

FRIDAY, MARCH 13, 2015  
Chemeketa - Eola Viticulture Center

*OSBA Finance Committee members in attendance at meeting start:* OSBA President Dave Krumbein, OSBA Vice President Doug Nelson, OSBA Secretary-Treasurer Samuel Lee, OSBA Board member representing PACE Craig Prewitt, Cliff Kuhlman, Board Chair, Grants Pass School District, Russ Allen, Business Director, Greater Albany School District

*OSBA staff in attendance at meeting start:* Director of Operations and Finance Mike Robison, Executive Director Betsy Miller-Jones and Administrative Assistant Vicky Black

*OSBA Guests in attendance at meeting start:* Brent Peterson, Royal Bank of Canada (RBC) and Greg Coffee, Russell Investments

I. Welcome and Introductions

The meeting was delayed while the conference phone was set up in the room

*Bend-La Pine School District Board Member, Nori Juba, phoned in at 3:17*

**Committee chair Sam Lee called the meeting to order at 3:18 p.m.**

Introductions around the table

II. Approval of minutes

A. January 23, 2015 meeting

**Motion: OSBA Board member Craig Prewitt moved the committee to approve the January 23, 2015 Finance Committee meeting minutes; seconded by OSBA Vice President Doug Nelson.**

**The committee voted on the motion and it passed unanimously.**

III. Investment and Finances

A. Investment portfolio and performance

Brent Peterson distributed a packet entitled "Consolidated Portfolio Review" with period ending February 28, 2015. He began with stating that not a lot has changed in regards to the portfolio. He directed everyone to turn to page one and said for January and February we are at 1.4 percent and on a rolling one year period of time we are at 7.22 percent. He said that the markets have increased and income continues at the same pace as before. He pointed out on page two the fixed income side continues to outperform by the benchmark by a reasonable margin. The year to date for the S & P 500 on the value side is up less

than one percent and for the total return up 2.6 percent, which is a little slower than at the same time last year, but relatively similar. He said that January was rough but February had some recovery and March has been a little all over the map. In the bond portfolio our yield is about 3.1 percent, the prime income portfolio yield is about 4.79 percent and dividend growth is yielding 3.81 percent. Cashflow wise the portfolios continue to generate a reasonable amount of cash and that helps with the market volatility. He said there was a slow down in liquidity in the market due to banks pulling back on the amount of money for traders to use for inventory bonds. He mentioned that if the interest rate does go up then it is good to have your bond portfolio positioned in the five to seven year range. He said that on pages three and four there were not a lot of changes in asset allocation and that overall, with the volatility, the portfolios are pretty well structured.

Brent opened the floor to questions and Dave Krumbein said it looked like we have the majority in five to ten year range and Brent said they are relatively evenly dispersed and we only have one bond at nine years and none at a ten year maturity. Sam Lee asked about the allocation and how we are extremely light in technology and Brent said that they have seen some changes in the portfolio mix in the last three days, so he thinks we will be underweight in that area and adding it may not be prudent right now. Dave asked about a six month projection and Brent said we will probably be in the 1.7 and 2.24 range. Russ Allen asked about the estimated four percent return in the 2015-16 budget and Brent said that was reasonably realistic since this year is performing much like last year at this time. Betsy pointed out that our budget is based on yield and not return and Brent said the yield is much more predictable.

B. PACE investment portfolio and performance

Greg Coffey of Russell Investments presented the PACE investment portfolio assets and how Russell builds the funds the PACE portfolio is invested in (PACE Portfolio-Finance and Investment Committee Review). He passed out an updated summary for February 2015 in addition to the material already provided in BoardBook. He directed the committee to turn to page four. He gave an overview of performance in 2014 and began by saying that there was a wide range of asset class returns. He mentioned how the fears from ebola and low oil prices affected returns. He pointed out that anything that had any kind of a yield to it did very well, equities and fixed income type assets. He directed the group to turn to page six which shows the best and worst yields over a 20 year period and talked about the danger of reaching for yield in the current market. He then went over what Russell Investments expects for the next six months to a year on page seven. He said three percent growth was expected in the US economy and projected 1.25 - 1.5 percent rise in inflation and low oil prices and healthy employment numbers will be a factor. He said that this indicated a mid, single-digit return projection for the equity market for the coming months. Greg then went over pages nine and ten in the portfolio review and the February handout. He shared that since Russell Investments has taken over the portfolio in late October of 2013 there has been a net inflows of three million dollars which makes the market gain about 4.5 million dollars. Greg then talked about the performance summary and said, starting June 30, 2014 through the end of February, 2015, the portfolio has generated a 3.6 percent rate of return. He said they beat the

custom benchmark by 60 basis points in the last eight months. Since inception the portfolio has generated a rate of return by 7.2 percent. Russ pointed out that it was important to note that these are not net numbers. Greg continued that US equities did extremely well over the last year at 16 percent, but said it was unlikely to get that strong of a return again over the next year. He said that Russell Investments is a manager of managers and there have been some changes over the last year: they removed Cornerstone and replaced it with HS Management Partners; they removed Driehaus Capital and replaced it with Wellington Management; they removed PEMCO and hired Scout Investments. Greg then covered what he had presented at the PACE meetings from page 12. The floor was opened to questions and Russ asked how PACE was doing relative to claims and Betsy said that they are doing quite well, both on the investment piece and claims and that is why there have been much lower rate increases.

Both Brent and Greg spoke about the volatility of the dollar and its continued gain against other currencies. They also mentioned the possibility of the Fed raising the interest rate in June but believe it is more likely in September. They spoke about the abundance of oil affecting the markets and their predictions of prices in the future. They also talked of the poor performance in the European market and how that could affect our portfolios.

*Brent and Greg left the meeting at 4:22 p.m.*

*Betsy left the meeting at 4:23 p.m.*

IV. Budget Committee Meeting Date

A. The Budget Committee meeting was set for May 6, 2015 from 2:00 - 5:00 p.m.

V. Investments and finances

A. Current financial report, Michael Robison

Mike gave the report and highlighted a few things: The real market value is \$81,684,000. We have grown it quite a bit over the last couple of years. Mike pointed out that year to date we have 2.9 million of investment earnings, which includes realized gains through January, 2015. The adopted budget is about 3.2 million. We are going to exceed our budget and most of that comes from equities.

*Betsy returned to the meeting at 4:29 p.m.*

Russ asked if a legal expenditure was off-kilter and Mike said that was the expense for PERS litigation and we are running ahead on it. Craig asked about the Board Of Directors projects and Mike explained that was the Promise Campaign.

B. Budget proposals, Michael Robison

Mike explained that is a rough budget estimate. The current year is better than originally projected because of realized gains. We are expecting to expend the total budget by year end. He said that earnings are expected to decrease for the 2015-16 budget and that we will have a fee increase to PACE of \$100,000 due to the Litigation Director. Betsy inserted that hiring a Director of Board Development would be a good move. Mike said we are expecting an increase in personnel costs of \$617,800. Mike and Betsy covered the position additions and changes.

Doug asked how we could know if the Promise Campaign has been successful and Betsy said that it is always challenging with public relations campaigns but that we have great data in terms of exposure.

Russ asked if we realized a savings in the budget with PERS and Mike said it remained the same, but Betsy said were able to hold it flat with no increase for insurance, since the employees are paying significantly more in co-pays and deductibles.

There was discussion of the steps for the budget to be approved in June.

Dave asked if personnel would be affected if the economy took a turn like 2008 and Betsy said that we have built it so that income would not be affected because of the yields we are getting.

Russ asked, in advance of the May Budget Committee meeting, if OSBA's Labor and Relations people could give a broad average of what districts are doing as far as COLAs across the state. Mike said the three percent budgeted was actually two percent COLA and one percent merit.

C. Budget direction from the Committee

D. Budget direction recommendation to the Board

**Motion: OSBA Board Member Craig Prewitt recommended that based upon these assumptions and estimates he recommends that we move forward and present this budget to the 2015-16 Budget committee and ultimately the Board; seconded by Doug Nelson.**

**The committee voted on the motion and it passed unanimously.**

VI. Other business

Mike asked the committee to turn to page 36 to bring to their attention some changes in the computer budget. The SPOT system is out of date and severely needs to be updated. Pro Law is a litigation software that will be implemented. CRM will be upgraded. He said that we are staying in the allocated budget amount and Betsy said it is basically just a timing change.

Mike then spoke of the capital budget estimates on page 37 and said everyone will see the IT

Strategic Plan at the June meeting. Doug mentioned that he didn't feel OSBA should have company cars. Mike said that it was more economical to have company cars than to reimburse employees for mileage driven. Russ asked about the \$650,000 for building improvements and Mike said it was for space planning and the board approved the building renovations.

VII. Adjourn

**Sam Lee adjourned the meeting at 5:00 p.m.**

