

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

6/4/15

At 1:00 PM on Thursday, June 4th, 2015, a public meeting of the Investment Advisory/ Finance Committee commenced in the Ante Chamber conference room located in Town Hall, 501 Bay Isles Road, Longboat Key, Florida.

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

Also attending: Town Manager Dave Bullock, Finance Director Susan Smith, Commissioner Terry Gans, Mayor Jack Duncan, Investment Advisor Gregg Manjerovic, Wade Sansbury CPA of Mauldin & Jenkins and Utility Billing Analyst Mike Wilkinson.

- 1. PUBLIC COMMENT.** None.
- 2. APPROVAL OF MINUTES.** Chairperson Lynn Larson made a motion to accept the minutes from the meeting held on 2/11/15. The motion was seconded and passed. Ms. Larson approved the minutes.
- 3. GENERAL MARKET CONDITIONS.** Discussion was led by Gregg Manjerovic of PFM asset management who was sitting in for Steve Alexander. Greg informed the group that economic growth slowed in the 4th quarter of 2014 and continued to slow in the first quarter of 2015. He said that Central Bank policies are currently the driver of global markets. Projections are for steady growth in the GDP for the next 3 quarters. Until recently the U.S. Federal Reserve was practicing what Gregg referred to as “quantitative easing”. This was the practice of buying up government securities and keeping interest rates low to spur growth. Because of this the Fed’s balance sheet grew and is now leveling off. The big market issue with regard to the Fed that is being watched closely is when the Fed will raise interest rates. The Fed is taking a more data driven approach as opposed to any specific time frame. They want to see signs of inflation before raising rates. The projection is for 2 rate hikes by the end of the year but this will depend on how inflation tracks. Gregg posed the question “when will the Fed respond to falling unemployment with regard to interest rates”. The Fed does not feel the “raw” unemployment rate shows the whole picture. They feel there is a lot of underemployment and that the quality of jobs and wages are not showing significant improvement. The Fed wants to see 2% inflation. They see this as positive for the overall economy as income

will increase and debt will reduce with regard to low interest rates locked in before any increase. According to Gregg the Fed puts a lot of stock in “core personal consumption expenditures”. Personal spending is still low due to low overall consumer confidence in the economy. Armando Linde made the comment that profits drive the stock market. He feels the market will be stagnant for the next few years and does not see investments growing like in the past. Gregg commented that as the Fed hikes interest rates there will likely be a correction in the market and growth will slow. Fixed income investments could become more attractive.

- 4. PORTFOLIO PERFORMANCE REVIEW.** Discussion was led by Gregg Manjerovic. Gregg told the group that the portfolio’s performance was a little below the benchmark. The portfolio gained 45 basis points and the benchmark was 52. Gregg said PFM was gradually positioning the portfolio for longer maturities. They are being conservative with the maturity structure to preserve the value of assets. PFM recently began purchasing corporate notes and it will take some time to see the benefits to the portfolio. Gregg feels purchasing corporate notes and extending the duration of maturities will be beneficial to the performance of the portfolio. The main changes to the portfolio in terms of investment sector are the addition of corporate notes and a small investment in commercial paper. Most of these investments were purchased by reducing the portfolio’s percentage in U.S Treasuries. Lynn Larson asked Gregg if he had any recommendations with regard to investment strategy. Gregg responded that possibly there will be some modest additions to corporate notes but we will largely stick with the status quo for the next few months to let the first quarter changes work and then PFM will look at whether adjustments are needed depending on the market.
- 5. AUDITOR’S PRESENTATION OF SEPTEMBER 30, 2014 CAFR.** The discussion was led by Wade Sansbury of Mauldin & Jenkins. Wade commented that the audit went well and that the Town staff worked well with his group and responded in a timely manner to all requests for information. He pointed out that on page 1 of the CAFR that the Auditor’s opinion is that the Town’s financial statements accurately reflect the financial position of the Town. Wade pointed out the highlights of the Statement Of Net Position on page 21 of the CAFR. As of 9/30/14, The Town had assets of \$111.1M, Liabilities of 15.8M and a positive net position of \$95.2 M. He also pointed out that the net positive position of \$4.1M on the balance sheet on page 23 was a healthy fund balance and represented approximately 29% of annual expenditures and commended the Town for the positive cash flow of 4.1M from the water & sewer and building departments. Next was a discussion of the Town’s pension liability of \$21.9M (page 47). Wade pointed out that GASB statement 68 will require financial reporting of pension liabilities for the first time. In the past local governments disclosed pension obligations but they were not shown on financial statements. Wade said that next year the pension liability will be “on the face” of the financial statements and is a major shift from how

pension liabilities were handled in the past. Jack Duncan asked if financial reporting of the pension liability has credit implications. Wade responded that pension liabilities are not new and should be known and understood by the financial community and should not be viewed as a negative. Jack commented that market implications and the Town's ability to borrow need to be watched closely. Wade commented that if you subtract the Town's pension liability from the net position of \$95M you still have a positive position of \$74M which is good. He noted that some governments have an overall position that is negative because of their pension liabilities. Next there was a discussion about the two restatements that were necessary. One was for unbilled accounts receivable for the water and sewer fund covering the last few days of September for fiscal year 2014 and the other was for the removal of a contract payable that no longer existed, a correction that was necessary to the final cost for capital assets in the Beach Nourishment Capital Projects Fund. Frank Mallickson commented that he felt the amounts were not material and that the restatements have a negative connotation. Wade responded that he felt that according to SAS standards his firm was required to report the restatements. Jack Duncan commented that he felt the transparency was good and promoted public trust. Irwin Pastor commented that if the judgement of the auditor is that the amounts are material, they need to be restated and reported in the audit. Jack Duncan asked what the town philosophy is regarding what we want from the auditors that are hired to report on the financial reporting of the Town. Dave Bullock responded to the question. He said that the bar should be high and that the town hired Mauldin & Jenkins because the feeling was they would be more thorough than the previous auditor. Dave said he had no issue with the standard as it was applied in the restatements. Wade made a recommendation regarding the legal level of budgetary control and moving funds from budgeted lines items. He felt the limit of \$10,000 for the Town manager to move funds is too restrictive and town staff should not have to get commission approval at the line item detail level to move funds within an approved budget. He felt the time and effort required for this level of oversight could be better utilized elsewhere. It was pointed out that line item approval is in the Town charter. There seemed to be general agreement from those in attendance that the level of oversight is too restrictive. Chairperson Lynn Larson asked Town staff to come up with recommendations for changes regarding the approval process and bring them to the commission.

6. **PENSION FINANCIAL CONDITION AND TREND INFORMATION.** This item was not discussed.
7. **DEFERRED RETIREMENT OPTION BALANCES AND PAYOUTS.** This item was not discussed.
8. **QUARTERLY REPORT FOR MARCH 31, 2015 GENERAL FUND.** The discussion was led by Sue Smith. Sue informed the group that revenue, expenditures and the fund balance are all good. Revenue is expected to exceed the original projection by

approximately \$52,000 and expenditures are expected to come it at approximately \$171,000 less than the original projection for an overall surplus of a little more than \$220,000. This is over and above the budgeted surplus of \$435,075. She informed the group that Town staff will ask the commission to approve \$50,000 from the surplus to be used for consulting services for the project to underground power lines. Commissioner Younger commented that he is concerned that the costs associated with this project continue to rise. Dave Bullock pointed out that alot of the pre-referendum costs will be recoverable. Sue briefly discussed collections from EMS billings and the fact that just having a part time resource following up with insurance companies and patients has resulted in a 200% increase in collections in the last 5 months compared to the 5 months in the year prior. EMS billing has also been outsourced to a third party billing provider and no policies have changed in the write-offs.

9. NEXT MEETING. The next meeting was scheduled for July 6, 2015 at 10:00 AM.

10. NEW BUSINESS. None.

ADJOURNMENT. The meeting was adjourned at 3:10 PM.

Minutes Approved _____

Mike Wilkinson

Lynn Larson, Chair Person