

Investment Advisory Committee Meeting Minutes
Thursday, October 12, 2023
11:30 a.m. in Lyon Conference Room

Note: A power outage at the Deschutes Services Building during this meeting resulted in an alternate format for this meeting's Zoom and video recording.

Members Present:

Craig Renkert, Retired CFO, Federal Metals Credit Union
Richard Ambrose, Principal, Axia Wealth Management
Brian Durbin, Fiscal Director, Rooted Homes
Tony DeBone, County Commissioner

Not present:

James Wood, Accounting Manager, City of Redmond

Deschutes County Staff:

Robert Tintle, County Chief Financial Officer
William Kuhn, County Treasurer
Nick Lelack, County Administrator and Budget Officer
Elizabeth Pape, County Internal Auditor
Angie Powers, BOCC Administrative Assistant

1. Call to Order: Bill Kuhn, County Treasurer, called the meeting to order at 11:48 a.m. Richard Ambrose moved approval of the meeting agenda. Brian Durbin seconded. All votes: yes. Motion passed.

2. Introductions/Notices:

- Bill Kuhn shared the Investment Advisory Committee roster is full, with no vacancies. Craig Renkert and Richard Ambrose both agreed to renew their terms for another four years. He recognized Brian Durbin and James Wood as the committee's more recent appointments and thanked the public members for their commitment. Elizabeth Pape was introduced as the County's new Internal Auditor.
- Elizabeth shared her background and experience with the group, adding that she is currently working on some human resources audits related to wage equity and compensatory time administration, as well as audits in Property Management/Facilities and Fair & Expo. She noted that audit reports are public, and she welcomed all in attendance who may be

interested to opt-in to receive reports. It was shared that when newly elected officials take office, an audit is typically performed on the transition which has proved very beneficial. Bill Kuhn participated in one of these transition audits when he took office.

3. Review/Approve minutes from March 7, 2023 meeting: Richard Ambrose moved approval of the March 7, 2023 Investment Advisory Committee minutes. Craig Renkert seconded. All votes: yes. Motion passed.

4. Treasury Report: Kuhn provided a brief recap of the August 2023 Treasury Report, which was presented to the Board of Commissioners on September 27th. Some highlights include:

- Portfolio balance at the end of August was \$256.2 million, a decrease of \$2.2 million from July and a decrease of \$15.0 million year over year. The decline was attributed to the spending down of ARPA funds and ongoing construction activity at Negus transfer station.
- Net investment earnings were \$491,809, a decrease of \$25K from July and an increase of \$282K over August 2022, reflected by a higher rate environment and a higher portfolio balance.
- All portfolio category balances were within policy limits.
- Local Government Investment Pool (LGIP) interest rate increased to 4.50% during the month. We have seen consistent increases to the LGIP to the County's great benefit with increased earnings on our short-term liquidity.
- Average portfolio yield was 2.48%, which is higher than the prior month's average of 2.38%.
- Portfolio-weighted average time to maturity was 1.06 years, compared to 1.37 years one year ago. This is a function of greater balances we are keeping short-term.

Kuhn shared there are no areas with cause for concern. Commenting on the overall portfolio performance and yield, Kuhn shared that as public entities, a hold to maturity strategy is utilized. In early June a number of under-performing investments (yielding sub 1%) were sold, totaling \$10.6 million. In doing so, a minimal book loss of \$335K was offset by the monthly earnings before the fiscal year's end. This isn't done often, but it was a strategic move which proved to be beneficial in the long run. This allowed the county to boost yield, increase short-term liquidity and position itself comfortably with regard to rising monthly expenses attributed to inflation and personnel expenses.

In analyzing various options, Kuhn built out a spreadsheet to examine cash generated versus book loss. He and Robert Tintle recently attended the

annual OACTFO Conference with discussion of portfolio management for aged investments in a climate which has seen increased interest rates. Tintle shared that most government entities hold to maturity, as their top priority is preservation of capital. Their second priority is liquidity, followed by yield.

In July, Kuhn began rolling 30-day treasury bill investments of \$5 million to take advantage of the high rates (5.25% and higher). This next investment cycle, he'll be focusing on yield and duration. County policy allows going out as far as five years, but three years seems to be the sweet spot.

5. Other Considerations - Trading document / written system covering trading activity

- Kuhn shared that the March IAC meeting included a comprehensive review of the county's Investment Policy. He provided an update, that the two approved minor changes were approved by the Board of Commissioners in April 2023 and the revised policy has been posted on the public website.
- An outcome of the County Internal Audit's treasurer transition was the creation of a simple trading document, one which captures the intended goals at the time of investment: type, maturity, security rating, yield to maturity and efforts made to ensure a competitive bid. Kuhn created a simple Excel spreadsheet with a 5-year investment pivot table that pulls in the maturity distribution schedule and captures the relevant information. He shared an example with the group, stating that all attempts are made to update the quotes real-time, but this can be challenging due to how quickly the market changes. It can also be challenging to capture the information into a spreadsheet, as it is typically received in the form of email quotes. The document shows the efforts made by the county to get the best possible bid. Kuhn is looking for opportunities for enhancement by automating the process as much as possible.
 - Ambrose commented that this is a helpful snapshot, but advised remaining cognizant that the time invested in the process doesn't outweigh the benefit.
 - Durbin suggested considering a format similar to a Google Form which requires brokers to complete requested fields that automatically populate into a spreadsheet, for ease of use.
 - Some discussion ensued relative to Bloomberg service subscriptions, which can be costly but in many cases may pay for themselves via increased visibility on current market conditions.

- Overall, there was general support for the document with some minor tweaks. The addition of a “why” field and efforts towards making it less time-intensive were suggested.
- Kuhn shared that the annual broker-dealer review recently took place. He didn't pare back on any of the six approved brokers, but added one to the list: Stifel Capital Markets. Next round, he plans to reducing the overall total, however noting that County policy requires three bids. Tintle note that new issues, however, don't require three bids. He highlighted that from an external auditor's standpoint, concentration and professional judgment are both taken into consideration. Durbin recommended paring the list down to approximately four broker-dealers. Responding to Renkert and Durbin, Kuhn said that securities are kept apart from the Brokers, with Zions Bank acting as the Custodian. He acknowledged that there is a delicate balance between obtaining competitive bids while taking advantage of some brokers who have specialties that can work to the county's benefit.

6. Market Discussion: Kuhn prompted the group for a discussion of current market conditions and shared his thoughts. In the short term, the United Auto Workers' strike will dampen down economic activity. General federal government dysfunction and a shutdown looming after November 17th adds to the uncertainty. The consensus amongst the group was that rates will remain higher for a longer period of time.

- Renkert suggested targeting maturity of bonds to meet immediate cash needs and recommended keeping maturity shorter than three years. He anticipates inflation to come down but not quickly.
- Ambrose anticipates that interest rates will stay high longer and that current rates will be the new normal as the previous 10-15 years of low rates were abnormal.
- Durbin stated that he likes the county's use of 30-day treasury bills as an investment option.
- Tintle said that volatility has been in short-term rates, and that as soon as cuts are announced the rates will drop quickly and we could miss out on the opportunity to take advantage of higher rates in the short term.
- Kuhn thanked everyone for the great feedback. He shared that the county is going out for a \$20.5 million 20-year bond towards the courthouse expansion project. \$15 million in State funding will also be utilized.
- Lelack announced an opening on the Budget Committee. The time commitment is approximately 7 meetings per year, with Budget Week taking place in May. He and Commissioner DeBone acknowledged that higher interest rates impact county departments such as CDD (less

construction, fewer permits issued) and Solid Waste (less construction waste).

- Commissioner DeBone noted that higher mortgage interest rates have definitely become part of the equation for home buyers in current times.

7. Next Steps / Updates

- None noted.

8. Other Discussion Items

- None noted.

9. Adjourn: Renkert moved adjournment. Ambrose seconded. All votes: yes. The meeting was adjourned at 1:23 p.m.



Angie Powers, Recording Secretary