

Friday, September 23, 2016  
Local Government Center

*OSBA Finance Committee members in attendance at meeting start:* OSBA Vice President LeeAnn Larsen, OSBA Secretary-Treasurer Don Cruise, OSBA Board Member Craig Prewitt, Mike Doherty, Special Districts Association of Oregon

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

*OSBA Finance Committee members in attendance via conference call:* Nori Juba, Board Member, Bend La Pine Schools

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

*OSBA Guests in attendance via conference call:* Samuel Lee

**Committee Chair Don Cruise called the meeting to order at 1:02 p.m.**

- I. Welcome and Introductions
- II. Approval of Minutes

**OSBA Board member Craig Prewitt moved the committee to approve the March 11, 2016 Finance Committee meeting minutes with the following changes: *Nori Juba was not present at the meeting on the phone or in person*; seconded by OSBA Vice President LeeAnn Larsen.**

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

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

Brent Peterson passed out the Consolidated Portfolio Review and he made a few comments about the market: Through the second quarter of 2016, the S&P was up 3.84%, the 10-Year Treasury was up 7.98% and the equity markets improved dramatically. Much of that improvement was in dividend paying stocks and bonds have been strong all year long. The 10-Year Treasury started at 2.2% and is currently at 1.61%, which is a tight trading range. There will possibly be a tightening of the Fed in December, but currently it appears stable.

*OSBA President Doug Nelson and Past President Dave Krumbein entered the meeting at 2:11 p.m.*

Brent shared some information about the Japanese market. He also said that Bob Dicky, who the committee heard from last year, believes we will begin to see returns

up to 20% in the equity market after the election. Bob says it doesn't matter who wins, there is usually an upswing in the equity market afterwards.

Brent then moved to the portfolio and said since the beginning of the fiscal year we have locked in gains of \$583,000. He then directed the group to look at the report, which goes through June 30, 2016. He said that since the beginning of the fiscal year they did their annual rebalance of the portfolio and they sold one of the stocks that was triggered by the stop-loss process. He said they have the cash from the sale of that stock and the rebalance that is waiting to be reinvested, which is about \$1.4 million. \$916,000 of that was from the sale of the stock. Brent says they are looking into an equity reinvestment within the next 60 days. The annual income for the portfolio is about 3.5 million.

Brent directed the committee to look at page two of his report and the personal rate of return, which was up just over 5% and the portfolio was up over 10% and the numbers since inception are up 8.21%. He then had the group turn to page three and the individual components: The bond component was up 3.69% and year to date was up 7.94%; Attributes for the prime income, or higher dividend paying portion of the portfolio, was up 8.59% and year to date up 15.15%; Dividend growth was up 5.23% and year to date up 13.3%. Brent said this shows how strong the recovery was. On page four, the current asset allocation vs prior allocation, he said the lower rated bonds have been downgraded, but they continue to pay their coupon. Page five gives the analysis of the equity component under sector analysis and the category "not defined" is how the system looks at REITS (real estate investment trusts) but he said they will now be pulled out and be their own individual component, tracked separately. Consequently, there have been some increases in prices in REITS, but he said that will probably level out. Brent then went over the fixed income assets on page six that will come into maturity in the next five years. Under portfolio statistics, the duration remains very good at 4.4 years and our current yield to maturity is 3.23%. Brent pointed out that we have many more positive quarters than negative ones. He said they will look to reposition the bonds that are one year or less to maturity.

Sam asked if Brent had thought about breaking out of the Alerian MLP, and Brent said he did some research and found that it is still the best option right now. Craig asked if the dividend does not increase in the dividend growth packages what would we do and Brent said that unless there was a change by the investment team we would probably hold onto it for a year and watch it the second year before making changes. Craig then asked in the high dividend portion how high is high? Brent said that our yield is just over 5%. Craig then asked Mike what our annual target for return was and Mike answered that 5% was the target, but he said he is not as much concerned about a certain percent as the 3.8 million in yearly operating expenses to provide services to our members. Betsy reminded the committee that the portfolio was designed to produce income no matter what the market is doing. Mike confirmed that the system does work and gave the example that in 2014-15 we had a loss of almost four million dollars but the portfolio still produced an income of \$3.7 million. Mike commented that he is happy that we now have the stop-loss in place because that could save us from some bigger losses we have had in the past. Mike and Brent

shared about the oversight of the portfolio. Brent says he checks it every day and has an alert set up if anything changes that needs attention.

*Brent exited the meeting at 1:48 p.m.*

B. 2015-16 Audit update

Mike reported that the audit by Jones and Roth went fabulously. The fieldwork portion of the audit was completed two days ahead of schedule. He said the auditors were very complimentary of the staff and record keeping. Betsy echoed that everything was very clean and there were no issues or exceptions to report.

C. 2015-16 Fiscal year-end update

Mike went over the highlights: Operating expenses exceeded revenue by \$527,000. Non-investment revenues exceeded their budget by \$228,000. He said we are also seeing an increase in school districts wanting to contract with us for a variety of services. Operating expenses were below budget by \$461,000. Doug asked the reason we were operating below budget and Mike said it was turnover of staff. Betsy mentioned that we have hired new staff at higher salaries than the ones who left, so that will have to be taken into consideration for the next budget. LeeAnn asked if we have the staff to fill district requests and Betsy said that in most departments we are fine but are concerned about the labor department and are working hard to fill the staff vacancies.

Mike continued his report: In revenue over expenses net income, we are over budget by \$527,000, but he said that number will be quite a bit lower in the financial statements. OSBA reinvested \$827,000 back into the portfolio. Real market value of the portfolio increased by \$3.9 million. Revenue over expenses, including unrealized gains, was \$4.4 million. He said we grew the ending fund balance by almost \$4 million of real market value.

Mike commended Betsy and The Board for adopting the investment policy, which has allowed for the growth of the fund these last few years.

D. Current financial report

Mike said that the first three months have been good. Through July, revenue over expenses was \$1,068,000.

IV. New business

There was no new business

V. Adjourn

**Don Cruise adjourned the meeting at 2:05 p.m.**