



OFFICE OF THE
TREASURER

Yamhill County Investment Mix

January 12, 2022

To: Yamhill County Board of Commissioners

I am requesting the approval of the Yamhill County Commissioners for the following change.

The change of the allowable portfolio percentage mix to be based on our current Investment Policy. "In no event shall the Investment Portfolio (non-LGIP investments) be greater than the sum of the Total Portfolio (LGIP and non-LGIP investments) minus the 18-month maturity constraint (35% of the Total Portfolio)." [YC Investment Policy: 9,b,ii]

On January 12th the Yamhill County Investment Advisory Committee voted to eliminate the current County Commissioners' static bond investment limit of \$27.5 M and follow the guideline already spelled out in the Yamhill County Investment Policy. This would change the mix to be a percentage of the portfolio: 65% bonds and 35% LGIP. This would simplify and make more flexible cash flow management and would result in an increase in total Portfolio interest income by roughly \$100 K per year. This increase would be distributed as usual among various Yamhill County Departments.

The monthly percentage mix of the portfolio will change upon market conditions and cash flow needs of the county.

Respectfully,

Yamhill County Treasurer

Accepted by Yamhill County
Board of Commissioners on
1/20/22 by Board Order
22-22



RECOMMENDED (January 2022)

Two major changes to the management of the combined Yamhill County Investment Portfolio:

1. Eliminate the current County Commissioners' static bond investment limit of \$27.5 M and follow the guideline already spelled out in the *Yamhill County Investment Policy*. This would simplify and make more flexible cash flow management and would result in an increase in total Portfolio interest income by roughly \$100 K per year. I would like to see this implemented no later than February 2022.

PROJECTED RESULT OF CHANGING INVESTMENT MIX TO CONFORM TO THE YCIP								
<i>Yamhill County Investment Policy</i> liquidity requirements:								
9.b.ii: In no event shall the Investment Portfolio (non-LGIP investments) be greater than the sum of the Total Portfolio (LGIP and non-LGIP investments) minus the 18-month maturity constraint (35% of the Total Portfolio). The current Commissioner-approved level is \$27,500,000.								
Current Combined Portfolio Ratio (12/31/2021)				YCIP -Adjusted Portfolio Ratio				
Investments		% Portfolio	Est. Interest 2022-2023*	Readjusted % per YCIP	Est. Interest 2022-2023*	Adjusted Interest (+/-)		
LGIP w/o ARPA**	\$43,394,227	62%	\$195,274	35%	\$24,428,682	\$109,929	-\$85,345	
Bonds	\$26,402,006	38%	\$330,025	65%	\$45,367,552	\$567,094	+\$237,069	
Total Investments	\$69,796,233	100%	\$525,299	100%	\$69,796,233	\$677,023	+\$151,724	
							Clearwater Analytics Fee:	-\$15,000
Adjusted Interest Income Increase:							\$136,724	
Scenario 1: Mid-level Portfolio Projection								
Investments		% Portfolio	Est. Interest 2022-2023*	Readjusted % per YCIP	Est. Interest 2022-2023*	Adjusted Interest (+/-)		
LGIP w/o ARPA**	\$35,000,000	57%	\$157,500	35%	\$21,350,000	\$96,075	-\$61,425	
Bonds	\$26,000,000	43%	\$325,000	65%	\$39,650,000	\$495,625	+\$170,625	
Total Investments	\$61,000,000	100%	\$482,500	100%	\$61,000,000	\$591,700	+\$109,200	
							Clearwater Analytics Fee:	-\$15,000
Adjusted Interest Income Increase:							\$94,200	
Scenario 2: Low-level Portfolio Projection (based on early fall levels)								
Investments		% Portfolio	Est. Interest 2022-2023*	Readjusted % per YCIP	Est. Interest 2022-2023*	Adjusted Interest (+/-)		
LGIP w/o ARPA**	\$30,000,000	58%	\$135,000	35%	\$18,200,000	\$81,900	-\$53,100	
Bonds	\$22,000,000	42%	\$275,000	65%	\$33,800,000	\$422,500	+\$147,500	
Total Investments	\$52,000,000	100%	\$410,000	100%	\$52,000,000	\$504,400	+\$94,400	
							Clearwater Analytics Fee:	-\$15,000
Adjusted Interest Income Increase:							\$79,400	
Average Projected Adjusted Interest Income Increase:							\$103,441	
*Current rate of return for LGIP is 0.45%. Current rate of return on bond portfolio is 1.31%. Using 1.25% for this estimate.								
**ARPA Funds 6347 (not included): \$10,430,803								

The *Yamhill County Investment Policy (YCIP)* mandates that “In no event shall the Investment Portfolio (non-LGIP investments) be greater than the sum of the Total Portfolio (LGIP and non-LGIP Investments) minus the 18-month maturity constraint (35% of the Total Portfolio).” [YCIP 9b.ii] Currently our Total Portfolio ratio is flipped, that is, we have 63% in LGIP and 37% in the bond portfolio. This makes it difficult to keep within the State-set LGIP limitation of \$52,713,000 (*per* ORS 294.810). We are exceeding this limit now with our current balance of \$53,825,031 in the combined LGIP accounts. This recurs regularly several months each year. If we followed the *YCIP* limits, our investments would be no more than 65% in our bond portfolio and no less than 35% in LGIP. It would then be easier to manage cash flow and keep within the State-set maximum limits of LGIP.

2. Institute a means for real-time online access and detailed reporting of our bond portfolio. As we increase the size of our bond portfolio, we also need to decrease vulnerabilities and limitations by implementing a service such as that offered by Clearwater Analytics®. Clearwater operates a responsible, transparent, verifiable system that provides ongoing risk mitigation analysis and detailed and robust automated reports.

We would not move our assets from Zions Bank. Zions would continue as our safekeeping agent. The periodic reports provided by Zions are quite basic and, in fact, do not include sufficient data to produce our quarterly County Investments report. We simply cannot access from Zions the raw portfolio data needed to prepare our reports. Zions does, however, work seamlessly with Clearwater to provide them with up-to-date raw portfolio data for all the analyses and services they provide.

The current method of tracking and reporting used by Yamhill County puts both the County and the Treasurer at risk: In the business world our Treasurer would be identified as a “key person” in the management of our portfolio. “Key person” designates an important employee or executive who is so core to the operation of the business that his/her death, disability, or absence would prove to be disastrous for the organization.

Current Inadequacies:

- All reports are prepared by only one person, the Treasurer. Aggregate data comes from Zions but needs to be interpreted to prepare our reports. This is subject to human error.
- The only person who can replicate our current reports is the Treasurer.
- None of the data from Zions is updated daily.
- The credit quality of our bonds is reported only on Zions’ monthly statement, not online.
- Bonds maturity is not broken out into a separate field, making it quite difficult to build a workable maturity and cash flow ladder.
- Callable bonds are not identified in any form, online or the monthly statement.
- We have a solid, conservative Investment Policy. However, the Policy is only as good as the application of the criteria within the Policy. Currently there is no method by which we are notified of an oversight or inadvertent violation of Policy implementation.

Clearwater Analytics® solutions: I have attached material from Clearwater which gives a good description of their services which meet very specific needs for Yamhill County:

- **We can create and share custom reports and dashboards** with team members easily.
- **An unlimited number of account users with different levels of access is available.** Everyone who is authorized can work within the system.
- **No one makes manual entries.**
- Clearwater is uniquely positioned to capture data daily while providing highly accurate data validation integrated with downstream systems to provide clean data to all our investment accounting processes. **This is fully validated and reconciled data daily.**
- **Clearwater can tailor both high-level and in-depth portfolio views,** powered by clean, validated investment data for our Portfolio book-of-record accounting, compliance monitoring, performance metrics and risk analytics.
- The credit rating for each bond is updated daily. **If there is a change in a rating an alert email would be sent to the County.**
- **We would be able to monitor maturity information,** creating reports with maturity ladders that update every day, including interest income projected monthly for cash flow management.
- **Callable bonds can be monitored with an alert email if the dollar amount exceeds the 35% limit stated in the Investment Policy.**
- **Any action or change that has resulted in a potential violation of the investment Policy would generate an alert email** and added to the compliance section of the online data. Auditors would be able to obtain reports specific to their inquiries.

The advantages of working with Clearwater are numerous. They would benefit both me as the Treasurer and Mike Barnhart as the Manager of Finance. Mike Barnhart is supportive of this recommendation.

Fees and Competition:

Our fee for Clearwater's services would be \$15,000 per year, which at first blush seems expensive but is only 4 basis points of the yield of the proposed \$40 M portfolio which currently earns a rate of return of 1.31%. Our estimated annual income under this proposal would be an average of \$500,000. After Clearwater's fees the income would be \$485,000. Other Oregon counties consider reporting fees as an interest income deduction rather than a line-item budget expense.

I have investigated two other companies that also provide reporting services, SimPro and Tracker, their fees ranging from \$5,000 to \$10,000 per year. However, they are nothing more than online spreadsheet providers. Their subscribing users are required to enter most of the data manually. They do not connect with Zion's download feed. This would create the potential for errors or even create the opportunity for intentional manipulation of the data. The only way to get credit quality information to their sites is to enter it manually every month. Under no circumstance would I be comfortable using either of these service providers.

Outside Endorsements:

Larry Soderberg, Chief Financial Officer, Yamhill Community Care

Yamhill Community Care uses Clearwater Analytics® to manage their bond portfolio. YCC prepares intricate reports for the OHA. Clearwater provides all the data he needs and just the NIAC report that he needs to produce. He can complete his quarterly report within minutes. There is no concern regarding inaccurate reports. They can get daily updates and red-flag notifications when there is a problem with an investment not meeting their standards. He can manage the portfolio without an outside consultant, and it provides great risk mitigation.

Shannon Bell, Jackson County Treasurer

Jackson County uses Clearwater Analytics® to help them with reporting and tracking of their portfolio. This is what Shannon said in response to my question regarding using Clearwater.

- *LOVE it. My auditors love it because I cannot modify it whatsoever. My reporting is easy, my year end requirements are done in minutes I can see my ladder in an instant. My dashboard is very helpful (that you can customize). I know which callable agencies are likely to come due, I have liquidity reports.....*
- *Month end interest allocations, buy/sell transactions, coupons, and maturities are a simple process. My mark to market is calculated by day.*
- *SUCH a time saver and provides so much great reporting.*
- *I could go on and on....I don't regret buying it whatsoever.*

Clearwater Analytics® provided me with an online demonstration of their platform. It was recorded so that others may review it. Here is the link: [YC Demo Recording50g](#)