



# Clark County Finance Committee

Fourth Quarter 2010

**CLARK COUNTY TREASURER'S OFFICE**

2010

Produced by: Kristin Anderson - Investment Officer

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# CLARK COUNTY FINANCE COMMITTEE

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FOURTH QUARTER 2010

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## SECTION I – EXECUTIVE SUMMARY

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This report provides a review of the activities occurring during the fourth quarter, 2010, in accordance with Clark County Investment Policy adopted January 2008.

As of December 31, 2010, the average maturity of the total investment portfolio increased to 8.3 months from September's 6.1 months. The asset sector distribution for the total investment portfolio changed slightly during the fourth quarter with approximately 35.9% of the portfolio invested in Federal Agencies, 55.4% invested in the Washington State LGIP, 1.7% invested in money market instruments, 4.0% invested in Certificates of Deposits, and 3.0% invested in US Treasuries. The total book value of the portfolio was \$502.8 million on December 31, 2010. This is compared with the third quarter's 2010 book value of almost \$485.7 million. Last quarter's asset allocation contains 30.7% of the portfolio invested in Federal Agencies, 62.5% invested in the Washington State LGIP, 1.4% invested in money market instruments, 0.3% invested in State and Local Government Series, and 3.1% invested in Certificates of Deposits, and 2.0% invested in Bankers Acceptances.

Residual average monthly balances year to date averaged \$27.4 million per month which was \$8.5 million less than the same period in 2009. Interest earnings distributed to the County's General Fund for the year 2010 totaled \$229.3 thousand compared to \$567.8 thousand for 2009. The decrease is a result of a continuing decline in interest rates and lower average residual balances. The most recent investment earnings estimates (calculated on June 14, 2010) approximates earnings of \$932,338 for the 2009-2010 biennial budget. Actual residual earnings from January 2009 through December 2010 were \$797,081.

Clark County Investment Pool balances averaged \$487.1 million for the year compared to an average of \$459.2 million for 2009. The average interest rate of the County Pool for the fourth quarter of 2010 was 0.63% compared to 1.17% for the fourth quarter of 2009. Interest earnings distributed to the County Pool participants for the year of 2010 was \$4.3 million compared to \$7.3 million in 2009. Of that, County Funds received a total of \$1.4 million in interest earnings. As of December 31, 2010, Clark County funds made up 32.0% of the Investment Pool. Other major Pool participants include the Evergreen School District at 13.8%, Camas School District at 9.2%, City of Vancouver at 8.7%, Vancouver School District at 8.3%, and all the other districts at 28.0%.

The annualized total return for the County Pool was -0.12% for December 2010 compared to the custom treasury Benchmark total return index of -0.10%. On a book value return basis, County Pool yielded 0.67%, compared to the Standard and Poor's LGIP Index's book value return of 0.27%. The net asset value of the County Pool at the end of the quarter was \$1.000693 with an unrealized fair market value loss of \$-89,898.13 on December 31, 2010.

The investment strategy for the quarter was to decrease the balance in the state pool by adding callable and treasury securities to capture yield higher than the state pool, maintain average maturity between 6 to 9 months, and maintain high credit quality in portfolio. In the upcoming quarter, we will concentrate on adding more bullet securities and treasuries to our portfolio to reduce call risk from callable securities.

## SECTION II – 2010 YEAR-TO-DATE

For the year 2010, the monthly County residual principal balances averaged \$8.5 million less than 2009.

Date	2009 Residual Balance	2010 Residual Balance
<b>January</b>	\$36,142,513	\$18,302,013
<b>February</b>	29,478,156	14,028,283
<b>March</b>	32,007,901	15,314,231
<b>April</b>	42,773,073	26,429,245
<b>May</b>	80,747,190	50,912,445
<b>June</b>	46,468,260	30,024,305
<b>July</b>	34,060,415	23,899,372
<b>August</b>	17,829,152	25,034,102
<b>September</b>	15,432,728	15,635,938
<b>October</b>	24,417,024	27,071,889
<b>November</b>	42,103,640	48,375,638
<b>December</b>	29,297,062	33,265,169
<b>Monthly Average</b>	\$35,896,426	\$27,357,719

Actual residual interest earnings totaled \$229,271 for 2010 down from \$567,810 in 2009. As shown below, interest earnings were \$135,257 less than they were projected to be for 2010.

Date	2009 Residual Interest Earnings	2010 Residual Interest Earnings	2010 Budgeted Interest Earnings <sup>1,2</sup>
<b>January</b>	\$80,749	\$18,124	\$30,377
<b>February</b>	48,666	14,541	30,377
<b>March</b>	49,451	14,003	30,377
<b>April</b>	63,008	23,456	30,377
<b>May</b>	91,808	36,466	30,377
<b>June</b>	58,578	21,668	30,377
<b>July</b>	43,702	19,593	30,377
<b>August</b>	20,874	15,428	30,377
<b>September</b>	18,599	9,538	30,377
<b>October</b>	25,312	14,423	30,377
<b>November</b>	37,930	23,418	30,377
<b>December</b>	23,418	18,614	30,377
<b>Total</b>	\$567,810	\$229,271	\$364,528

<sup>1</sup> As of 06/14/2010 for 2009-2010 Biennium Interest Rate Projections totaled \$932,338, \$364,528 are the earnings estimated for 2010.

<sup>2</sup> As of 10/10/2008 for 2009-2010 Biennium Interest Rate Projections with \$75,000 credit adjustment totaled \$5,694,042, or \$2,847,021 per year.

County Pool principal balances shown below averaged \$27.9 million more through 2010 compared to 2009.

<b>Date</b>	<b>2009 Pool Average Balance</b>	<b>2010 Pool Average Balance</b>
<b>January</b>	\$434,125,081	\$446,666,758
<b>February</b>	415,843,454	433,695,710
<b>March</b>	411,190,769	425,057,199
<b>April</b>	431,586,171	445,980,917
<b>May</b>	553,116,146	563,046,982
<b>June</b>	474,301,094	509,196,924
<b>July</b>	462,671,982	483,574,046
<b>August</b>	446,199,277	477,372,041
<b>September</b>	432,291,007	469,947,482
<b>October</b>	446,602,061	494,458,066
<b>November</b>	548,111,880	601,202,198
<b>December</b>	454,245,577	495,031,565
<b>Monthly Average</b>	\$459,190,375	\$487,102,491

The table below reflects County Pool earnings of \$4.3 million for 2010, compared to \$7.3 million for 2009, resulting in decreased earnings of approximately 41.0%.

<b>Date</b>	<b>2009 Pool Interest Earnings</b>	<b>2010 Pool Interest Earnings</b>
<b>January</b>	\$1,001,013	\$456,804
<b>February</b>	641,115	419,524
<b>March</b>	657,299	401,490
<b>April</b>	635,452	395,635
<b>May</b>	648,340	415,416
<b>June</b>	597,768	367,462
<b>July</b>	612,909	409,433
<b>August</b>	539,864	304,098
<b>September</b>	520,326	286,984
<b>October</b>	478,327	272,984
<b>November</b>	493,327	289,828
<b>December</b>	466,282	286,295
<b>Year-to-Date</b>	\$7,292,253	\$4,305,433

## SECTION III – QUARTERLY ACTIVITY

**Figure One** shows the major participants in the Clark County Investment Pool at the end of 2010. As of December 31, 2010, County funds made up 32.0% of the Pool, Evergreen School District – 13.8%, Camas School District – 9.2%, City of Vancouver – 8.7%, Vancouver School District – 8.3%, and all the other districts – 28.0%.

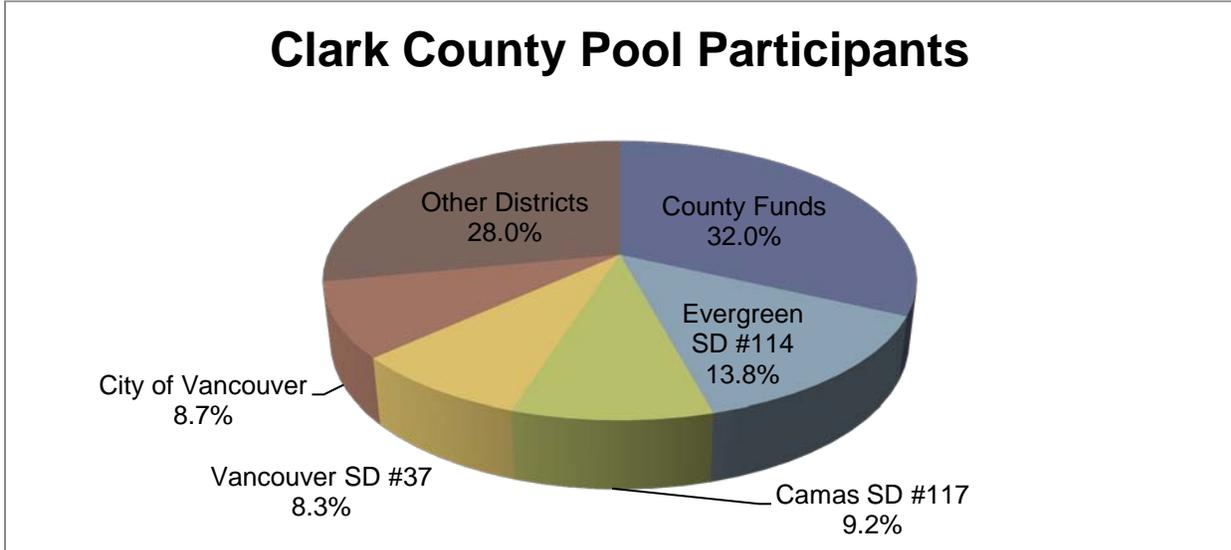


FIGURE ONE

**Figure Two** illustrates month end General Fund cash balances beginning with January 2008 through December 2010. For December 2010, the cash balances in the General Fund were \$8.4 million higher than in the end of 2009 and \$5.7 million higher than the end of 2008.

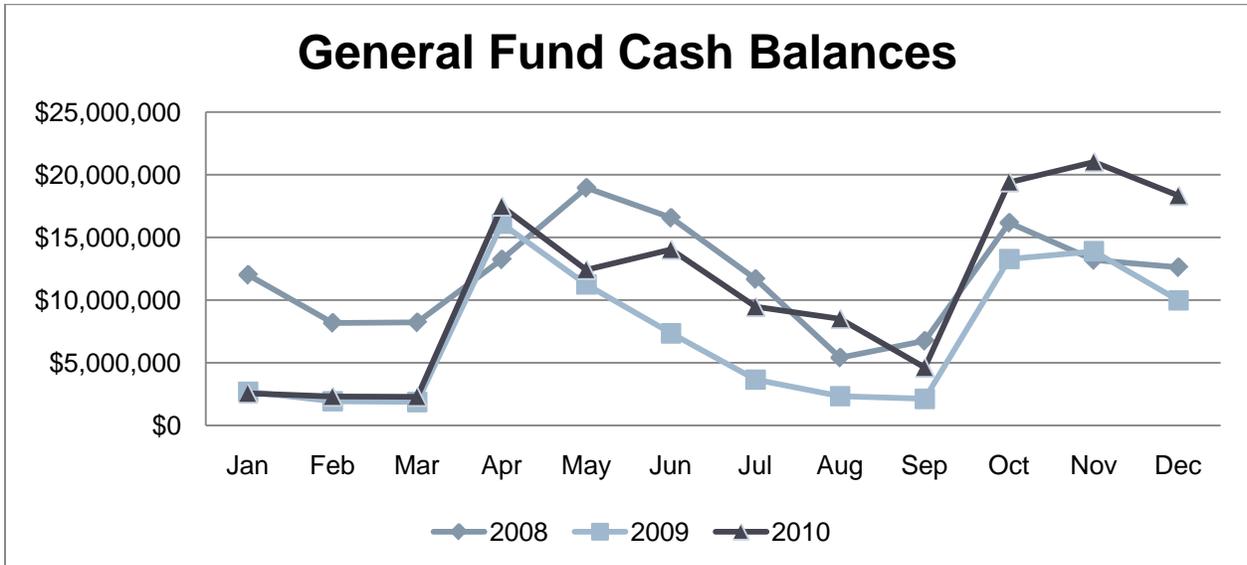


FIGURE TWO

**Figure Three** reflects the average principal balances being maintained within the Pool in 2010 compared to 2009 and 2008. For December of 2010, the average monthly principal balance increased an average of \$40.8 million from the same period in 2009 and \$68.8 million over the same period in 2008.

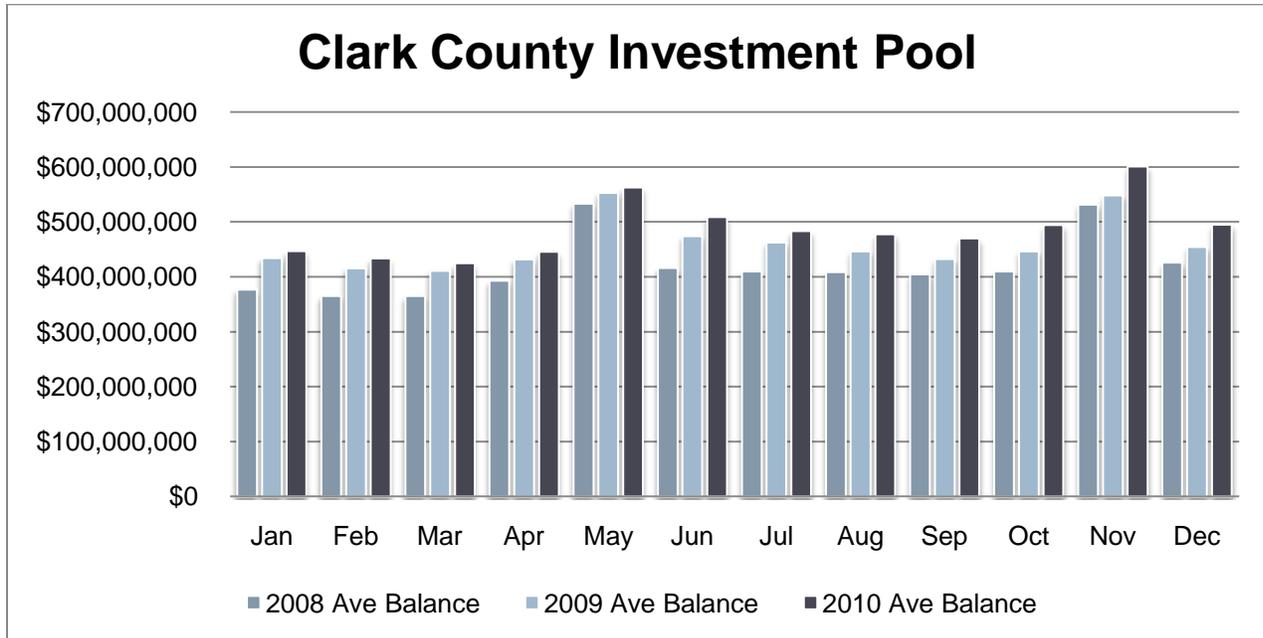


FIGURE THREE

As of December 31, 2010, 55.2% of the portfolio was invested in the Washington State LGIP. **Figure Four** shows the WA State LGIP's credit quality by issuer; whereas **Figure Five** shows the maturity structure of the WA State LGIP.

Investment Type	Credit Quality	Ave Balance Dec-10		Ave Balance CY 2010	
Agency Callables	AAA	\$0	0.0%	\$6,301,370	0.07%
Repurchase Agreements	AAA	\$1,793,622,484	20.02%	\$1,873,013,488	21.05%
Reverse Repo Agreements		\$0	0%	\$0	0%
Treasury Securities	AAA	\$1,574,297,525	17.57%	\$1,092,451,517	12.28%
Agency Coupons	AAA	\$193,551,583	2.16%	\$183,156,673	2.06%
IB Bank Deposit	PDPC	\$833,662,108	9.31%	\$812,325,703	9.13%
NOW Account	PDPC/FDIC	\$65,026,581	0.73%	\$101,389,468	1.14%
Agency Floating Rate Notes	AAA	\$1,174,493,228	13.11%	\$1,433,621,212	16.11%
Agency Variable Rate Notes	AAA	\$620,070,816	6.92%	\$538,468,778	6.05%
Discounts Notes	AAA	\$2,591,379,399	28.93%	\$2,789,060,480	31.35%
Certificates of Deposit	PDPC	\$112,508,548	1.26%	\$67,610,795	0.76%
Commercial Paper		\$0	0%	\$0	0%
<b>Total Avg Daily Balance</b>		<b>\$8,958,612,271</b>	<b>100%</b>	<b>\$8,897,399,485</b>	<b>100%</b>
<b>Avg Days to Maturity</b>		55 days			

FIGURE FOUR

<b>Days To Maturity</b>	<b>\$ Maturing (Par Value) (in millions)</b>	<b>% Maturing</b>	<b>Cumulative % Maturing</b>
<b>1</b>	1,034.96	11.7	11.7
<b>2-30</b>	2,559.32	28.6	40.3
<b>31-60</b>	670.00	7.5	47.8
<b>61-90</b>	406.00	4.5	52.4
<b>91-120</b>	290.00	3.2	55.6
<b>121-180</b>	1,675.00	18.7	74.3
<b>181-270</b>	350.00	3.9	78.3
<b>271-397</b>	100.00	1.1	79.4
<b>Floating Rate Notes</b>	1,190.00	13.3	92.7
<b>Variable Rate Notes</b>	<u>662.00</u>	7.4	100.0
<b>PORTFOLIO TOTAL</b>	8,937.28		

FIGURE FIVE

**Figure Six** reflects the actual average monthly residual principal balances managed by the County for 2009 and 2010. For 2010, residual balances averaged \$8.5 million per month less than 2009.

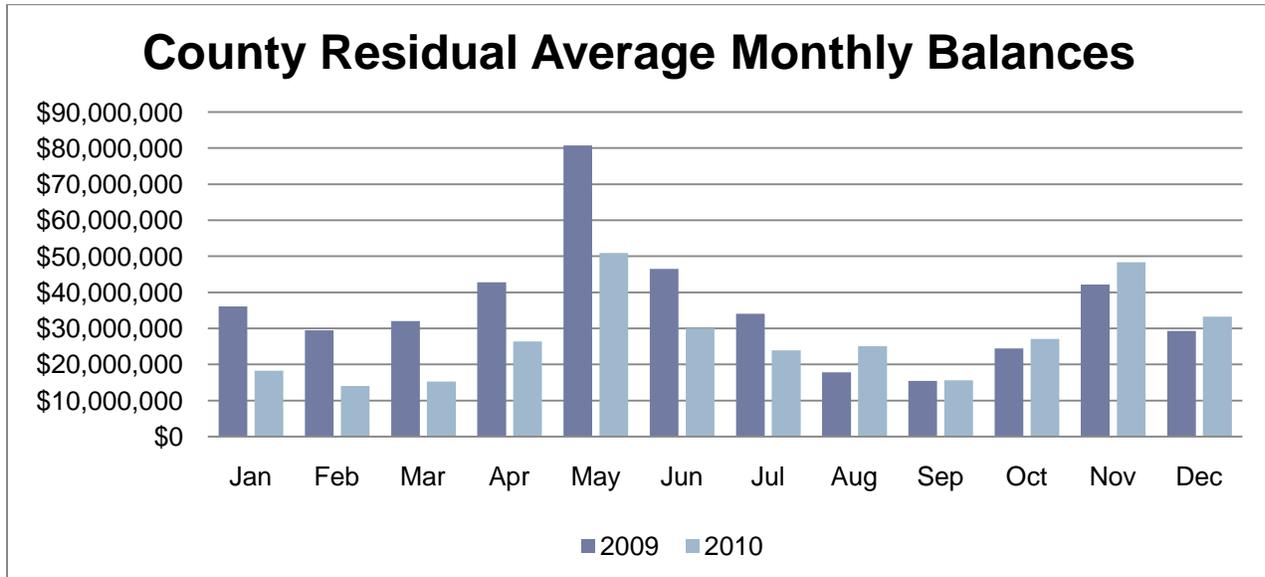


FIGURE SIX

**Figure Seven** shows interest earnings distributed each month to the County’s General Fund from 2009 through 2010. During the fourth quarter of 2010, interest earnings totaled \$35.9 thousand less than during the fourth quarter in 2009. This is due to a decrease in interest rates. On an average monthly basis, \$19.1 thousand was distributed to the General Fund per month.

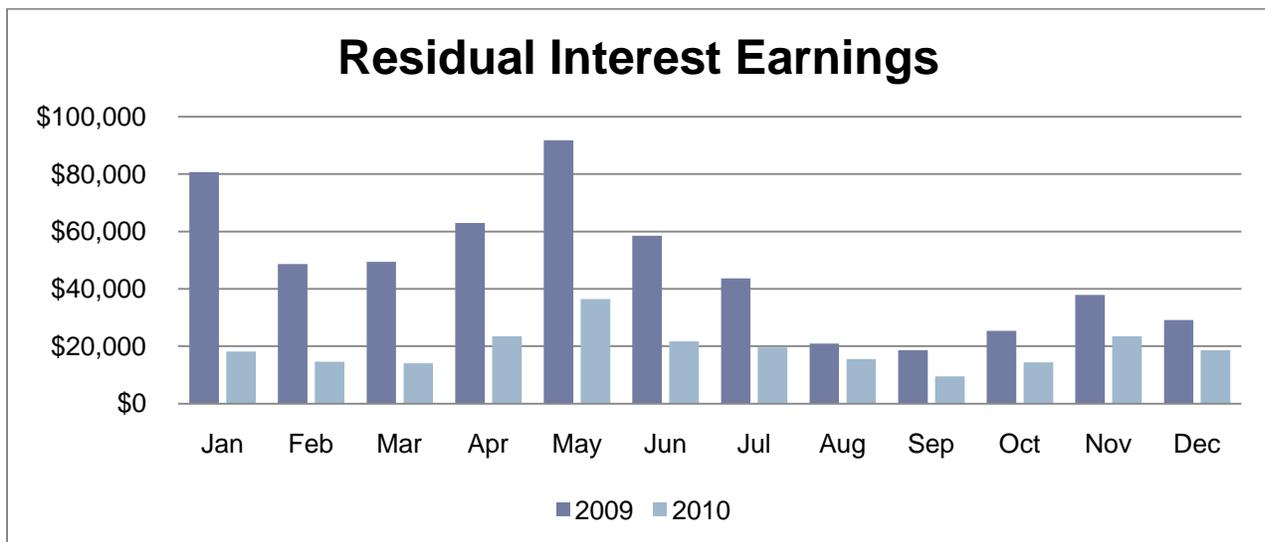


FIGURE SEVEN

**Figure Eight** depicts the County Pool’s interest rates for 2008 through the fourth quarter of 2010. The County Pool’s gross interest rate, based on the book value of the portfolio, for December 2010 was 0.67% compared to 1.19% for December 2009 and 3.34% for December 2008.

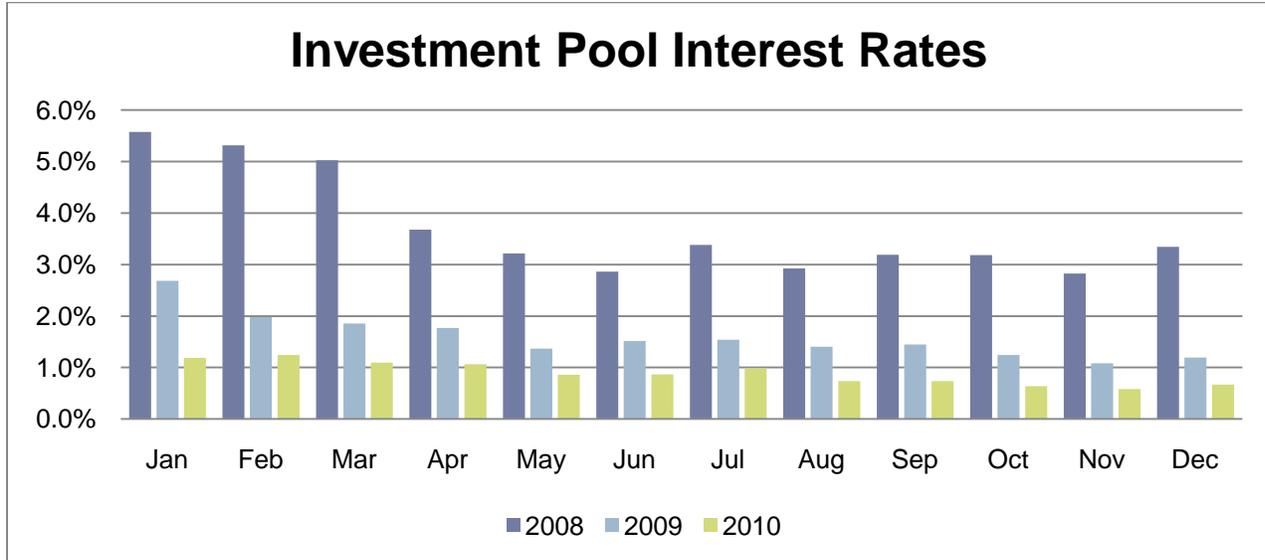


FIGURE EIGHT

**Figure Nine** compares performance on a book value return basis. The County Pool’s interest rate is expressed as the net interest rate (the gross rate less the investment fee.) The book value return of a portfolio measures the return on a portfolio compared to the book value at the time of the original security purchases. The performance benchmarks consist of the Washington State Local Government Investment Pool (LGIP) with an average maturity of approximately 55 days for December, Standard and Poor’s LGIP Index with an average maturity of less than 30 days, and the Clark County Investment Pool with an average maturity of 248 days. The Standard and Poor’s LGIP Index and the Washington State LGIP closely track current interest rates. At the end of the fourth quarter 2010, the County Pool’s rate on a book value basis was 0.67%, the S&P LGIP Gross Index was 0.27%, and the Washington State LGIP’s gross rate was 0.30%.

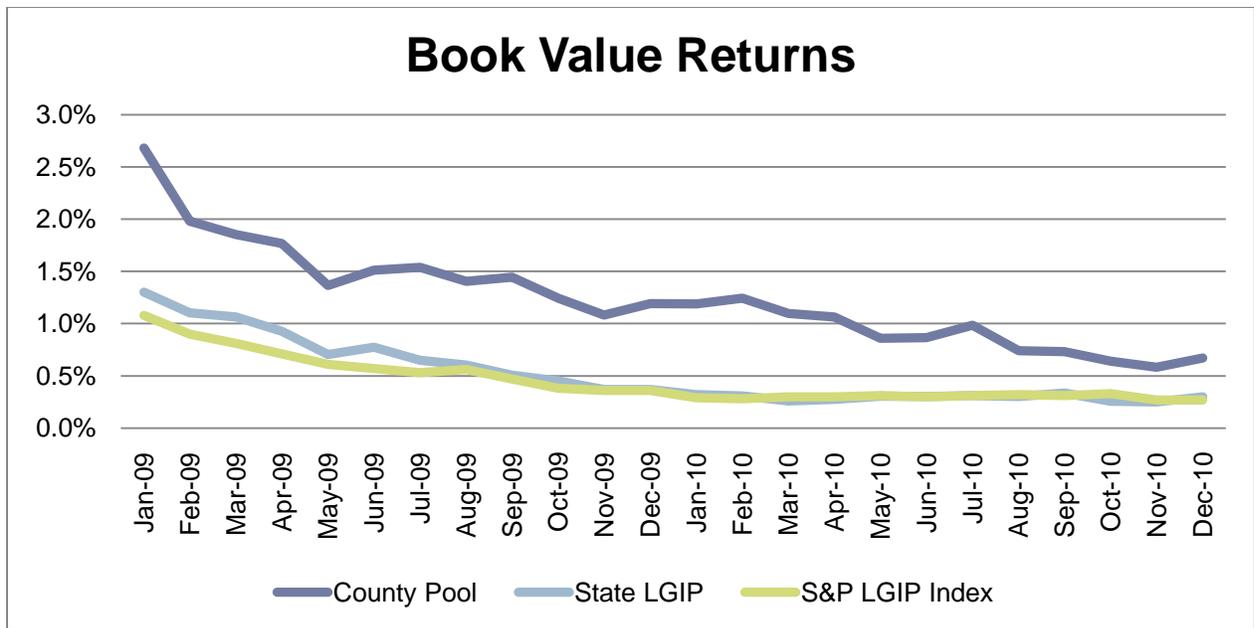


FIGURE NINE

**Figure Ten** compares performance on a total return basis. Total return measures the market value increase or decrease in the value of the portfolio plus interest earnings on securities, over a given period of time. The customized total return index consists of 75% Merrill Lynch 0-1 Year U.S. Treasury Index and 25% 1-3 Year Merrill Lynch U.S. Agencies Index with a modified duration of 0.735 years as of December 31, 2010. The annualized total return for December of 2010 for the County Pool was (0.12%) and the Custom Benchmark Index was (0.10%). The Benchmark held a longer duration and was therefore able to obtain higher yields than the County Pool.

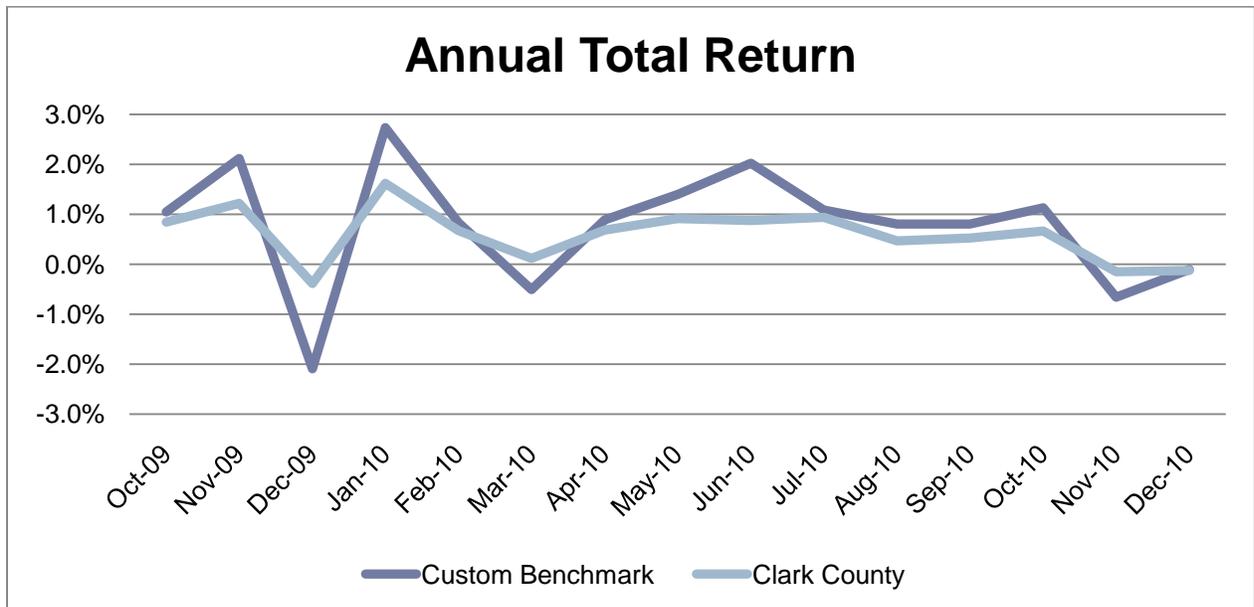


FIGURE TEN

**Figure Eleven** shows the market value of the Pool portfolio based on net asset value (N.A.V.) per share. N.A.V. is the market value of the portfolio's securities, less liabilities, divided by the total number of shares outstanding. As of December, 2010, the N.A.V. per share was \$1.000693. GASB Statement 31 requires that External Investment Pools like the County Pool report all investments at fair market value if the average maturity of the Pool exceeds 90 days. The fair market value of the Pool was \$500,258,485.05 on December 31, 2010.

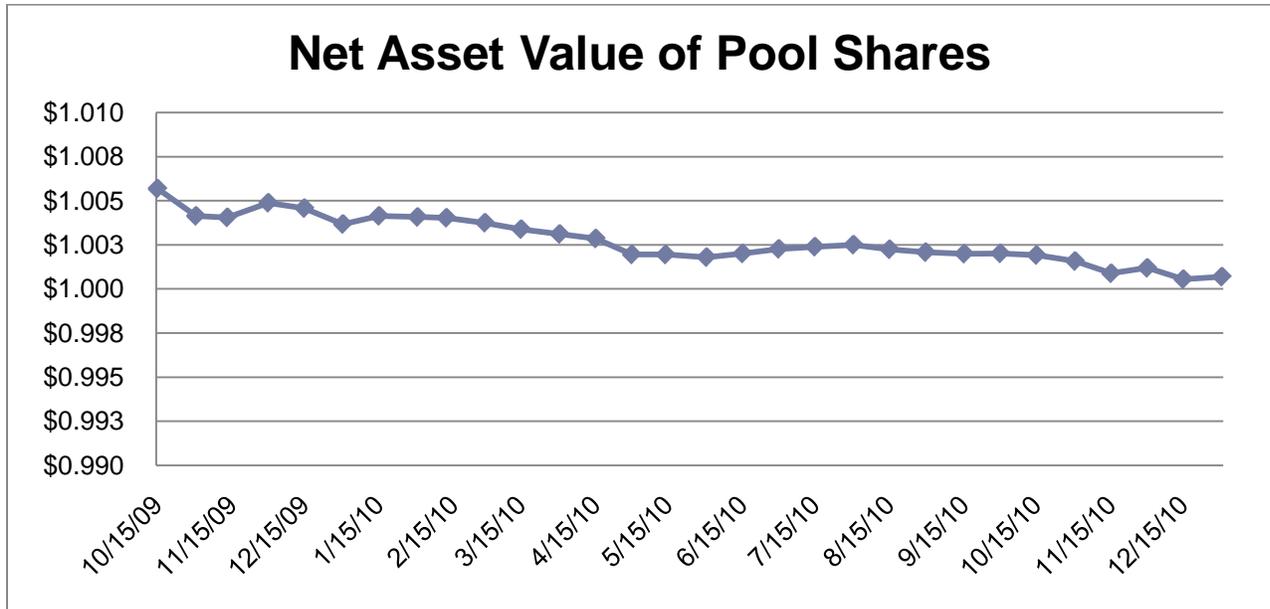


FIGURE ELEVEN

Net Asset Values:

Date	Value	Date	Value
01/15/2010	\$1.004141	07/15/2010	\$1.002392
01/31/2010	\$1.004077	07/31/2010	\$1.002506
02/12/2010	\$1.004031	08/15/2010	\$1.002245
02/28/2010	\$1.003751	08/30/2010	\$1.002082
03/15/2010	\$1.003385	09/15/2010	\$1.001997
03/31/2010	\$1.003113	09/30/2010	\$1.002016
04/15/2010	\$1.002858	10/15/2010	\$1.001917
04/30/2010	\$1.001954	10/31/2010	\$1.001578
05/14/2010	\$1.001948	11/15/2010	\$1.000884
05/31/2010	\$1.001801	11/30/2010	\$1.001192
06/15/2010	\$1.002010	12/15/2010	\$1.000552
06/30/2010	\$1.002271	12/31/2010	\$1.000693

**Figure Twelve** shows projected County Pool interest rates for 2010 compared with actual gross interest rates.

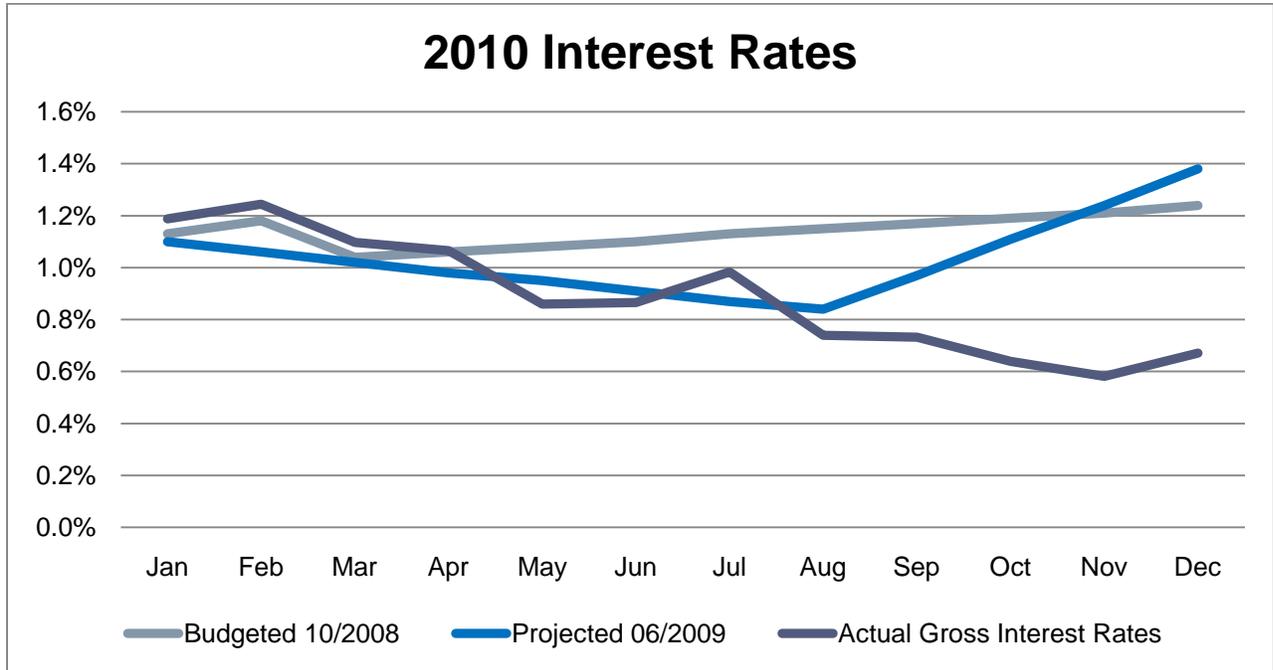


FIGURE TWELVE

## SECTION IV – INVESTMENT STRATEGY

The following table shows the percentage distribution of the Clark County Pool maturity periods. In the beginning of 2008, the emphasis was to purchase securities in the 2 – 5 year sector. As we approach the bottom of lower interest rates, we began purchasing securities in the 1 – 2 year maturity sector so we will be ready when there is a rise in interest rates. The economy is showing very sluggish signs of recovery from the recession that officially ended in 2009. We continue to purchase securities in the 2 year maturity sector to keep our average maturity around 6 to 9 months.

Period	0 – 1 Year	1 – 2 Years	2 – 5 Years
<b>1<sup>st</sup> quarter, 2008</b>	77%	4%	19%
<b>2<sup>nd</sup> quarter, 2008</b>	68%	15%	17%
<b>3<sup>rd</sup> quarter, 2008</b>	72%	21%	7%
<b>4<sup>th</sup> quarter, 2008</b>	67%	18%	15%
<b>1<sup>st</sup> quarter, 2009</b>	63%	20%	17%
<b>2<sup>nd</sup> quarter, 2009</b>	80%	10%	10%
<b>3<sup>rd</sup> quarter, 2009</b>	86%	7%	7%
<b>4<sup>th</sup> quarter, 2009</b>	72%	26%	2%
<b>1<sup>st</sup> quarter, 2010</b>	69%	24%	7%
<b>2<sup>nd</sup> quarter, 2010</b>	76%	16%	8%
<b>3<sup>rd</sup> quarter, 2010</b>	74%	15%	11%
<b>4<sup>th</sup> quarter, 2010</b>	71%	18%	11%

During the fourth quarter of 2010, our target range for duration was between .5 and .75 years. We continue to maintain high credit quality in portfolio while we continue to monitor our investment strategy. We remain proactive as economic conditions fluctuate.

Davidson Fixed Income Management provides a third party review of the Treasurer’s Investment Portfolio and provides investment advice.

## SECTION V – ECONOMIC/MARKET CONDITIONS

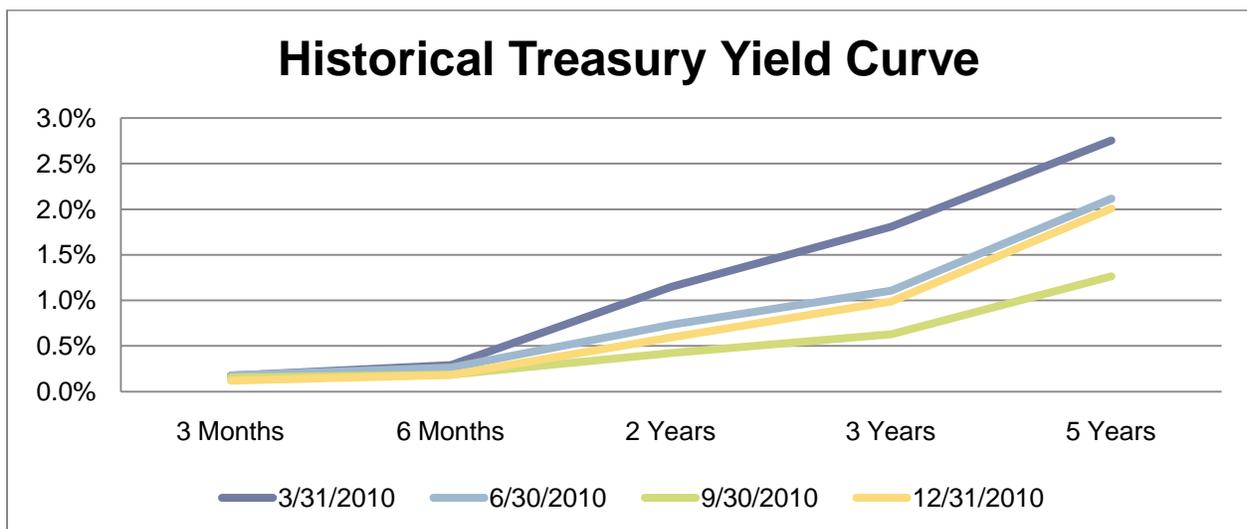
The unemployment rate took a startling jump to 9.8%, the highest it has been since it dropped from the 10.0% rate in January. December saw a reduction in the unemployment number to 9.4% and January saw a further reduction to 9.0%, believed to be an artificial drop due to a reduction in the workforce (many people get discouraged and give up searching for employment which takes them out of the available workforce). According to Bloomberg, it is projected that unemployment will remain at very high levels of 9.2% for 2011 and 8.4% for 2012. This would be very modest growth in the employment sector, showing that even with other recent positive economic news it is not enough to turn around companies pace of hiring.

The Fed continues with QE2 and their purchase of \$600 billion in bonds in the open market, which in turn pumps more cash into the economy. The Fed is disappointed with the stagnant growth in the housing market and unemployment rates, and foresees continuing QE2 through June as originally planned.

Retail sales rose 0.8% in November and 0.6% in December. Holiday sales saw the best performance over the last 5 years, showing that consumers are becoming less hesitant to start spending some of their money again. This is a positive sign that should start sparking some more growth in the economy.

Housing starts rose 3.9% in November followed by a 4.3% drop in December. While building permits rose 16.7% in December, this was likely due to a rush to get permits approved before regulations changed in January. Existing home sales saw a huge leap in December at 12.3% increase, which may have been primarily driven by a \$10,000 tax credit offered in California available through year end.

Below you will find a chart of U.S. Treasury yields from 3/31/2010 to 12/31/2010. As you can see, yields have started to increase from the low quarter-end levels at 9/30/2010.



## SECTION VI - PORTFOLIO

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### **ENTIRE PORTFOLIO:**

**Exhibit One** shows the makeup of the entire portfolio at the end of the quarter. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of securities held and the percentage each sector makes up of the portfolio. All percentages are consistent with the current Investment Policy.

**Exhibit Two** shows the entire portfolio listing as of the end of the quarter. This report shows the book value, the par value, and the market value of the portfolio.

**Exhibit Three** shows the liquidity of the entire portfolio. All percentages are consistent with the current Investment policy.

**Exhibit Four** reflects the percentage of securities purchased from each issuer relative to the entire portfolio. All the percentages are consistent with the current Investment Policy.

**Exhibit Five** shows all investment purchases and maturities.

### **INVESTMENT POOL:**

**Exhibit Six** show the makeup of the Clark County Investment Pool at the end of the quarter. This exhibit is used to monitor compliance with the Investment Policy as far as the diversification of the securities held and related percentage of the total portfolio for each type of security. All percentages are consistent with the current Investment Policy.

**Exhibit Seven** shows the portfolio listings of the Clark county Investment Pool at the end of the quarter. This report contains the book value, the par value, and the market value.

**Exhibit Eight** shows the liquidity of the Clark County Investment Pool. All percentages are consistent with the current Investment Policy.

**Exhibit Nine** reflects the percentage of securities purchased from each issuer for the Clark County Investment Pool. All percentages are consistent with the current Investment Policy.

**Exhibit Ten** is a comparison of the Clark County Investment Pool to the Washington State LGIP.