Yamhill County Local Investment Advisory Minutes – First Quarter 2023

October 18, 2023, at 9:00 AM, Zoom Call

Minutes Prepared by Treasurer Kris Bledsoe

Committee members in attendance: Commissioner Berschauer, Stacy Flier, Treasurer Bledsoe
Committee members not in Attendance: Ekaterina St. Ores, Bill Sweat, Jim Schlotfeld, Kevin Chambers
Non-Committee Members in Attendance: Commissioner Johnston, Commissioner Starrett

Summary

Stacey discussed the impact of inflation and interest rates on the Yamhill County investment portfolio, highlighting the benefits of higher interest rates, but also losses due to rising rates. She warned that rising interest rates could be a headwind for economic growth. The potential impacts of increased fuel costs and foreclosures on their local economy were also discussed. Kris and Stacey discussed the financial performance of the portfolio, reporting a first-quarter balance of approximately 41 million with an additional 20 million from LGIP The average balance in their US Bank checking account was around 1.5 to 2 million. Despite the current market situation and the risks associated with callable bonds, the portfolio's return was better than it has been in years. Stacey and Kris discussed the current financial situation, focusing on the bond market and its impact on the county's investments. They expressed concern over high rates and the volatility it caused in both the bond and stock markets, but also noted that a stable rate would be beneficial for the county's financial health. Lastly, Kris expressed concerns about the financial situation in the county and the need for liquidity.

The team discussed the need for a quorum on a small board, mentioning that it depends on the minimum number of members present. They agree that the current board members would be the majority, unless they decide to increase the number. However, increasing the number on some committees might not work due to the challenges of managing a smaller board due to busy schedules. They approved the minutes of the last quarter's meeting.

Inflation and Interest Rates Impact on Investment Portfolio

Stacey discussed the impact of inflation and interest rates on the Yamhill County investment portfolio, highlighting that the portfolio has benefited from higher interest rates but also experienced some losses due to the rise in rates. Stacey noted that as inflation comes under control, the Federal Reserve may stop increasing rates, which would be beneficial for small businesses and consumers. However, she also warned that the rising interest rates could be a headwind for economic growth. Stacey also explained the concept of reinvestment risk, and how the trend of interest rates could impact the portfolio's target maturity of bonds. She concluded by discussing the recent inversion of the yield curve and its potential implications for the portfolio.

Fuel Costs, Foreclosures, and Economic Indicators

Commissioner Starrett, Stacey, and Kris discussed the potential impacts of increased fuel costs and foreclosures on their local economy. Kris expressed uncertainty about the future of fuel prices but noted the potential for less severe impact due to increased gas reserves. They also discussed the rise of electric vehicles as a potential solution to reduce dependency on oil and gas. While there was concern about the potential for foreclosures to impact the county, Kris and Stacey agreed that the immediate risk was low. The conversation also touched on the disconnect between the high rate of inflation felt by consumers and the core rate of inflation, which excludes volatile factors like food and energy. Stacey explained that despite the economic pain caused by these factors, the core inflation rate is a more stable indicator for the Federal Reserve's policy decisions.

Financial Performance and Portfolio Update

Kris and Stacey discussed the financial performance of their portfolio. Kris reported that the bond portfolio in the first quarter of the year amounted to approximately 41 million, with an additional 20 million from the LGIP. The average balance in their US Bank checking account was around 1.5 to 2 million. Kris also noted that their assets were currently at their lowest due to the non-receipt of tax receipts, but this would change in a few months. They also discussed their book yield, which was at 3.2% due to discounted bonds, and an unrealized loss of about 1.1 million. They ended the discussion with the note that half of the portfolio was under 180 days, and their credit rating was as high as it could be.

Market Risks and Bond Callability Discussed

Kris discussed the current market situation regarding long-term bonds and the risks associated with callable bonds, particularly in the context of potential interest rate changes. Kris mentioned that the portfolio is heavily invested in agency bonds due to their high rating, and that a significant portion of these are callable bonds. While there was uncertainty about the exact interest rate of the new bond purchases, they were stated to be closer to 5.5. Kris also explained that there isn't much bond maturity expected in the next six months, but when there is, the new bonds are likely to be at a higher yield, which would increase the overall portfolio yield. Over the last quarter, the portfolio had a return of $542,000 in interest and dividends, split largely between the agency bonds and Lg IP. Kris highlighted that the current returns are better than they've been in years.

Financial Discussion: Bond Market & Earnings Trend

Stacey and Kris discussed the current financial situation, focusing on the bond market and its impact on the county's investments. Stacey noted the beginning of a reversal in the yield curve inversion, which had moved quickly but was still not completely unwound. Kris expressed concern over the high rates and the volatility it caused in both the bond and stock markets.

Lastly, they reviewed the recent trading activities in the portfolio, including the maturity and rollover of bonds.

County Finance and Bond Strategy Discussion

Kris expressed concerns about the financial situation in the county and the need for liquidity. There was a discussion about specific bonds and the potential for losses if they were sold. Kris and Stacey advised that it might be more beneficial to let these bonds mature and roll into higher rate bonds rather than selling them at a loss.

Bond Sales and Budget Impact Discussed

Kris elaborated on the complexities of managing bond sales and their impact on departmental budgets. There was a discussion around the potential loss from selling certain bonds, with an example given of a $23,000 loss being distributed among departments. The uncertainty of when bonds would mature and the potential for further losses was also discussed. Kris shared that while there were suggestions to sell bonds to manage the situation, this would not be a feasible solution due to the potential disruption to departmental budgets and the current bond market crisis.

Financial Management and Interest Rates Discussed

Kris and Commissioner Johnston discussed the interest earned at the US Bank checking account, specifically the interest rate and associated fees. Kris explained that the county does not pay for many services, the interest earned is low due to this. However, they save tens of thousands of dollars in fees. A large chunk of the activity goes through the checking account, with a lot of daily transactions, including payroll and health and human services. Kris also mentioned a separate account for money collected through the tax assessor's office, which is mostly inactive except for peak times.

The meeting was adjourned at 10:30 AM.
The next Advisory Meeting is on Wednesday, January 17th at 9:00 AM. It will be a Zoom meeting.