

TO: Board of Commissioners
FROM: M. Green - Treasurer
SUBJ: Year End Update
DATE: August 7, 2018

Performance Summary

Total investments through June 30, 2018 equaled \$24.3M. This represents an decrease from the prior quarter of \$.1M. Earnings (LGIP and Investments) for the fiscal year totaled \$971.3K vs \$655.7K for the prior fiscal year. The increase in earnings is largely due to improved rate of return with investments gaining 21bps and LGIP gaining 64bps.

Key performance criteria for the quarter are:

- YTM – 2.17(increase of 10 bps)
- YTW – 2.10 (increase of 9 bps)
- Investment Rating (OST scale) – 1.58
- Per Cent Invested versus Targeted Ceiling – 98%
- Average maturity in years – 3.27
- Adjusted WAM – 2.65
- LGIP increased to 216 bps in the quarter

Discussion

The bond market continues to be stable with interest rates continuing to rise. The only investments made during the quarter were for maturing bonds. Four bonds matured and were reinvested. The new bonds averaged 4.4 years in maturity with an average return of 3.3%. One to two year corporates are earning 2.0% - 2.82% with four year corporates exceeding 3.0%. The “best” rates are continue to fall into the 3.5 -4.0 year window.

Investment Committee Discussion/Recommendations

Under Old Business the Committee primarily focused on four topics: core rate of inflation, H&S cash balance and US Bank balance and fallen bond ratings.

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- Core Rate of Inflation: for the quarter increased to 2.4%. For the past twelve months rate of inflation at 2.2%.
- HH&S cash balance: remains at a high level (\$11.4M) which is a slight decrease over the prior quarter.
- US Bank: average collected balances (ACB) for the quarter was \$1.8M vs and average cash balance for the preceding nine months of \$3.8M. Maintaining this lower level will result in an additional earnings of \$36,000 for the new fiscal year.
- Fallen Bond ratings: continue to have 6.4% of the portfolio classified below AA (excluding Wells Fargo and J.P. Morgan/Chase). No new bonds have been lowered in rating. Four bonds had been upgraded from A to AA.

Under new business two topics were discussed.

- Investment focus: Given the stability of the County's funds and the increased rate of return in the bond market it was recommended that the Investment pool be increased by \$2.5M to a new ceiling of \$27.5M.
- LEO Report: a new report Lost Earnings Opportunity (LEO) was presented. The report focuses on the five major funds having the most cash balances. These funds are stable and have historically had predictable cash usage. If it were agreed, either in discussions with the department head or via the budget process that some of the significant cash be reclassified for longer term use, the sum of the money could be invested at a higher rate of return. Historically, this has been 100 bps. The result could be an estimated \$200,000 in earnings per year based upon prior results. It was recommended that this topic be further investigated.

Actions Required by the BOC

Increase the investment ceiling from \$25 million to \$27.5 million.

Accepted by Yamhill County
Board of Commissioners on
8/9/18 by Board Order
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