

Friday, January 20, 2017
Chemeketa-Eola Viticulture Center

OSBA Finance Committee members in attendance at meeting start: OSBA President Betty Reynolds, OSBA Secretary-Treasurer Don Cruise, OSBA board member Craig Prewitt, Russ Allen, Business Director, Greater Albany School District, Mike Doherty, Special Districts of Oregon

OSBA staff in attendance at meeting start: Director of Operations and Finance Mike Robison, and Human Resources Manager Jenny Fedler

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

OSBA Secretary-Treasurer Don Cruise called the meeting to order at 2:36 p.m.

I. Welcome and Introductions

Don invited everyone to introduce themselves

II. Selection of Committee Chair

Motion: OSBA board member Craig Prewitt nominated Don Cruise for chair of the Finance Committee.

The committee voted on the nomination and it passed unanimously.

III. Approval of minutes

A. September 23, 2016 meeting

Motion: OSBA board member Craig Prewitt moved the committee to approve the September 23, 2016 Finance Committee meeting minutes; seconded by Don Cruise.

The committee voted on the motion and it passed unanimously.

IV. OSBA Investment

A. Investment portfolio and performance

Brent Peterson passed out a handout “Consolidated Portfolio in Review” and began by sharing what he expects for 2017. He reported that RBC’s Chief Equity Strategist is forecasting earnings for S&P 500 at \$120 per share. They also believe that we are two years into the early stages of a Secular Bull Market, a cycle could last 15 years. There are indications of three to four moves of The Fed tightening

the interest rate.

Brent said that looking at the Consolidated Portfolio Review, 2016 ended up being a very nice year. Our portfolio was up 12.49% for the year versus our index of 7.02%. He reminded the committee that our portfolio is about 40% stocks and 60% bonds, so lighter in equities. He said if we look at three years we are still beating our benchmark by a nice margin and also since inception. Since July of 2012 we have taken out in the form of income or gains and losses about \$19.25 million, which is just under 20% of the current market value of the portfolio. This shows the portfolio is doing what we want it to.

Craig Prewitt asked Mike Robison if we were looking for about \$3.8 to \$4 million annually and Mike answered in the affirmative. Brent said we would be able to hit those targets.

Brent then talked about the Stop Loss strategy and that we used that strategy four times last year, and three of the four resulted in a gain. One was a loss of \$67,000, which was when Wells Fargo pulled back. Because of the strategy, OSBA did not take as large of a loss as others did.

Don Cruise asked why the net investment was much higher in 2013 than 2016 and Brent explained that if you take into account the income that we have taken out of the portfolio, it brings it back to a market value of \$81 million. Brent explained that the data is misleading and only really illustrates what cash we are pulling out.

Brent went on in the report to the bond component, which in the quarter to date was negative and occurred mostly post-election. The bond market closed at 1.76% on election night and peaked in December at 2.6%. He said our portfolio did better than the index. He said we are heavily overweight corporate versus government bonds.

In the prime income account we were up 7.94% and our yield at cost was 4.4% versus yield on S&P 500 at 2.14%. In the dividend growth portfolio for 2016 we were up 19.04% versus index of 11.96%. Our yield at cost is 3.94% versus S&P 500 at 2.14%. Brent said that both these portfolios are poised to outperform the S&P 500.

Don asked if we have considered increasing our stocks in information technology and Brent pointed out that they are looking for companies with consistent, long-term dividend growth.

Craig asked what consumer discretionary meant and Brent answered it is something a consumer wants but doesn't necessarily need.

Betty Reynolds departed the meeting at 3:00 p.m.

Brent went on to share that even though we are overweight in BBB rated bonds, those were the bonds that gave us the best performance last year. Our yield to maturity is at 3.42%, which is above where Treasuries are.

Russ Allen asked about investment grade bonds and Mike shared that all our bonds were investment grade when purchased but they fell and OSBA decided to hold onto them. In the last 12 months they improved to have a positive real market value and we continue to get interest payments.

Brent continued by saying the portfolio is outperforming the blended index. He said we only had two quarters where we were actually down since 2012 and our investment strategy has held up well and continues to generate cash for OSBA.

Betty Reynolds entered the meeting at 3:13 p.m.

Russ asked if there was a benchmark with regards to risk and Brent said there was nothing in the policy regarding risk versus reward but there is some flexibility where they could shift back and forth and could go as far as a 60% equity and 40% bonds, but he said he didn't think we would take on that much risk. Brent went on to say that if the market does pull back, our cash flow will not change as long as the companies do not cut dividends.

Mike spoke about how they have watched the market and portfolio rise and fall dramatically over the last three years yet the income stream it generates has remained stable, so it shows that the strategy is working.

Craig asked if our dividend growth account consisted of companies that always increase dividends and Brent answered yes and added that 50% of them are what are called "Dividend Aristocrats," which means they have increased their dividends every year for 25 years. The other half have a history of increasing dividends for at least 15 years.

Brent Peterson exited the meeting at 3:30 p.m.

Fritz Duncan and Sarah Fantazia entered the meeting at 3:30 p.m.

V. Finances

A. Current financial report

(This report was given after the audit reports) Mike began by saying OSBA has \$1.5 million net income in revenue greater than expenses through November of 2016. Our revenues continue to be ahead of schedule. He said that the Policy Department has been doing a lot of district work and could possibly turn a profit. Dues increased slightly due to more charter schools joining OSBA. Mike said we are on track to meet our budget.

Don asked about contracting out for printing and Mike explained that the Local Government Center had the print room but OSBA paid the employee who worked there. The other tenants in the building did not want to continue the print room so OSBA is currently contracting out our printing and mail services. Mike said he believes that OSBA will save money by not being part of the print room as it was before.

VI. Audit Reports

Sarah Fantazia began by saying there were no difficulties with the audits and all the documentation was accurate and thorough. She said in looking through the controls, such as cash management and checks, there were no issues and strong controls are in place. She said this was true for audits of all three entities (OSBA, LGC and LAT). Fritz Duncan commented that there are good internal controls: systems, people and monitoring, which minimizes the risk to the board and organizations.

A. OSBA

Fritz began by saying they had no discrepancies and financials were correct. He went on to say that OSBA has good short term reserves of cash and cash equivalency of a million dollars, good long-term reserves of \$80 million and \$1.3 million in the trust as a long term investment. He said we look good financially and almost every thing OSBA has is an asset and there is not much debt.

Russ asked about the jump in non-depreciable and work in progress and Mike said that the board was very generous and approved the remodel project and it was completed on time and under budget.

Craig asked, that giving our operating expenses, if the amount of cash we have on hand is appropriate. Fritz answered that in most cases three to six months of operating reserves is what most would like to have, but OSBA has \$80 million in investments that is readily available. Mike said he was very comfortable with the million dollars in reserve because of the many options available in case of a need.

Fritz went on to say that OSBA has \$3 million in revenue with revenue coming from a lot of different sources and is very diversified, which is really good and OSBA is keeping its revenue stable.

The next statement shows cash versus gains and losses. OSBA had \$170,000 loss but a \$3 million surplus and the year before there was a surplus.

He went on to say OSBA has a lot of good footnotes: in the fair value footnotes OSBA has \$80 million in investments in level one, two and three.

Fritz pointed out that OSBA put \$7 million back into the economy, besides

everything you are doing as an association.

B. LGC Trust

The trust has \$370,000 in cash reserves and all the rest of the money in its buildings, and there is \$3 million in assets. There is hardly any debt, so the trust has \$3 million in equity.

In statement of activity the entities put in \$435,000 this year to pay expenses and the building had \$500,000 in expenses, but \$100,000 of those expenses was real estate depreciation, which is not cash. Almost all real estate ventures have a net loss before and after depreciation, so that's normal.

Fritz said the entity had a \$20,000 surplus and an \$89,000 surplus and used that surplus to make improvements. Mike mentioned that the roof and HVAC system was replaced.

C. LAT

Fritz began by saying Legal Assistance Trust had \$1 million in reserves and no debt. He mentioned that it fluctuates because some years there are legal expenses and others there isn't, which is normal for a trust.

Fritz and Sarah were very complimentary of Mike and Sharon and the ease of working with the organization. Fritz said they would send the audit letters now that they have met with the Finance Committee. Mike thanked the auditors for their work.

Fritz and Sarah exited the meeting at 3:47 p.m.

Betty Reynolds asked Mike if he like the concept of rotating auditors and Mike answered that he likes a three to five year schedule. He said he liked the current auditor because they have experience in non-profit companies.

VII. Spending policy

Mike passed out a new page 57. He said we went through this process with the committee last year that we would present our calculations of how much of the revenue from the portfolio we would expect to budget for the coming fiscal year. He said we are recommending just slightly over \$4 million, which is a small increase at 5.14% and does require an action by the Finance Committee.

Russ asked if we were needing that extra money in order to make the budget and Mike answered that we do in order to have a balanced budget.

Motion: Craig Prewitt moved to approve the 2017-18 proposed budget increase as

presented. Russ Allen seconded the motion.

There was discussion about the wording of the motion.

The committee voted and the motion was opposed.

Craig Prewitt moved that OSBA be authorized to use \$4,002,567 from the investment account as its budget for 2017-18. Russ Allen seconded the motion.

The committee voted and it passed unanimously.

VIII. Other business

There was no other business

IX.. Adjourn

Don Cruise adjourned the meeting at 4:07 p.m.