

**MEETING MINUTES  
TOWN OF LONGBOAT KEY  
JOINT INVESTMENT ADVISORY COMMITTEE AND FINANCE COMMITTEE  
MEETING**

**2/11/15**

At 10:00 AM on Wednesday, February 11, 2015, a public meeting of the Investment Advisory/ Finance Committee commenced in the PZB conference room located in Town Hall, 501 Bay Isles Road, Longboat Key, Florida.

Members attending: Lynn Larson, Phill Younger, Irwin Pastor, Frank Malickson, Armando Linde.

Also attending: Town Manager Dave Bullock, Finance Director Susan Smith, Investment Advisor Steve Alexander, and Utility Billing Analyst Mike Wilkinson.

- 1. PUBLIC COMMENT.** None.
- 2. GENERAL MARKET CONDITIONS.** Discussion was led by Steve Alexander. Steve commented that the Euro is like a “sinking ship”. Europe did not take the necessary steps to ensure liquidity in markets. Buying back bonds may have done alot to avoid a likely implosion. The situation in Europe has caused volatility in major world markets. Steve commented that the stopping of the Federal Reserve’s bond buying program in 2014 will be critical to long term interest rates. Steve told the group that the underlying economic situation in the U.S. is good. Unemployment is down to 5.7% and job growth is moving in a positive direction. Underemployment of a large number of U.S. workers is preventing full economic growth. Steve briefly discussed the sharp decline in oil prices and the fact that this trend is reversing. Lower prices will not have as much impact on the economy as hoped due to lower consumer spending. Retail sales fell off in December due to low consumer confidence. Home sales are robust with inventories shrinking and prices rising. Building permits for new construction are growing and have hit a 5-6 year high in Florida. Steve said the big looming question in the investment industry is when the Fed will raise short term interest rates. He said the Fed chairman is focusing on the job market and wants it to be stronger before the Fed raises the rate. Speculation as to when a raise might happen is causing volatility in markets. Most market participants feel an interest rate raise will not happen until late 2015/early 2016. Armando commented that we tend to look at growth from the demand side but that it is very important to consider the supply side. Supply side reacts to gains in employment and productivity, both of which are currently flat. Investors that look at the long run see that picture. They see growth as

anemic which suggests the Fed's actions have little impact on long term interest rates. Steve agreed and added that lots of other factors including the situation in other world economies influence investor behavior. He noted that there is a lot of cash out there but investors are reluctant due to uncertainty. This causes a stunt to companies proceeding with capital projects. Steve told the group that there has been a significant change to the yield curve for U.S. Treasury notes. Rates are down contrary to projections. This is due to a lack of inflation which is the biggest factor to moving the economy forward in terms of growth.

- 3. PORTFOLIO PERFORMANCE REVIEW.** Discussion was led by Steve Alexander. Steve told the group that the portfolio's performance was right in line with the benchmark. The investment portfolio's quarterly return(4th quarter) was .15% with a gain of 11 basis points in December. The portfolio's return for the 12 months ending 12/31/2014 was .61%. Interest/dividend dollars are rising as the overall portfolio increases. Steve told the group that about 9% of the total portfolio is in the 6-12 month maturity range and PFM is utilizing these funds to increase the diversity of the portfolio. Steve mentioned that the Town adopted the new investment policy in November. He feels the new policy will allow more diversity and will result in better returns. He gave the group a short overview of some of the features of the trading system used for the Town's trades. The policy goes into the system in an electronic format. The system will not allow purchases outside of the policy limits. When an investment is being considered the credit quality, maturity and percent of allocation are put in a mathematical formula to ensure compliance. It also allows immediate access to 42 dealers which provides a good survey of the market. This helps to make quick decisions on investments. Steve added that the new policy allows investment in corporate notes and he feels investment in this area should result in decent returns. Currently a significant percentage of the portfolio is in the 1.5 to 2.25 years maturity range. This is to take advantage of good yields in these time frames.
- 4. APPROVAL OF MINUTES.** The committee had no issues with the minutes for the 10/20/14 meeting and they were approved by committee.
- 5. QUARTERLY REPORT FOR DECEMBER 31, 2014 GENERAL FUND.** Discussion was led by Sue Smith. Sue covered the Quarterly Financial Report handout and noted that final assessed property values decreased slightly and this will result in a decrease to property tax revenues of about \$45,000. She added that the decrease will be largely offset by a slight increase in Franchise fees paid to the Town. Sue also told the group that expenditures are in line with the budget and no items of concern were noted. A brief discussion followed regarding loss of tax dollars associated with the situation at the Colony and the renovation of the Hilton. Because of the current state of the Colony the Town loses revenue due to the decrease in the assessed land value. Dave noted that this is the only property on the island where the value has not rebounded. This situation will

likely remain until a new development happens on the property. The Hilton renovation is a good example of how the ownership can manipulate the tax dollars owed. During renovation a significant amount of the overall value can be shifted from “Land” to “Improvement”. This causes the town to temporarily lose tax revenue as the tax dollars owed are based solely on the current assessed value of the land.

- 6. AUDIT UPDATE.** Discussion was led by Sue Smith. Sue commented that she felt the auditors were very thorough and did a good job. She informed the group that the audit will include a write up regarding the need to restate opening balances in the Utility Fund and the Beach Re-nourishment fund. The Utility fund change is due to the accrual of 95K for adding five days of revenue at the end of the billing cycle to the 30<sup>th</sup> of the month. The Beach fund change is due to an old contracts payable amount of \$130,500 that the Town is not required to pay. This should have come off the books in 2008 due to a dispute with a vendor being resolved in our favor. This will come off now. Frank Malickson commented that he felt these items were immaterial and that being written up carries a negative connotation. He asked Sue what happens because we are written up and Sue replied that nothing happens.
- 7. NEW BUSINESS - DISCUSSION OF UPCOMING PROJECTS.** The discussion centered around beach re-nourishment. Sarasota county is getting some of the funds for this project from the state. Phill Younger commended Dave and his staff for this noting that in the past we rarely got funds from the state for this type of project. Dave noted that the process is very political and funding from year to year can go away in a heart beat. The Town has permit applications in for the dredging of New Pass and Longboat Pass. The projects can be delayed and become significantly more expensive if the permits are challenged. If there are no challenges we should have the permits by fall to proceed with the two pass projects and a truck haul at the center of the island. These projects will cost 20-25 million and the Town will need to issue debt to finance them. Dave mentioned that this may be a good time to bring back borrowing forecasting. Armando noted that the Town's investment portfolio has about 22 million and asked how much would be drawn down to finance projects. Sue responded that Finance is working on a spreadsheet to schedule draw down's and would work with Steve to make sure we have funds available when needed. Environmental issues also have the potential to impact the projects. In 2014 the Federal Government designated most of the west coast of Florida as a critical wildlife habitat. This includes Longboat Key. The Town has to respond regarding the potential impact from the projects. The two species of concern are the loggerhead turtle and the red knot bird which was recently designated as an endangered species. We are in good shape on the turtles but the birds are a new problem. The Fish and Wildlife Service is charged with writing a biological opinion regarding the potential impact to the birds as the result of the projects. Dave relayed to the group that this is not expected to happen in a timely manner and that we need to produce a biological assessment of how the projects

will impact the birds so that hopefully this issue will not delay the permits. Dave said the other big unknown is from the National Marine Fishery Service. They have to weigh in regarding our permit application and it is very hard to predict what their position will be.

**ADJOURNMENT.** The meeting was adjourned at 11:47 AM.

Minutes Approved \_\_\_\_\_

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Mike Wilkinson

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Lynn Larson, Chair Person