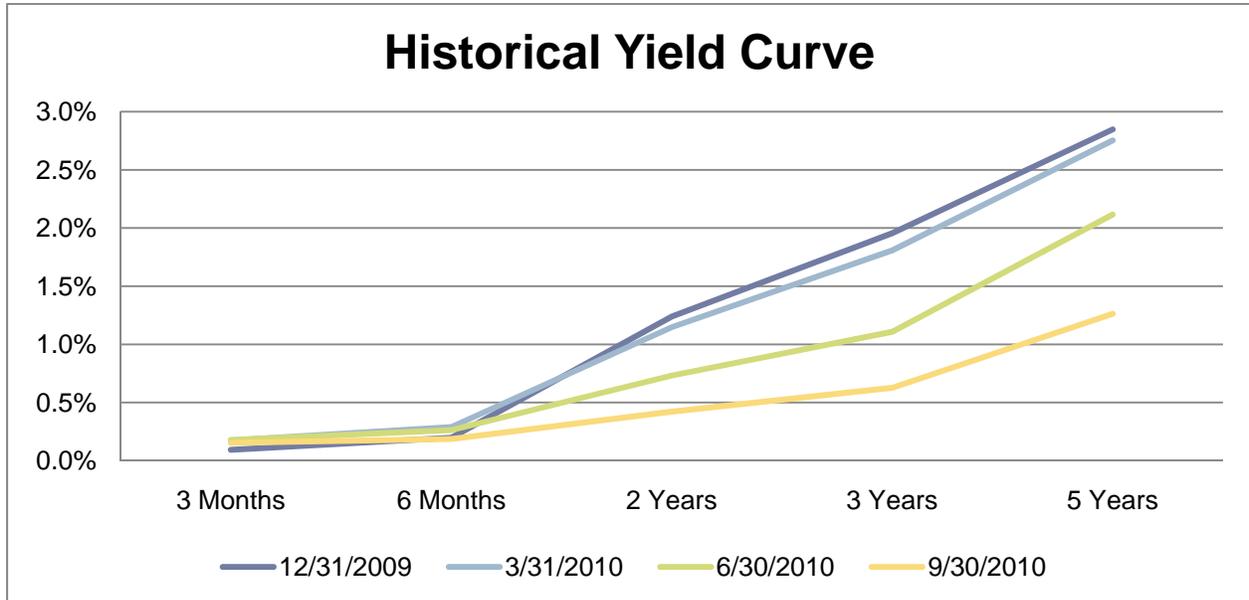


FIGURE THIRTEEN

## SECTION VI - PORTFOLIO

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### **ENTIRE PORTFOLIO:**

**Exhibit One** shows the makeup of the entire portfolio at the end of the quarter. 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 portfolio. All percentages are consistent with the current Investment Policy.

**Exhibit Two** shows the entire portfolio listing as of the end of the quarter. This report shows the book value, the par value, and the market value of the portfolio.

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

**Exhibit Four** reflects the percentage of securities purchased from each issuer relative to the entire portfolio. All the percentages are consistent with the current Investment Policy.

**Exhibit Five** shows all investment purchases and maturities.

### **INVESTMENT POOL:**

**Exhibit Six** show the makeup of the Clark County Investment Pool at the end of the quarter. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of the securities held and related percentage of the total portfolio for each type of security. All percentages are consistent with the current Investment Policy.

**Exhibit Seven** shows the portfolio listings of the Clark county Investment Pool at the end of the quarter. This report contains the book value, the par value, and the market value.

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

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