

# WASHOE COUNTY INVESTMENT COMMITTEE

## MINUTES OF MEETING

WEDNESDAY, OCTOBER 25, 2023  
3:00 PM

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**PRESENT:** Clara Andriola, Commissioner  
Justin Taylor, Treasurer  
Abbe Yacoben, Chief Financial Officer  
Cathy Hill, Comptroller

**STAFF:** Michael Large, Legal Counsel, Washoe County District Attorney's Office  
Brenda Mathers, Chief Deputy Treasurer, Washoe County Treasurer's Office  
Marissa Kuckhoff, Administrative Assistant I, Washoe County Treasurer's Office  
Casey McDonald, Office Assistant II, Washoe County Treasurer's Office (Via Zoom)

**FHN:** Rick Phillips, President & Chief Investment Officer, FHN Financial Main Street Advisors

**OTHER:** Robert Andrews, Accounting Manager, Washoe County Comptroller's Department (Via Zoom)  
Debra Crowley, Senior Financial Analyst, Truckee River Flood Management (via Zoom)  
George Robison, Executive Director, Truckee River Flood Management Authority (via Zoom)

The Washoe County Investment Committee met in the Commissioner's Caucus Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Treasurer Justin Taylor called the meeting to order, and Marissa Kuckhoff, Administrative Assistant I, called the roll. It was established that quorum was present, and the Committee conducted the following business.

### **AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]**

**Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."**

Treasurer Taylor called for any public comment and there was none.

### **AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]**

**Agenda Subject: "Possible approval of minutes for the Washoe County Investment Committee's July 26, 2023, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed."**

Treasurer Taylor introduced this agenda item, called for any corrections, and there were none. Comptroller Cathy Hill moved to approve the minutes and Chief Financial Officer Abbe Yacoben seconded. The motion passed unanimously.

### **AGENDA ITEM 4 – DISCUSS AND ESTABLISH INVESTMENT COMMITTEE MEETING DATES FOR 2024 [FOR POSSIBLE ACTION]**

Treasurer Taylor introduced this agenda item and reviewed the following proposed dates: Monday, January 29, 2024, at 2:00 pm; Monday, April 22, 2024, at 2:00 pm; Monday, July 29, 2024, at 2:00 pm; Monday, October 21, 2024, at 2:00 pm. Comptroller Hill made a note for the record that she will not be present at the proposed April meeting. Treasurer Taylor called for any public comment and there was none. Commissioner Clara Andriola motioned to approve the dates and Chief Financial Officer Yacoben seconded the motion. It passed unanimously.

**AGENDA ITEM 5 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY’S INVESTMENT PORTFOLIO  
[NON-ACTION ITEM]**

**Agenda Subject: “The July-September 2023 quarterly report will be provided, and Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County’s Investment Portfolio Strategy discussion and Economic Update.”**

Treasurer Taylor introduced this agenda item and Rick Phillips with FHN presented the quarterly report.

**ECONOMIC AND MARKET UPDATE**

Phillips gave the following economic overview of the market.

**12 Paramount Principles of Public Fund Investment Programs**

1. Longer Duration Will Generate More Investment Income Over the Long Run
2. A Detailed Asset/Liability Matching Model (aka: Cash Flow Model) is a Must
3. Interest Rate Risk (WAM/Duration) Should Match Cash Flow Metrics
4. Credit Can Enhance Income, But Duration is the Bigger Determinant of Income
- 5. Prudent Diversification Among Asset Classes and Investment Types/Maturities**
6. You, I...Nor Anyone Else Can Time the Market Accurately Over the Long Run
7. Limit Optionality (Callables) in the Portfolio
8. The Goofiness of GASB 31—Gains are Bad and Losses are Good! (The Unrealized Kind)
9. Understand the Risks of Funds in LGIP and Other Pools (JPAs, Bond Funds)
10. Follow GAAP (Generally Accepted Accounting Principles)
11. Benchmark Your Investment Program and Portfolio in Multiple Ways
12. Tell the Story: Provide Quality, Timely, Transparent Reporting

**Employing Probable Expectations:**

Increasing the likelihood of long-term success for the Investment Program (SLI-Safety, Liquidity, Income).

**Principal Preservation > Investment Income**

“The Investment Portfolio is the only place in local government where revenue can be generated without assessing taxes or fees”.

**Prudent Diversification Among Asset Classes & Investment Types/Maturities**

Phillips used the example of an elevator and asked whether you would choose the elevator with one 4-inch cable or the elevator with four 1-inch cables. When diversifying, you would select the one with four 1-inch cables. Phillips explained that there was a county in Washington State that had a weighted average maturity of six years (most cities and counties are around 2-2.5 years) that needed more liquidity to fund ongoing projects. Losses were realized to provide increased liquidity.

**Portfolio Summary (9/30/2023)**

Phillips explained that the County currently has 42% liquidity, and that number usually fluctuates between 30-40% depending on time of year. Further, the County has unrealized losses of about 43-million of the billion-dollar portfolio, or around 4%, because interest rates have gone up. Also noted, the yield on the Portfolio has increased as interest rates have increased. Phillips explained that the County’s property tax collections increases substantially in August of each year and the duration of those funds is kept short as they will be distributed to other local agencies.

**Historical Book Values**

Historical data from July 2016 through September 30, 2023, was reviewed showing the increase in the book values over time from a little over \$400 million to \$975.3 million. AARPA funds are segregated and not included in these values.

**Historical Weighted Average Maturity**

Historical data from July 2016 through September 30, 2023, was reviewed showing that the average maturity has been kept around two throughout the time frame. Longer durations are ideal, but cash flow needs dictate the ultimate duration.

**Yield At Cost Per 6-Month Maturity Intervals**

Phillips showed a representation of the maturities percentage of portfolio and explained that the highest percentage (29.74%) was in the 0 to .5-Year range, followed by 12.84% in the .5 to 1.0-Year range.

**Historical Earnings & Book Return Performance**

The fiscal year-to-date earnings were graphed, and the interest income nearly doubled from the prior fiscal year.

**Realized Gains and Losses**

Phillips used a Toyota Motor Credit bond as an example and explained that the \$292,020 Premium divided by 1,484 days, would equal \$196.78 per day of amortization.

**Total Return/Net Investment Income Calculations**

Item	Amount	Date
Par	4,650,000.00	
Principal Purchased	(4,942,020.00)	8/28/2019 Price Paid 106.28
Premium Paid	(292,020.00)	
Accr Int Paid	(70,408.75)	
<b>Net Outflows</b>	<b>(5,012,428.75)</b>	
Int Payment	80,212.50	9/20/2019
Int Payment	80,212.50	3/20/2020
Int Payment	80,212.50	9/20/2020
Int Payment	80,212.50	3/20/2021
Int Payment	80,212.50	9/20/2021
Int Payment	80,212.50	3/20/2022
Int Payment	80,212.50	9/20/2022
Int Payment	80,212.50	3/20/2023
Int Payment	80,212.50	9/20/2023
Principal Maturity	4,650,000.00	9/20/2023
<b>Net Inflows</b>	<b>5,371,912.50</b>	
<b>Net Income</b>	<b>359,483.75</b>	
<b>Annualized Return</b>	<b>1.84%</b>	

**ECONOMIC AND MARKET UPDATE**

**The Fed is Hoping, Planning, “Wishing Upon A Star”... For an Economic “Soft Landing”**

Federal Reserve projections for full year 2023: growth slowing, unemployment increasing slightly, and inflation going down.

### **The Fed is Hoping, Planning, Wishing On/For An Economic “Soft Landing”**

Phillips explained that the 2007 news headlines prior to the Great Recession were saying that a soft landing was coming, and the news headlines today are predicting no recession, low inflation, and positive growth.

### **Weekly Initial Unemployment Claims**

Phillips explained that the employment market has been resilient and that unemployment claims are still very low, but that this can change quickly. 300k per week is a concern area and +325k per week has been an accurate recession signal.

### **Stock Markets: YTD, Still in The Soft Landing Categories... But Weakening Lately**

- S&P 500 +15% YTD.
- NASDAQ 100 +39% YTD.
- Russell 2000 1% YTD.
- The three major indexes are all still lower than their all-time highs of November-December 2021.

### **The Fed is Hoping, Planning, Wishing... But There Are Worries**

Phillips explained that oil prices, slowing growth, higher for longer interest rates, and increased geopolitical risks are all concerns that could impact the market.

### **Growth Projected to Slow Materially**

- Q3 2023 should show solid growth.
- Student loan payments have started and are projected to slow growth (GDP).
- Excess savings for most income categories have been depleted or are projected to be soon.

### **Interest Rates At or Near Cycle Highs**

- Intermediate and long-term rates are at/near 15+ year highs.
- Rates are up due to increased Treasury supply and lower international and Fed demand.
- Rates are up due to higher energy prices.
- Oil is up +30% since June 2023.

### **“War Time Spending In A Peace Time Economy”**

- Federal spending this year has helped increase GDP
- The Fed financed the \$5'ish trillion of pandemic stimulus, but now Quantitative Tightening (QT) is reducing liquidity.
- Deficit spending needs to get on a better glide path or the dollar might face future challenges as the global reserve currency.

### **U.S. Treasury Yield Heat Map... “It’s a Thing of Beauty!”**

- Best time to buy the average treasury yield since 2000.
- But rates certainly could go higher.

### **U.S. Housing**

- Nationwide prices are -7% YOY.
- But prices are still up 27% from Pre-Covid levels (Feb 2020).
- YOY % Price declines are the 3<sup>rd</sup> worst in the past 50'ish years.
- Existing home sales volume is the lowest since the “Great Recession”.
- The 30 Year mortgage rate is 8'ish... up from 2.5% in 2020.

**“Greedy” Bankers Making It Harder To Borrow Money**

- Banks are worried about a recession.
- Banks have experienced massive deposit outflows.
- This high percentage of banks tightening lending standards in the past has preceded recessions 4 for 4 since 1990.

**How Is The Consumer Doing?**

- Imports of goods and services have declined.
- YOY declines at this level have often led to recessions in the past.

**Federal Tax Receipts**

- Federal tax receipts have slowed materially on a YOY basis
- YOY declines at this level have often led to recessions in the past.

**Streaks Can Be Broken! But Odds Generally Play Out Over the Long Run**

- UMBC (Univ. Maryland Baltimore County) upset number 1 seed in Virginia in 2018.
- FDU Upset Number 1 Seed Purdue in 2023.
- Since 1985, Number 1 Seeds are 150-2 vs. Number 16 seeds in the men’s NCAA tournament.

Phillips stated that a lot of indicators are pointing toward a slowdown, but the ‘streak’ could be broken.

**The Yield Curve is Still an Economic and Banking Issue**

- The Yield Curve is Less Inverted Than A Few Months Ago Due to Longer Rates Rising.
- An Inverted Curve is A Major Challenge For Banks’ Profitability Due To Having To Compete with Market Rates on Deposits.

**Fed Funds History and Futures**

Fed Funds Mid-Rate Actual History and Fed Funds Futures.

- Nov 1 Fed meeting has only a 10% chance of a 25 BP Hike – 35% of a Dec 2023 hike.
- Good news for the Portfolio: Rates are expected to be higher for longer!
- If the U.S. Economy Seems to be heading to a recession, Fed Funds Futures rates will probably decline a bunch.

Treasurer Taylor thanked Phillips for the report and moved to the next agenda item.

**AGENDA ITEM 6 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]**

**Agenda Subject: “This item is limited to announcements or issues proposed for future agendas and/or workshops.”**

Treasurer Taylor called for any committee member’s comments and there were none.

**AGENDA ITEM 7 – PUBLIC COMMENTS [NON-ACTION ITEM]**

**Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”**

Treasurer Taylor called for public comment and there was none.

**AGENDA ITEM 8 – ADJOURNMENT [NON-ACTION ITEM]**

Treasurer Taylor adjourned the meeting.

**Attachments to Minutes**



Agenda Item 3 -  
Minutes of July 26, 20



Agenda Item 5 -  
Washoe Co Inv Comt-

Pending Approval