

D

Friday, September 18, 2015  
Local Government Center

*OSBA Finance Committee members in attendance at meeting start:* OSBA President Dave Krumbein, OSBA President-elect Doug Nelson, OSBA Vice President Betty Reynolds, OSBA Secretary-Treasurer Samuel Lee, OSBA Board member representing PACE Craig Prewitt, Cliff Kuhlman, Board Member, 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 Finance Committe members in attendance via conference call:* Nori Juba, Board Member, Bend-La Pine School District

*OSBA Guests in attendance at meeting start:* Brent Peterson, Royal Bank of Canada (RBC)

*OSBA Guests in attendance via conference call:* Janelle Nelson, RBC

**Committee Chair Sam Lee called the meeting to order at 1:00 p.m.**

- I. Welcome and Introductions
- II. Approval of minutes
  - A. March 13, 2015 meeting

**Motion: OSBA Board member Craig Prewitt moved the committee to approve the March 13, 2015 Finance Committee meeting minutes; seconded by Cliff Kuhlman**

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

*Lisa Freiley entered the meeting at 1:07 p.m.*

- III. Investment and finances
  - A. Investment portfolio and performance

Brent Peterson introduced Janelle Nelson, who he said is one of two people who pick the stocks, both prime income and dividend growth. Janelle started by saying that Main Street has done better than Wall Street this year and said that the market has been in a period of consolidation. She then went on to discuss returns of bonds and bond proxies, a number of which are in the prime income portfolio and deliver an attractive yield. Electric

utilities, telecom services companies, real estate investment trusts and MLPs are all down. She mentioned the Fed not raising the interest rates, as was expected, and said there would still be a fair amount of volatility in the market through October. She went on to explain how that even though the market is volatile, most of OSBA's investments are good investments over time. She said that for the first time in two years we are seeing exceptionally good value in our income portfolio prime income. Janelle also pointed out that the cash flow continues to grow, even with the current market. She said inflation rates are lower than anticipated and that interest rates are not expected to rise this year. She believes we have entered a "secular bull market" which means the amount of money that has moved out of equities and into bonds is in the process of slowly reversing and that the major big picture of the market is toward the upside. Janelle believes the secular bull market trend will last 12-15 years. She then spoke at length about the benefit of having dividend growers in your portfolio and that RBC tries to include both higher yielding companies and companies with faster dividend growth for a blended yield in the portfolio. She commented that they see the best persistence in dividends from beverage companies, quality restaurants, health care companies, insurance companies and consumer staple firms. She went on to say, in response to questions, that OSBA is in a good position for the way the market is trending because we currently are getting a yield of 3.6% in dividend growth and almost 5.5% in the prime income portfolio.

*Janelle Nelson exited the meeting via phone call at 1:36 p.m.*

Brent directed the committee to look at the second quarter consolidated portfolio review and gave his interest projections for this fiscal year to be \$3.72 million, which is a little higher than last year. He said that we took \$750,000 from the dividend growth portfolio to help pay for the remodel project. He said we have booked \$827,000 in gains in one of the portfolios since July 1, 2015 and have also booked some gains in the bond portfolio of approximately \$20,000 since the beginning of the fiscal year. We have \$2.56 million in bonds available as swap candidates because of their maturity between now and the end of the fiscal year. Brent then spoke about The Fed and interest rates before continuing his presentation. He pointed out that we are evenly distributed in the maturity distribution in the 5-9 year range in our fixed income portfolio.

Mike Robison said that for 2015-16 we budgeted almost \$3.9 million in investment income and based on Brent's and his projections we are on track to hit that amount. The income stream remains stable despite the market's ups and downs. Brent added that it is the consistency of income that we are striving for and this model is providing that. Brent then gave an example of how they had recently sold Eli Lilly and bought Glaxo, Smith, Kline and Duke Energy as replacements. They made a gain of almost \$500,000 on the sale of Eli Lilly. A question was raised of who authorizes trades internally at OSBA and Mike answered that Lisa Freiley, Betsy Miller-Jones and Jim Green and himself are the four that can and it takes a "yes" vote of two people before the transaction can occur. Mike said that the transaction usually doesn't happen unless Brent hears from Betsy or himself, but if either of them are unavailable then the other two can make the decision. Mike said that 90% of the time they follow Brent's advice and Lisa added that the four of them have a very interactive process. Brent said that having four people has improved the

outcome as decisions can be made more quickly. Brent also pointed out that if we had stayed with OSBA's old investment policy the outcome could have been vastly different, and Betsy added that we could be running only half the income we are today. There was some question and discussion about where the \$750,000 was taken from for the reconstruction project and Brent clarified that it was from gains.

*Brent Peterson exited the meeting at 2:15 p.m.*

B. 2014-15 audit update

Mike reported that the auditors would be coming next week. He said that in the past, the auditors had come in June and September. The new auditors, Jones and Roth, have chosen to only come in September.

C. 2014-15 fiscal year update

Mike reported that for 2014-15 our operating revenue exceeded the budget by \$1.4 million. Our non-investment revenues exceeded the budget by \$56,000. Operating expenses were below budget by \$200,000. Revenue greater than expenses was \$1.6 million. The real market value of the OSBA equities and bonds had decreased by \$2.9 million and expenses over revenue shows a loss of \$1.3 million, but it's a paper loss based on the real market value of our investments. On the operating side we were very fiscally sound. The ending fund balance for OSBA decreased from \$85.5 million to \$84.2 million in the real market value of the investments.

D. Current financial report

The current year is only for the month of July and, as of the end of that month, OSBA had revenue over expenses of \$984,000, most of the was from realized gains from investments and yearly dues. Betsy pointed out that there are two things always going on: the operating revenues and expenses and then there are the investment revenues. She said it is important to watch both separately all the time and that we don't need to react to market changes because we have planned for the ups and downs of the market. There was some discussion about the decrease in the portfolio, but it was clarified that this was only a small percentage change and that OSBA's operating income remains stable even with the fluctuation in the market.

Doug Nelson asked if when changes are made to the portfolio, such as buying and selling, if the Secretary/Treasurer is copied in and Betsy said that they weren't and that is why we have Brent and she said that the committee is seeing the changes when they get the monthly reports. Sam agreed that the monthly reports are exactly what he wants to see and not more.

*Lisa Freiley exited the meeting at 2:33 p.m.*

**D** The comment was made how little the dues contribute to the overall income and Betsy said that we are unique as an organization in that matter in that those dues have not been raised since 1997 and the board should be proud of that fact that our dues play a very small role in funding the services OSBA provides.

IV. Adjourn

**Sam Lee adjourned the meeting at 2:40 p.m.**

**R**

**A**

**F**

**T**