

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

11/10/15

At 2:00 PM on Tuesday, November 10, 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, Investment Analyst Michael Stewart and Utility Billing Analyst Mike Wilkinson.

1. **PUBLIC COMMENT.** None.
2. **APPROVAL OF MINUTES.** A motion was made and seconded to approve the minutes of the August 28, 2015 meeting. The motion passed.
3. **GENERAL MARKET CONDITIONS.** Discussion was led by Steve Alexander. Steve updated the group on recent events impacting economic conditions. Third quarter GDP was 1.5% compared to 3.9% in the second quarter. The slow down in China has transcended Asian markets and has had a significant impact world wide especially in equity markets. Drop in GDP caused the Fed to put a projected raise in short term interest rates on hold. There is one more chance to raise rates this year at the December Fed meeting. Steve commented that a small raise could provide some spark to the economy. He used the example of home loans where consumers looking to buy would pull the trigger on a new loan to take advantage of rates before more interest rate raises occur. Yields went down in the 3rd quarter due to increased bond buying in response to volatility in securities markets. The market still had a relatively decent quarter. Inflation remains below 2% which the Fed has suggested is a benchmark for raising short term interest rates. The job report was somewhat stronger than expected. Steve commented that the Fed has alot on its shoulders with the decision on interest rates. Armando Linde asked a question regarding the outlook for the economy for the next couple of years. Steve responded and pointed out three potentially significant factors. First, a continued slow down in China will continue to impact world markets. Second, other leading economies are lowering interest rates while the U.S. may soon raise them. The U.S. dollar would

become stronger compared to other currencies which could impact world trade. Third, the quality (wages and sustainability) of jobs in the U.S. is not going up and this is a big factor regarding a relatively sluggish economy. Steve commented that the U.S. will not have a strong economy until GDP is around 3.5%. This level is needed to produce revenue to pay down the national debt and invest in other areas. Steve does not foresee this happening in the near term. The economy is likely to stay close to where it is now for the next couple of years. A further decline in the Chinese economy could cause a recession in world markets that would impact the U.S. Armando Linde commented that presidential politics will also affect the economy. Steve acknowledged that possibility but commented that with regard to monetary policy he felt that Fed chairwoman Yellen is more concerned with job growth than politics. Keeping interest rates low will help the economy until inflation rises. Steve pointed out that the Fed is typically late in raising and lowering interest rates in response to changes in the economy.

- 4. PORTFOLIO PERFORMANCE REVIEW.** Discussion was led by Steve Alexander. Steve told the group that the portfolio's third quarter performance was right in line with the benchmark with a return of .32%. Over the past year the portfolio's return is 1.04% with a benchmark of 1.17%. Steve noted that the portfolio is positioned to protect the principal. About half of the Town's portfolio is in U.S. Treasury Securities. The average maturity has been reduced by taking funds out of the 2-3 year maturity range and placing them in the 6-12 month maturity range. This will allow us to earn better yields if interest rates rise. More of the portfolio has been added to Corporate Notes which now represents almost 24% of the portfolio. All corporate investments are in companies with strong credit quality. No more than 5% is invested in any one corporate type to ensure diversification. Almost 70% of the overall portfolio investments have maturities of 2 years or less. PFM is keeping the Town's investments more toward shorter maturities so that we can have the flexibility to make appropriate moves depending on market conditions. Steve told the group about a corporate tactic called "window dressing". This is where corporations issue commercial paper at higher than market rates to get cash to make the balance sheet look stronger near the end of the year. Steve said PFM will know more toward December if this is going on and whether it may make sense to invest more of the portfolio in commercial paper on a short term basis. Sue Smith commented that we need to have good communication with PFM to ensure we have the cash flow needed for upcoming project expenses. She will give Steve a "heads up" on the expenses/timeline so that he can make sure we have the correct investment maturities. Steve noted that the Town's portfolio is highly liquid and any security can be sold at any time to meet our needs. Chairperson Lynn Larson asked if we had the cash we need for project expenses for the near term. Dave Bullock replied that we do. He noted three projects which include beach re-nourishment, Bayfront Park and power lines undergrounding. Most of the money will be borrowed with approximately 6-7 million coming from the investment portfolio. Ms. Larson asked how long it will take for the bonds to be issued for the

undergrounding project. Dave Bullock responded that he expects the referendum validation to be finished in May unless challenged. At that point the Town will be free to borrow the funds. A question was asked regarding the approximate time frame to spend the money once the bonds are issued. Dave replied that he expected a spend down time frame of approximately 36 months. Armando Linde asked if we should lock in the borrowing rate as soon as possible and Sue Smith responded that we can't lock in the rate until public offering takes place.

- 5. AUDITOR RECOMMENDATION – BUDGET AMENDMENTS.** The discussion was led by Sue Smith. This topic and proposed recommendations came about from Mauldin & Jenkins (Town Auditors) recommendation that the Town should consider changing budget control from each line item to department level control. Basically this means a department can go over budget on detail line items within their budget as long as the department stays within the total approved budget for their department. This would eliminate the need for transfers between line items for a department that is within the approved budget. Sue went over 3 types of budget transfers with the group. The first and most common is a transfer within a department. Currently the Town Manager can approve a transfer of this type up to \$10,000.00. Anything greater requires Commission approval by resolution. The second type is a transfer between departments. Currently this type of transfer requires Commission approval by resolution at any dollar level. The third type is a change which amends a fund's budget. An example was given where the Town had a fund for beach restoration and then received a grant for the same purpose. In this example Commission approval by ordinance is required regardless of the dollar amount. A discussion followed regarding State Statute 166.241 regarding the adoption of a budget by a municipality. If the budget is adopted by ordinance it must be amended by ordinance. If the budget is adopted by resolution it can be amended by resolution. Sue suggested that we consider changing the budget adoption method from ordinance to resolution as it significantly reduces the time required to make budget amendments. Ms. Larson asked if adopting the budget by resolution would require a charter change and the answer is yes. Dave Bullock explained that the process would be for the Finance Committee to make recommendations to the Commission and if the Commission approves the recommendations the charter changes must be approved by the electorate. Ms. Larson commented that the best time to vote on charter changes would be at the time of National elections next November as this is when the Town would get the best voter turnout. Frank Malickson asked if computer programs could make the budget process more efficient and the discussion briefly changed to the Town's efforts to select a vendor to provide an "off the shelf" solution to update most of the Town's processes. Ms. Larson asked what the software replacement budget is and the answer was \$600,000. Dave Bullock commented that we are working with a late 80's system and it is time for replacement. He noted that we are spending \$135,000 per year to maintain the current system. Returning to the subject of budget amendments, the Finance Committee was

presented with 3 recommendations. The first is to change the level of control from line item to department. The second is to allow the Town Manager to approve transfers within and between departments and to increase the dollar amount from \$10,000 to \$20,000. The third is to change the due date for the preliminary budget from June 1 to June 15. This would allow the Finance Committee to have a better idea of the assessed property values. Dave Bullock commented that if we have a better handle on the revenue side we can give the commission a more accurate preliminary budget. Armando Linde asked that if the proposals were approved how many budget transfers would go away. Sue estimated that at least 300 line item transfers would no longer be necessary. Phill Younger commented that the budget information provided to the public for fiscal transparency is too detailed. He feels we should do more grouping and not list items that are seven or eight hundred dollars. Sue responded that we could look into that. Ms. Larsen commented that she would be reluctant to take away detail because there is already a perception among residents that we don't provide enough. Dave pointed out that we can still allow "drill down" for those residents that are interested in seeing more detail. Ms Larson asked when we could put the proposals and charter review before the Commission. Dave responded that we can do it as soon as Sue can put it together. Ms. Larson asked if we could have the charter review as a separate agenda item and Dave responded "yes". He felt that it would be prudent to have a two part charter amendment proposal, one for finance related issues and one for all other issues.

6. **MEETING CALENDAR 2016.** Chairperson Lynn Larson asked if anyone had any issues with the calendar for meetings scheduled for 2016. There were no issues brought up.
7. **NEW BUSINESS.** Chairperson Lynn Larson asked if there was any new business. There was none. Ms. Larson also asked if anyone had any items to add to the agenda for the next meeting. No requests to add agenda items.

ADJOURNMENT. The meeting was adjourned at 3:20 PM.

Minutes Approved _____

Mike Wilkinson

Lynn Larson, Chair Person