

FRIDAY, MARCH 21, 2014
Local Government Center

OSBA board members in attendance at meeting start: Past-President Terry Lenchitsky and Secretary-Treasurer Sam Lee

OSBA staff in attendance at meeting start: Director of Finance Mike Robison, Director of Legal, Labor and PACE Services Lisa Freiley and Administrative Assistant Tonya Hammer

OSBA Finance Committee members in attendance at meeting start: Russ Allen, Business Director, Greater Albany School District and Mike Doherty, Special Districts Association of Oregon

OSBA Finance Committee members in attendance at meeting start via conference call: Nori Juba, Board Member, Bend-La Pine School District

OSBA Guest in attendance at meeting start: Brent Peterson and Will Dietz, Royal Bank of Canada (RBC)

OSBA Board members not in attendance: Vice President Bobbie Regan

Current committee chair Sam Lee called the meeting to order at 1:19 p.m.

- I. Welcome and Introductions
- II. Approval of minutes
 - A. January 24, 2014 meeting

Motion: Past-president Terry Lenchitsky moved the committee to approve the January 24, 2014 Finance Committee meeting minutes; seconded by Russ Allen.

The committee voted on the motion and it passed unanimously.

President-elect Dave Krumbein joined the meeting at 1:20 p.m.

- III. Investments and Finances
 - A. Investment portfolio and performance

Brent Peterson distributed a packet entitled “Consolidated Portfolio Review” for period ending February 28, 2014.

He began the presentation by referencing the real market value of the OSBA portfolio as \$79,133,413. He explained that this is just a “snapshot” in time. If OSBA were to liquidate the entire portfolio at this specific point in time, this is the cash value that it would yield.

Various benchmarks were discussed and the request was made for RBC to research and recommend another benchmark piece to this report.

As for the bond component, Brent reviewed the percentages and concluded that the portfolio has outperformed the current benchmark by a slight margin. He explained again that the current benchmark used is the one laid out in the RFP, based on investments of 40% equities and 60% bonds.

The conference call disconnected at 1:25 pm, as the OSBA phone lines went down.

Brent continued to discuss the performance of the bonds, referencing the component of the fixed income and the 5-10 year maturities. He also touched on the par value of the bonds due in 2015 that are one year or less to maturity based on a fiscal calendar. Currently, he is reviewing the portfolio to find opportunities in the five year space to keep things evenly disbursed. He will continue to look at the various options for reinvesting. In the next fiscal year, there is approximately \$4.8 million that OSBA could look to apply this strategy to - sell, book gains and reposition. This would be subject to the interest rate or the yield curve.

The yield on cost for the Prime Income account is at 5.1 percent and the Dividend Growth is at 3.53 percent. From that standpoint, there have been market to market value gains and an increase in income from the original investment.

As for the idea about where income may be for next year, Brent reported that for fiscal year 2015, conservatively, the income should be between \$3.2 and \$3.4 million.

Mike Robison added that he has constructed a high level proposed budget, using \$3.3 million as the income on investments for 2014-15. The current gains for this fiscal year are at \$450, 000, which he decreased by half for establishing next year's budget.

There was some discussion on the merger and acquisition activity, but essentially, OSBA may have the option to participate in the one-time "gift" opportunities, but this would be determined on a case-by-case basis.

There was a question about the "black rock liquidity" line item that shows no income. Brent explained that this is where money is moved if there is no way to get money back into the pool quickly. It is a money market mutual fund, but no more than a holding place until the money can be reinvested.

Brent and Will left the meeting at 1:53 p.m.

IV. Report on the Legal Assistance Trust

Lisa reported that requests of the Legal Assistance Trust have been quiet the last six months. Parkrose School District made a request, but later withdrew the request after the incident was settled. With no requests this fiscal year, the fund stands at the same place it was at the end of last year, with revenue and available funds at \$750,000. With the renewals this fiscal year of

177 school districts, additional revenue of \$150,000 is anticipated, which would bring the fund to approximately \$900,000. The one expenditure set to come out is for the PERS defense fund, of which a \$250,000 expenditure has been authorized.

Executive Director Betsy Miller-Jones joined the meeting at 1:56 p.m.

Lisa anticipates a \$60,000 draw in the next two weeks, after which OSBA and AOC will contribute their authorized expenditures.

A question was asked as to whether Beaverton School District, who has been named as a defendant in the PERS litigation, will rejoin the Legal Assistance Trust. Lisa advised that they are rejoining and will be invoiced for six years of back dues, which will result in an additional \$22,000 to the fund.

The expenditure by LAT, OSBA and AOC is not a lump sum piece. It will be dispensed throughout the process.

A question was raised as to whether LAT will pull these costs or OSBA would make LAT whole again after the process. LAT will stand alone on its expenditures, as will OSBA and AOC.

The money for LAT is invested in the state pool.

V. May 2, 2014 Budget Committee meeting

Nori Juba rejoined the meeting by speaker phone at 2:09 p.m.

Motion: Past-president Terry Lenchitsky moved the committee to set the Budget Committee meeting date for Tuesday, April 29 at 10 a.m.; seconded by President-elect Dave Krumbein.

The committee voted on the motion and it passed unanimously.

A request will be made to Jane Leonhardt, Executive Assistant, to resend the appointment. Betsy advised that the Budget Committee consists of the OSBA officers and the Finance Committee members.

VI. Investments and finances

A. Current financial report

Mike Robison reported from the February financial statements, reminding the committee that the statements that were sent in the packet are from January 2014. Fiscal year to date - February 28, 2014 - ended with a \$977,000 profit, half of which is from the gains on the sale of stocks and bonds. A slight decrease in revenue is reflected, as most major events are complete, dues are paid and this is the time period where the investment revenues are not as high per month.

A committee member voiced an opinion that the investment revenue should be reflected

separately from the current revenue, so that the financial picture posed is accurate. The suggestion isn't that the goal should be that revenues and expenditures match. There should simply be separate line items reflecting general fund and investment fund. Lisa reminded the committee that OSBA through dues and services has never funded itself.

Mike Robison explained that when there is discussion about withdrawal from the investments, OSBA is not touching the principal. The withdrawal is from straight interest from the bonds. He doesn't see this as any different than bank interest. The balance of the money is gains and dividends and the dividends are treated like interest. When he references realized gains, in the accounting world, it is required that organizations report these as a part of revenue. The gains from investments this year were reinvested to grow the endowment. Additionally, the interest on the investments is what is being used to fund operations. He provided an example of the difference between the OSBA portfolio and a school district budget.

Mike Doherty with SDAO added that they do program budgeting. They reflect a transfer on the financials to bring all of the other programs into a positive balance by taking money out of investments.

A question was asked as to how much OSBA takes out of investments to fund the negative budget and Mike R responded that he has been working most of the year to compile a history of OSBA support for each department. He will present this to the Finance Committee in June. It answers the question posed.

This past fiscal year, it was budgeted to spend \$500,000 out of the endowment, but the endowment actually grew by \$500,000 due to the full implementation of the investment policies.

B. Budget proposals

Mike reviewed the sheet "Budget Estimates" with the committee, which outlines the adopted, projected and high level budget for next year and going out two years. He then went through the various talking points.

There was a question about the 3 percent increase in salaries plus related fringe and taxes. Confirmation was given that this is budgeted across the board but will be implemented focused. Another discussion item was the increase in improved services to PACE. The belief is that the new fee structure covers the cost.

The process for the budget is that the Board approves a line item amount and the Executive Director delves it out position by position. The budget committee sees the numbers and votes to approve. The budget committee's recommendation goes to the full board for adoption. The Board determines the threshold but it ultimately comes down to the Executive Director based on specific line items and their disbursement.

D C. Budget direction from the committee

Betsy left the meeting at 2:46 p.m.

Mike introduce a new concept to the committee: capital cost or asset. He distributed a handout with terms, definitions and examples. In the past, this information was included in the revenue and expense budget, but this is not the proper way to do it.

Betsy rejoined the meeting at 2:47 p.m.

The separate capital budget needs to be done once a year. He went through the rough draft sheet on capital assets and the budget estimates. The fixed assets line item would increase.

Betsy left the meeting at 2:56 p.m.

D. Budget direction recommendation to the Board

Motion: Past-president Terry Lenchitsky moved that the committee direct Mike Robison to build a budget in compliance with the assumptions presented and present it to the budget committee for review; seconded by President-elect Dave Krumbein.

The committee voted on the motion and it passed unanimously.

VII. Other business

There was no other business.

VIII. Adjourn

Current committee chair Sam Lee adjourned the meeting at 3:04 p.m.

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