

Friday, March 11, 2016
Chemeketa-Eola Viticulture Center

OSBA Finance Committee members in attendance at meeting start: OSBA President, Doug Nelson; OSBA President-elect, Betty Reynolds, OSBA Vice President, LeeAnn Larsen, OSBA Secretary-Treasurer, Don Cruise, OSBA Past president, Dave Krumbein, OSBA Board Member, Craig Prewitt, Business Director, Greater Albany, Russ Allen

OSBA staff in attendance at meeting start: Executive Director Betsy Miller-Jones, Director of Operations and Finance Mike Robison, Director of Communications Tricia Yates and Human Resources Manager Jenny Fedler

OSBA Finance Committee members in attendance via conference call: Cliff Kuhlman, Board Member, Grants Pass

OSBA Guests in attendance at meeting start: Brent Peterson, Royal Bank of Canada (RBC), Greg Coffey, Russell Investments (PACE portfolio manager)

OSBA Guests in attendance via conference call: Sam Lee

OSBA Secretary-Treasurer Don Cruise called the meeting to order at 2:35 p.m.

- I. Welcome and Introductions
- II. Approval of minutes
 - A. January 29, 2016 meeting

Motion: OSBA Board member Craig Prewitt moved the committee to approve the January 29, 2016 Finance Committee meeting minutes; seconded by OSBA Past President Dave Krumbein.

The committee voted on the motion and it passed unanimously.

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

Brent Peterson from Royal Bank of Canada, our investment advisor presented an interim “Consolidated Portfolio Report” report to the Committee through February 29, 2016. He noted that the market from December has started to recover. Both the dividend growth and prime income growth outperformed their respective bench marks. Baseline assumption for income portfolio left as is income is projected at \$2.9M, we do have mark to market gain at \$1,382,000. We do have the opportunity to re-balance and helped toward the budget for next year. German and Japanese bonds would be almost at zero or a

negative return. Where we currently sit right now is \$3.71M and feel that we will be at this number next year as well.

Sam Lee had a question about strategy? Brent Peterson discussed that currently doing a test case and monitoring McDonald's stock; as of today the stock is going up to around 121/share. If it drops to 109-98/share. Our cost basis is \$93/share we would gain if we sold at \$109/share. We will continue to monitor this and working on a more formal way to implement. There is nothing in the current policy to implement this type of investment. Sam wants to be sure that down the road our policy is in place for knowledge purposes for the Committee due to the fact that perhaps we wouldn't have committee members with a knowledge base on investing. Mike Robison suggested that perhaps we do a test case on Lockheed Martin; due to the fact that we have experience a run up in real market value and right now you can turn this into principal vs. paper money. Brent Peterson directed the committee to page 4 of their packet to discuss re-balancing moving forward to get back in balance as we pair back each year. Sam Lee asked if the re-balancing is something that RBC does automatically or do they come to the committee with their recommendation? Brent Peterson discussed that we have not in the past come to the committee; we look at the beginning of each fiscal year to determine the gains/re-balance. Betsy Miller-Jones reminded the committee that there is policy in place and that this is managed to the policy.

B. PACE Portfolio

Mike Robison introduced Greg Coffey to the committee. The recovery in March has also helped the PACE Portfolio. He directed the committee to the PACE allocation summary table, page 16. Allocation for the PACE allocation when we discussed this one year ago 60% fixed income bonds and 40% in equity like assets. July of last year I met with Mike Robison, Betsy Miller-Jones, Lisa Freiley and Jim Green to review the portfolio for our annual discussion of the asset allocation. In July we wanted to diversify more and we took 10% from US equity allocation and put 10% into Global equities "global equities implies, across the globe". This give the portfolio manager an opportunity to pick the best stock across the globe. Fixed income allocation was shortened with a shorter duration. We did this with the US Fed rate possibly being raised four (4) times last year. We may shift the short duration asset back into CORE fixed income in the next year with knowledge that the US Fed will not raise the interest rate as many times as it was last year.

PACE has stayed at the 60/40% since inception with Russell Investments. Mike discussed the investment portfolio risk factors to protect PACE.

PACE is in investment bonds. Russell looks at underlying investment portfolio funds. Over the last year there were changes made. Large cap equity funds were changed. Small cap equity funds were changed too. Swapped managers in and out. Personnel turnover is another reason. Turnover was a little over 20% change. Small cap funds mostly drove this.

Page 18 - assets are as of end of January. January sell off. \$1.9 M. Have since recovered

\$1M of that back in the past week. \$900K lost.

Page 19 - fixed income has continued to do well. As of yesterday only down about 2%.

Doug Nelson asks what we pay? Greg Coffey reports 5.7 points.

Betsy Miller-Jones let the committee know that overall the change in the investment policy has worked very well. Change has been very supportive of the overall investments.

*** Brent Peterson and Greg Coffey exit meeting at 3:17 p.m. ***

IV. Budget Committee Meeting (Monday, May 2, 2016)

- A. Suggested alternate dates
1. Tuesday, May 3, 2016
 2. Wednesday, May 4, 2016
 3. Thursday, May 5, 2016
 4. Friday, May 6, 2016
 5. Budget Committee meeting date - **ACTION**

Motion: "Dave Krumbein moved to accept May 4, 2016 as the date of the OSBA Budget Committee meeting at 10:00a.m. Seconded by LeeAnn Larsen.

The committee voted on the motion and it passed unanimously.

The committee took a break at 3:40 p.m.

The committee reconvened at 3:45 p.m.

V. Investment and finances

- A. Current Financial Report, *Michael Robison* - **REPORT**
Page 40 - Income Statement, through January 2016 there is just below \$5M in revenue and we had around \$715K in revenue over expenses. We had budgeted \$3.9M in investment revenue the estimate is closer to \$3.8M. Will return \$500K funds to the portfolio and reinvested. Revenue budgeted was less but expenditures was less.

Remodel expenses is on the balance sheet and will show up on depreciation sheet over the next period of years. Savings have been in personnel and benefits (i.e., *vacancies to fill and insurance costs-high deductible plan HSA*). Betsy Miller-Jones discussed every employee is paying toward their plan along with the HSA has made the difference in our insurance costs. Doug Nelson wants OSBA to visit (perhaps a survey) regarding staff morale, and the impact of benefits on morale. Being able to offer more than one plan has made an impact on keeping OSBA Insurance rates low. We have also had growth in our programs we provide to

member (i.e., *Bonds, Ballots and Buildings, PACE Day, OSBA Annual Convention*) which has helped the bottom line. LeeAnn Larsen congratulated the staff, saying that budget is on target or below!

Sam Lee likes the spending policy but really wants to look at the amount percentage on board side. Likes the policy - very clean and precise. Look more at a technical indication as a percentage for investment.

Sam Lee exits conference call at - 4:00 p.m.

B. Budget Proposals, *Michael Robison* - **REPORT**

Page 45 - Item 1: \$544K expenses we be below our budgeted expenses.
Item 2: Will budget \$3.9M for investment income - expecting a 4.8-4.9% return on principle - no rates/member dues increases. Expecting a fee increase of 5% to PACE, which covers our additional expenses. Expect to see an increase in Member Services this year. Built in a 3% COLA/merit increases in salaries and additional taxes for next year.

Item 3: \$160K in special projects - \$150K targeted for the Promise Campaign, \$10K contingency with projection to \$200K; \$100K for the Promise Campaign and \$100K for Oregon Rising. \$50K for Promise Scholarship Program; and contingency will stay the same at \$126K. This year there are no new positions being added. Legal should be down this year; \$60-\$70K budgeted for legal.

Planning for 2017-18: Mike Robison gave an example of how the budget might grow.

Page 47 - Capital assets budget: 15-16 funds for remodel; asking for \$150K for Technology and CRM; haven't purchased cars but looking at buying 2; extra amount to be added for some remodel needs.

Typo regarding 2017-18 and 2018-19 for Technology budget.

Doug Nelson questioned about the minimum of 12K miles before being assigned a car? The 12K is a minimum milage that staff would need to put on a vehicle before assigning one to them.

Don Cruise had a question about setting goals and the budget that is set - how does staff meeting the goals correlate with budget that is set? Mike Robison answers that in June the OSBA Board set overreaching goals then in July staff meets to set department and individual goals to align with the OSBA Board goals.

C. Budget Direction from the Committee - **DISCUSSION**

Betsy Miller-Jones discussed that we will take your direction that you give us at this meeting and the OSBA Board will give us tonight; then we use that to build the budget. Steve Kelley and his team are planning to move forward with the Promise Scholarship program if the board approves.

D. Budget Direction Recommendation to the Board - **ACTION**

Motion: “Dave Krumbein moved to accept the Budget direction to be presented to the OSBA Board (or with the following recommendations...) Seconded by Craig Prewitt.

The committee voted on the motion and it passed unanimously.

VI. Spending policy

A. OSBA Endowment Spending Policy - **DISCUSSION**

Mike Robison did research on how to put a spending policy together for this committee. Key points: calculate average investments value over period years (*using principal*). Calculate a percentage value of 5% and not lower than 3% or higher than 6% unless directed by the board. The resulting dollar amount would be distributed at the beginning of the year and installments through the fiscal year as needed. Distribute it monthly as the interest and dividends come in.

June 2013 - Principal \$76,405M

June 2014 - Principal \$77,040M

June 2015 - Principal \$78,619M

2013 - 4.9% represented interest divided in realize gains of \$76,405M

2014 - 5.9% represented interest divided in realize gains of \$77,040M

2015 - 4.9% represented interest divided in realize gains of \$78,619M; and

2016 - projecting 4.85% represented interest divided in realize gains

Comes back to the Finance Committee every January for review along with the spending policy.

Steps: make changes and/or adopt changes today; then send to the OSBA Board Policy committee for approval; then adopted by the Board in June. January you will see a calculation for the 2016-17 year.

Craig Prewitt has a question/concern about having a spending policy. Betsy Miller-Jones responded to go back and look at the historical return 5% is very reasonable for our portfolio. We have a short history to date. Mike Robison responded that by averaging your principle; the risk in lowering the percentage, we are using the number to plan/set a budget.

LeeAnn Larsen likes having a spending policy and being able to review every year so future finance committee can also review.

LeeAnn Larsen and Craig Prewitt would like the change "should" to "shall". Have it read: "The Spending Policy ~~should~~ shall". Mike Robison reviews the different percentages of changes by membership in order to change amounts of the endowment.

Dave Krumbein comments the endowment has grown \$2M over 3 years. \$50M was 2/3rds of the Board and the membership before the funds can be spent and another \$16M that requires 2/3rds vote of the Board. Overtime you could move the unrestricted funds to the restricted by the Board to grow that number. Russ Allen likes the spending policy to add to the portfolio but struggles with the math and some thought needs to be given to the restrictive vs. unrestrictive gains to the endowment.

B. Spending Policy - **ACTION**

Motion: "LeeAnn Larsen moved to adopted the OSBA Endowment Spending Policy with the amendment (3rd paragraph would say "the Spending Policy "shall" be reviewed). Seconded by Craig Prewitt.

The committee voted on the motion and it passed unanimously.

VII. Other Business

VIII. Adjourn

Don Cruise adjourned the meeting at 4:30 p.m.