FRIDAY, JANUARY 23, 2015
Local Government Center

OSBA board members in attendance at meeting start: OSBA President Dave Krumbein, OSBA Vice President Doug Nelson and OSBA Board member representing PACE Craig Prewitt

OSBA staff in attendance at meeting start: Director of Finance Mike Robison, Director of Litigation Kate Wilkinson, Executive Director Betsy Miller-Jones and Administrative Assistant Tonya Hammer

OSBA Finance Committee members in attendance at meeting start: Cliff Kuhlman, Board Chair, Grants Pass School District, Russ Allen, Business Director, Greater Albany School District and Nori Juba, Board Member, Bend-La Pine School District and Mike Doherty, Special Districts Association of Oregon

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

I. Welcome and Introductions

OSBA Director of Finance began introductions at 1:04 p.m. He introduced the new Director of Litigation, Kate Wilkinson, to the committee. Introductions continued around the table.

OSBA Secretary-Treasurer Samuel Lee arrived at 1:07 p.m.

Current committee chair Sam Lee called the meeting to order at 1:07 p.m.

Sam was introduced to the new Director of Litigation, Kate Wilkinson.

II. Selection of Committee Chair

Motion: Board member Craig Prewitt nominated Secretary-Treasurer Sam Lee for chair of the Finance Committee; seconded by President Dave Krumbein.

The committee voted on the nomination and it was passed unanimously.

III. Approval of minutes

A. September 19, 2014 meeting

Motion: Board member Cliff Kulman moved the committee to approve the September 19, 2014 Finance Committee meeting minutes; seconded by OSBA Board member Craig Prewitt.

The motion passed, with the following committee member abstentions: *OSBA Vice President Doug Nelson, Russ Allen, Business Director, Greater Albany School District*

and Nori Juba, Board Member, Bend-La Pine School District

IV. OSBA Investments

Brent Peterson introduced his associate Emily Ailee and distributed a packet entitled "Consolidated Portfolio Review" with period ending December 31, 2014.

Brent began with the "Market Commentary" on page 1 of the packet by hitting key points. He reported that the DOW rose 7.3% for the year with dividends. He mentioned the uncertainty surrounding whether there will be inflation or deflation in coming months and advised there are arguments balanced on either side.

He continued into the Portfolio Summary on page 2 of the packet. He mentioned that there had been discussion previously about the portfolio changes and how they are reported. As of December 31, 2014, the ending value is approximately $81,000,000, in spite of the market volatility. Currently, overall, the unrealized gains are $4.35 million. Brent directed attention to the rates of return on the bottom of page 2. This is one year of data. He explained the reason for the under-performance of the return is closely tied to the large exposure that the portfolio has to the energy industry, which did not fair well in the fourth quarter. This is still very close to benchmark.

Investment Returns on page 3 of the packet was the next item up for discussion. Brent explained that the 166 account number is the bond component, which is outperforming benchmark. Since inception, the portfolio has outperformed the benchmark, which is largely due to the change to the investment policy.

A question was asked about whether this data is indicative of cumulative numbers since inception. Brent explained that inception was July 2012 and it took over a year to become fully calibrated to the current 60 bonds/40 equities portfolio. This data is cumulative.

Brent continued reporting on the 174 account - Prime Income Portfolio. These stocks have higher than normal dividend payments, which is where cash flow comes from. In 2013, this portfolio did lag due to the higher cash flow. This is off benchmark by quite a bit.

Reporting on the 172 account - Dividend Growth Portfolio, Brent explained that this consists of stocks with lower dividend yields, with a long track record of raising dividends over time. It did well in 2013 but lagged benchmark in 2014.

A clarifying comment was made in regarding to the Dividend Growth Portfolio advising the committee that the S&P benchmark being used is not a comparable comparitor. There is lower volatility in this account and the focus is on companies who raise their dividends over time, which results in a higher yield increase by year-end than reported by S&P benchmark.

A question was then asked about the Prime Income Portfolio and the benchmarks in 2013 versus 2014. Brent explained that the benchmark was reached in 2014, but in 2013, in comparison to the S&P 500 value, it lagged, which results in the relatively wide discrepancy in the "since inception" number.

He continued to page 5 of the packet entitled Equity Analysis. Brent explained that under Top Holding, the ALPS ETF is actually an exchange traded fund. This fund owns 25 individual stocks underneath it in the master-limited partnership space. This is why it looks like we are out of policy in regards to concentration, but with the 25 stocks under one fund, we are not. Brent did point out that under Section Analysis, the "Not Defined" label at 9.3% is the ALPS ETF.

On page 6 of the packet, Fixed Income Analysis, the Maturity Distribution is inclusive of the full five years of maturity. There is currently $7.9 million par value due in 5 years; $6.5 million due in 6 years; $6.8 million due in 7 years; $5.4 million due in 8 years and $2.1 million due in 9 years. There is currently no ten year exposure. If you look at it in a ladder format, it is relatively equally invested.

Brent then reviewed the Portfolio Summary Statistics. He stated this gives a better idea of how this portfolio melds together. He reviewed the weighted average duration in years and is comfortable with the current status.

There was a request for specific data to be included in a future report. Brent explained that this is a static report and categories cannot be changed or added. They plan to update to a MorningStar software which provides more in-depth analytics.

A question was asked about the portfolio at par value and whether premiums are being paid when bonds are purchased. Brent answered that bonds are owned across a price spectrum, some at discount, some at par and some at premium. Those that we own at a premium are being amoritized down. It is being accounted for so that it doesn't erode over time. If we were to liquidate all bonds currently, there would be a $200,000 - $300,000 gain.

Brent then directed attention to the Credit Quality Distribution on page 6, explaining that N/R is for "not rated". We do own bonds that are not rated by Moody's, which this analytics program does not recognize. These are identified here. We also have a few bonds below investment grade, which met grade at the time of purchase.

A comment was made that one-third of the stocks are in BAA2 which has a historical default rate of 5%. Brent advised that they purchase a higher percentage of lower investment grade because of the yield and the cash flow needs. There are still good, recognizable names within these stocks. Some have deteriorated because of the energy issue, but they are being monitored closely. Most analysts in the market say the value lies in the lower end investment grade stocks.

Brent provided a quick, overall analysis. The fiscal year 2015 income projection is $4.26 million. We will see an increase in cash flow next year in bonds if no changes are made. Some have been purchased calendar year versus fiscal year, which will not effect the current portfolio, but coupon payments would increase by over $67,000 next year because of the coupon cycle.

Mike Robison's projected income number is less than Brent's at a conservative $4.1 million. This is for a number of reasons, one of which is the timing of dividend-booking, which resulted in reallocation of monies from July.

Brent advised that moving forward, they will continually look at rebalancing the portfolio to stay within the 60/40 policy guidelines.

A question was asked as to whether the policy speaks to stock distribution within investment grade. Brent answered that it does not. The only policy requirement is no more than 5% in any one name.

Brent and Emily left the meeting at 1:42 p.m.

V. Finances
   A. Current financial report

Nori left the meeting at 1:43 pm

Russ left the meeting at 1:43 p.m.

The monthly financial report that is in the packet is as of November 30, 2014. The year-to-date as of November 30 is $1.8 million. Revenue from investments through November was almost $2.5 million. Mike reported on the dues payments and the PACE quarterly payments.

Russ returned to the meeting at 1:45 p.m.

Mike continued reporting that total revenue through November 2014 was $4.5 million, which is on budget. Under total expenditures, we are currently running 1/2-1% over budget because the payments for PERS litigation and Promise of Oregon were front loaded and are not a monthly distribution.

Personnel costs are exactly where they should be at this time. We are ahead in operating costs in legal for PERS litigation. The current market value for investments as of November was $82.5 million.

A question was raised regarding the Annual Convention booking. Mike responded that the Convention revenues and expenses will be booked in December. Betsy added that due to the weather, it is expected that the Convention revenues will be down from what was projected. Mike explained that looking at the December projections, he anticipates that revenue will be lagging by about $10,000. Betsy stated that if a registrant cancelled due to weather, there was no expense to the district, so we cannot recoup the revenue this year.

Clarification was sought for the line item under Expenditures, Board of Directors Projects, $62,000. Mike confirmed that this is for the Promise of Oregon campaign.

A question was raised about the cash available in checking - $526,709.97 - and that if this is correct, whether there is a need to hold 10% of our operating budget in this line item. Mike advised that the amount in this line item fluctuates due to transfers.

The meeting was interrupted when the Auditor tried to Skype into the meeting early at 1:49 p.m. Kathy Knock was consulted and advised to contact the Auditor and let them know that the committee will call in when ready.

Mike continued that between the investment pool of LGIP and the checking account, there is normally about 5% of operating costs available at any given time.

Nori returned to the meeting at 1:52 p.m.

A committee member questioned if Mike is comfortable with the cash flow on hand. Mike affirmed that he is.

There were no additional questions or comments regarding the financial report.

Mike then advised the committee that there is an RFP for a new auditor closing in mid-February and requested three volunteers to assist with the review. This review can be done by phone or electronically. The volunteers were Cliff Kuhlman, Sam Lee and Craig Prewitt.

VI. Audit Reports

Mike left the meeting at 1:55 p.m. to request Kathy Knock's assistance with connecting with the Auditor.

Meeting continued at 1:59 p.m. with audio connection with Roy Rogers, Pauly Rogers and Co, P.C. There was no visual for this interaction.

Roy Rogers began by stating that the audit process was the same for all three entities. He indicated that he would begin by focusing his remarks on the letter the Board of Directors, which is page 20 in the packet. Roy advised that he used a similar reporting model to that of the school district, even though OSBA is not a district.

All three entities received an unqualified opinion. Staff did what they were supposed to do; there were no difficulties with the audit; no major adjustments needed and no disagreements with staff, which are all requirements for reporting.

Roy then directed the committee to the best practices piece and reviewed all three recommendations. He reiterated that there are no professional standard requirements or state requirements to comply with these suggestions for best practices.

Mike commented on the first of the best practices regarding the crime policy. Over the last two years, he has increased it from $500,000 to $2 million but cannot get coverage above that amount to cover employees that OSBA could afford. He doesn't feel this is completely reasonable. OSBA has taken a policy that allows this to be adequate coverage.

A question was asked about the Local Government Center Trust, item #1, regarding the half-time employee. Roy didn't hear the question and continued to respond to the previous item up for discussion. Finally, Betsy advised that the half-time employee is covered by the city and the county at $50,000, which is adequate, as he has no access to monies for any organization.

The committee chair, Sam Lee, asked that Mike check this coverage amount for accuracy and he will discuss it with the full board this evening.

Mike realized that the committee is missing the best practices page for OSBA. He will confirm that the full Board will have access to this page this evening.

Betsy left the meeting at 2:12 p.m.

A question was asked about the change in terminology from unmodified to unqualified. Roy explained the terminology change.

Betsy returned to the meeting at 2:13 p.m.

The reception for the call was very poor. Roy continued his presentation, speaking on elected governmental models and PERS liability.

There were no additional questions. Call was disconnected.

VII. Other Business

There was no other business.

VIII. Adjourn

Committee chair Sam Lee adjourned the meeting at 2:14 p.m.