

Tippecanoe County Board of Finance

Minutes of January 28, 2020

The Tippecanoe County Board of Finance met in the Tippecanoe Room of the County Office Building at 10:30 a.m., January 28, 2020. Present were Treasurer Jennifer Weston; Commissioners Tracy Brown, David Byers, and Thomas Murtaugh; and Chief Deputy Dawn Fay.

Treasurer Weston called the meeting to order. First order of business was the election of officers.

Election of Officers

Treasurer Weston opened the floor for nominations.

Davis Byers nominated Jennifer Weston for President, second by Tracy Brown;

David Byers nominated Tracy Brown for Vice-President, second by Tracy Brown;

David Byers nominated Thomas Murtaugh for Secretary, second by Tracy Brown;

David Byers nominated Dawn Fay for Recording Secretary; second by Tracy Brown;

All nominations approved in one vote.

Approval of Minutes

Vice-President Brown made a motion to approve the minutes of the February 4, 2019 meeting, second by Thomas Murtaugh; motion carried.

2019 Bank and Investment Report

President Weston presented a packet to aide in presenting the County's financial standing for 2019. The Bank and Investment Portfolio End of Month Balances report shows the ending account balances by agency and is used to track the percentage of the portfolio that is in the 'up to five year' range and the 'two to five year' range. The original goal was to increase this percentage every year as rates were rising, which happened through 2017, but rates have fallen in the ensuing years and it has made more sense to invest shorter term. Member Byers asked why Staley Credit Union has such a low balance of \$29. The credit union collects tax payments and we must maintain a minimum balance of \$25 during the year.

The Interest Summary is the same as presented at the monthly Council meeting, itemizing the monthly and total interest distributed to each fund. The total interest earned for 2019 was \$2,915,771 with the General Fund receiving just over of \$1.3 million. There will be a few changes in the distribution beginning in 2020. The Solid Waste District will be its own entity going forward and will be removed from the distribution completely. The Self-insurance Fund interest will be diverted to the General Fund effective January.

The Interest Rates and Projections page shows the historic interest earned and projections for 2020. Per the banking agreement, the County earns the Fed Funds rate plus five or ten basis points, depending on

the type of account. The overnight rate is about 1.85% leading to 2020 projected interest at \$2.4 million with \$1.2 of that going to the General Fund.

The Three-Year Comparison page shows how significant the Fed Funds rate is for earnings. The bulk of interest earned comes from the overnight funds. Depending on when the investments approach the 25% limit of the portfolio in longer term and interest rates increase, the amount earned could shift. The earnings in 2019 increased 40.5% over the prior year.

In summary there were 130 investment pieces worth \$38 million in 2018 but that has been reduced to 90 at \$32 million in 2019. Of those 90 investments, 75 are at a rate of 1.85% or greater.

Portfolio Review & Market Update

Jessica Rebmann, Turquoise Wealth Management, was in attendance to provide a market outlook. Reviewing the County's position, this time last year she noted it unlikely there would be any more increases in 2019, which was the case, however there were also three cuts. One key factor to keep in mind is how quickly interest rates can change and should not be used to extrapolate future estimates. In her opinion, the market is good right now and there is currently no catalyst for continuing to lower rates.

Ms. Rebmann distributed a packet for her presentation containing an in-depth report of the County's financial holdings. The first page recaps past and present rates. The County is in a good position from longer term investments purchased at higher rates last year. However, because we felt rates would continue to rise, a lot of the bonds and structures purchased were callable, which means the issuer can take them back early. The decrease in rates is the reason a lot of items have been called.

Pages 2 and 3 illustrate current conditions versus this time last year. In 2018 the yield curve was a flat line, meaning short and long term rates are roughly the same. Currently, the rates are a lot lower across the board. One reason for this situation takes into account global economies. Central banks in other countries have been lowering rates trying to loosen up their respective economies. One strategy they have been using is negative rates. The idea is to spur businesses to use cash for productivity investments rather than hold onto it. This approach has not had good results so foreign banks are backing off. Hopefully the Fed will see that it has failed in other countries and not try negative rates.

Page 5 illustrates the velocity of money, which is essentially how fast money changes hands. It is currently at historical lows with people hoarding money, even though banks are trying to encourage spending. Member Byers asked if the unknowns of Brexit are causing this uncertainty. Both Brexit and the trade issues between the US and China have created uncertainty causing a slow-down in the global economy. Secretary Murtaugh asked which of the largest economies are using negative rates. Japan and Germany are the top two, which are the number three and four economies in the world behind the United States and China.

The 2019 bond flowchart illustrates the cash flow in to and out of stocks or bonds. Individuals have sold \$61 billion out of the equity markets; more than they've brought in. This results in a net outflow to stocks in the past year while bonds have had a positive inflow of over \$460 billion. Historically, if an investment made in the stock market twenty years ago was held, the annual average return would have been about 6%. Any time the past twenty years is under 8%, your next twenty average closer to 15%.

Despite the outflow of stocks the market has been growing. One reason for this increase is companies have been buying their own stock, spending profit to buy back shares instead of reinvesting in productivity. This action reduces the number of shares available so earnings are spread across fewer shares, which is good for the stock itself.

Another reason for growth is the trade negotiations with China, which is seen as a long game that will play out over the next few years. China's exports account for 19% of its GDP with only 5% of that from the US. With such a small amount we do not have the strength position in negotiations so it will take a while; most likely after the election. This is neither good nor bad, but it shows the situation is stable.

With all this money going into bonds the experts are unsure why the GDP and inflation are not going up. This is an unprecedented chapter in the bond market that no one can explain or predict the outcome. Maybe the bonds market unwinds slowly or it could be the biggest risk out there no one is talking about because no one really knows what to think.

Regarding the County's portfolio, the economy looks pretty good, and the fundamentals are solid. There is no need to chase down lower interest rates like ten years ago. The bigger risk is inflation or the bond market unwinding.

The last page illustrates the market over long haul. Looking back at the collapses of 1999 and 2008, half of the market recovery over the past ten years has been just getting back to where we were before the '99 collapse. That's where the 6% return for twenty years comes from; it's not from the bottom of '99 recovery but from the peak twenty years ago. The market is only half way through the ensuing expansion phase now. While there will be a recession at some point, there is a lot of room for a really strong economic outlook for the next ten years.

In response to this analysis, Ms. Rebmann advised the County to stay with shorter term investments for now, even if it means keeping more money in the bank, in order to have liquidity as more opportunities in the 2-3% range become available.

Member Byers asked if Ms. Rebmann feels there will be a recession within the next ten years. The question is based on what he reads in trade magazines telling farmers to be aware of increasing rates. When agriculture has been in a downturn for five years it's usually a precursor. We could be six months away from signals and a recession could happen, but doubts it would be a deep or long recession. There are too many positive fundamentals and too much cash from the recent stock market sell-off for that to happen.

Ms. Weston thanked Ms. Rebmann for her presentation.

Other Business

- **Review of Investment Policy**

Noting no new legislation related to local investment policies or practices, President Weston made no recommendations for revision to the County's investment policy. The policy will need to go before the Council in October for review and approval, but no action is needed from this board today. The depositories the County utilizes are on the State approved list, so no change is needed.

- **Banking Services Agreement**

Banking services are due for renegotiation, which will likely happen in May after property taxes have been collected. The agreement for a primary bank was extended for two years, the maximum by law, last time it was up for renewal.

- **Purchasing/Commercial Card Program Update**

With the implementation of a Purchasing Card (P-Card) Program starting November 1, 2018, President Weston gave an update on activity through January 25, 2019. Items of note included the issuance of fifty cards to date and expenditures of \$371,000 for 2019. Most of those transactions are in the \$200 to \$1,000 range. She anticipates total spend for 2020 to be approximately \$500,000, which is the spend level of the former credit card program. As spending has increased rebates have grown and have covered the cost of the software used to administer the cards.

Member Byers moved to adjourn.

Approved this _____ day of January 2021.

Board of Finance of Tippecanoe County

Jennifer Weston, President

Tracy A. Brown, Vice-President

Thomas P. Murtaugh, Secretary

David S. Byers, Member