



P.O. Box 3039 • Grand Junction, CO 81502
E-Mail: info@mesaFML.org Web: www.mesaFML.org

BOARD OF DIRECTORS MEETING

Date and Time: 2:00 PM on Wednesday, August 21, 2019

Location: Home Loan State Bank Community Room, 205 N. 4th Street, Grand Junction, CO 81501

Attendees:

Dusti Reimer
Benita Phillips
Nancy Harward
John Justman
Quint Shear
Craig Springer
Chris McAnany
Matt Rosenberg
Dr. Nathan Perry
Autumn Schultz
Karen Kllanxhja

Agenda:

- I. Call to Order.
 - a. C. Springer called to order.
 - b. J. Justman made motion to approve agenda as presented. Q. Shear second. Voted. Approved.
- II. General Public Comment.
 - a. Benita Phillips said she wanted to thank the Mineral Lease District for the giving money to the Clifton Fire Department, because it really came in handy last Friday. Really-they were well garbed. I was down there.
 - b. C. Springer asked if this was the Palisade Fire?
 - c. B. Phillips said yes, they were the main fire fighters on that.
 - d. D. Reimer asked East Orchard Mesa?
 - e. B. Phillips said yes.
 - f. C. Springer said so they were getting our stuff dirty?
 - g. B. Phillips said they were getting it dirty.
 - h. Q. Shear said breaking it in.
 - i. Public Comment closed.

III. Adoption of the July Meeting Minutes.

- a. Q. Shear made a motion to approve meeting minutes as written. J. Justman second. Voted. Approved.

IV. Consent Agenda:

- a. Dufford, Waldeck, Milburn, & Krohn Invoice
- b. Dusti Reimer Invoice
- c. Chadwick, Steinkirchner, Davis & Co. Invoice
- d. Eide Bailly Invoice
- e. J. Justman made motion to approve consent agenda. Q. Shear second. Voted. Approved.

V. Presentation by Dr. Nathan Perry.

- a. C. Springer thanked Dr. Nathan Perry for coming to do his presentation.
- b. Dr. Nathan Perry presented his report on Western Slope Economic Contribution of Oil and Gas. The full report can be found here:
<https://www.coloradomesa.edu/energy/documents/economic-contribution-of-oil-and-gas-in-the-piceance.pdf>
- c. Questions:
 - i. D. Reimer asked if this was just in the course of one year?
 - 1. Dr. Nathan Perry said this amount is for one year.
 - ii. B. Phillips asked did you take into consideration the product flare off of methane that the counties are losing that money because it's flaring?
 - 1. Dr. Nathan Perry said no, because if its not in a-how do I put this, if it's costing them money to facilitate the flaring, then I have an estimate of it, because it would show up in the oil and gas employment. If they need someone to sit there and flare the gas, then that's an employee that's counted in my model. But, in terms of the lost opportunity cost or lost income from that, it does not belong in GDP. That's a great question. I get a lot of emails, and that's always what they want to ask-about why I didn't count various things. It's because I follow the GDP calculation precisely. That was my goal to get the estimate of the GDP that this industry contributes to. There are a lot of things that you can kind of think of on the peripheral. I took things into account if it shows up in the GDP calculation. It would be in there if hired an employee, but terms of lost gas income, isn't in there.
 - 2. Q. Shear said it is pretty minuscule here in the Piceance Basin anyway, we don't flare much gas.
 - iii. C. Springer asked if there was anything else that comes close to 9.2%?

1. Dr. Nathan Perry said yes, health care. I haven't done an economic contribution, but I guarantee healthcare is the largest industry in Mesa County. I'd have to think about the Western Slope. It's almost the biggest everywhere, except government. If you count government as an industry. I can actually pull this data for you, I have it in my economic newsletter every quarter, I just can't recall it off the top of my head. I can answer that with a couple of clicks if you really want to know after the meeting. You should subscribe to my economic newsletter, because I have the QEC data and I Do it in order of total wages and you'll see it in order of the biggest industries for Delta, Montrose and Mesa and health care is always one of the biggest. You'll have retail sales, one other and then usually oil and gas come in.
- iv. B. Phillips said when you talk about multipliers, when you were talking about it, I visualize this concentric circle that keeps getting bigger and bigger. You were looking at oil and gas as the origin of all the multipliers not taking into account health care and everything you were just talking about. I'm just trying to understand how multipliers work.
1. Dr. Nathan Perry said basically there are two types of reports and most of you are probably used to economic impact reports-like a festival. Let's take Country Jam, I did that one several years ago. People come in from outside the county and spend a bunch of money here in the county and that's new money. We look at where that money is spent, and we look at the impact of that. That's actually a very simple analysis and you do it in Implan and you just punch in the numbers. Economic contribution is much more complicated. What you're doing is counterfactual. You're taking an industry out and you're saying now what happens and that's your economic contribution. What you're seeing here and this will answer your question, as you see the affect on other industries, because if you lose in the Western Slope 10,000 employees, there is going to be less health care, less retail sales and so all these are interconnected in this model. Just that health care's multipliers are implicit in the rest of the economy, but all we are looking at is the oil and gas. So, when we take that out those multiplier affects come with it, so instead of having negative impacts, what happens when it comes out, what happens because of its existence.
- v. C. McAnany said you said there was a whole in your data for overall royalties for the Western Slope, have you looked at COGCC and Conservation Data for production levels and tried to extrapolate royalties from reported production?
1. Dr. Nathan Perry said that's exactly what he did. But that's note the whole, that part I think I have. It's the part of how much of that comes back to the Mesa County using zip codes as proxy. With surveys I have 40% of production. I feel very accurate about that estimate. It's the is the zip code a good proxy if they aren't spending the money here. That's the whole right there.

- vi. C. Springer said at the end of this report, were you surprised by anything?
 - 1. Dr. Nathan Perry said I wasn't, but that's because I track data on Mesa County every quarter. So, I had an idea what Mesa and Garfield would look like. I figured it would be anywhere between 7-15% and when we came in at 9.2% it didn't surprise me at all. The first part of the study came in the range all the previous research had shown from the state and federal level. We fell right in the middle of the range in terms of rig counts and gas prices affecting employment. So, that didn't surprise me either, I thought we'd be on the high end, but it was right in range. I guess personally I was surprised how much money is distributed by Federal Mineral Lease and severance. I had no idea how much and where the money flows and how many governments rely on it.
- vii. J. Justman said what about taxes on wind and solar?
 - 1. B. Phillips said there has to be.
 - 2. Dr. Nathan Perry said he could do an estimate on that. I agree power has to come from somewhere-and that's an interesting point.
- viii. C. McAnany said have you done any similar analysis for businesses on the Western Slope?
 - 1. Dr. Nathan Perry said I've done lots of economic impact and contribution reports. I've done lots of work for three trail systems, economic impact of Country Jam, a nonprofit coalition that wanted to see their impact of nonprofit industries. It's fun, because I get to see the economy as a puzzle, and I get to see how big the pieces are. It's an economist's dream.

VI. Staff Report.

- a. D. Reimer said she posted to our social media pages (Facebook & Twitter) that the Meeting Minutes were Posted, the Meeting Agenda was Posted, there was Media Coverage on the WCCC Line School Ribbon Cutting and a Presentation she did to the Plateau Valley Hospital District.
- b. D. Reimer said there was no media at this time and no grant payable at this time. We are expecting the Western Colorado Community College Line Worker School Grant for \$289,000 and the final payment for the East Orchard Mesa Fire Protection District.
- c. D. Reimer said the invoices for the month were for Dufford, Waldeck, Milburn, & Krohn for Invoice #158147 for \$440, Dusti Reimer Invoice #137 for services and supplies for \$3,774.98, Chadwick, Steinkirchner, Davis & Co. Invoice #54429 for \$3,650.00 and Eide Bailly Invoice # E100853539 for \$4,162.50 for service from April to July.
- d. D. Reimer said the upcoming events are the Sept. 18th Board meeting as long as that works.

- e. Q. Shear said he is going to be hunting that week, but I can come down a day that week, so I'll plan that day. If we move to the prior week, I have conflicts, so let's just keep it.
 - f. C. Springer said on the 18th we'll have 15 auditors here, so we will have to have the meeting in the Board room on the 3rd floor.
 - g. D. Reimer said there was a change in the state law for posting for meetings. If you have website listed with the state, which we do, you can post on your website and that would take the place of having to physically have it posted in three other places. We currently do the city and the county building and our website. I don't plan to have any changes to how we post it, but that's it.
- VII. Review of Financials.
- a. N. Harward said the bank account balance was \$701,875.32 at the end of July. The permanent fund balance was at \$1,471,715.47. Our outstanding grants at July was \$493,395.35 and we had no unusual items from our P&L in July.
- VIII. Review of Investment Account.
- a. M. Rosenberg said I can do the presentation first.
 - b. C. Springer asked what our unrealized for the permanent fund?
 - c. M. Rosenberg said it was about \$80,000 as of today. A little over 4%.
- IX. Review of and Possible Investment Changes with RoseCap Investment Advisors for the Permanent Fund.
- a. M. Rosenberg said there are three items to cover, the financial plan, the portfolio and the IPS. If there was one thing, I would focus on it would be the financial plan, because it never got much attention. That would be to reconfirm the goal of the permanent fund. Originally when we started it the goal was to get an endowed fund that could crank out \$1million grants a year without impacting principle. We assumed \$750,000 of a standard deviation of 4%. We were looking at 2033. I think we need to just reconfirm that this is still our goal.
 - b. M. Rosenberg said our portfolio is about 53% equities. When you received a big chunk of cash, we put them in riskier assets over time. We had a pause in the last 6 months, and I think that was with the uncertainty of the funds and how that was going to be allocated. We'll keep this up to 65% which is the target allocation.
 - c. M. Rosenberg said we have one mandate that was to keep it under 15% standard deviation from the investment policy and we're at 7%. We are way below that-15% would be just below the standard deviation of the stock market. We are beating US Equity benchmark and underperforming on International and fixed income and international fixed income. International equity one is a single benchmark that is a developed market. When you get into benchmark game it's like are you really comparing apples to oranges? We have about 30% of our international allocation in

emerging markets which is under performing. Long term that is not something that will be an issue. In the IPS, and the reason these are in there, it says that as part of this review you want to see performance benchmark, transactions, all that stuff is in here. The recent transactions we've done are we have started moving the some of the fixed income allocation to individual bonds. That was in anticipation of any time of liquidity event in bond markets. Those should mature and we're not worried about price fluctuations. We created a mini bond ladder and that was done in the last few months. The last two months we started buying short duration bond funds with short term TIPS. The holding in the portfolio are primarily low-cost index funds, with the exception of the mini bond ladder I just mentioned.

- d. C. Springer said when we convert like that taking bonds out of an index or redeem shares out of an index bond, and then allocate that into individual bonds, there is a cost to us for that.
- e. M. Rosenberg said that's a good question, there actually isn't an explicit cost. The funds that we buy are sold in this case are commission free. Usually there is a \$6-\$7 trading commission, is that what you're talking about?
- f. C. Springer said is there a commission when we bought the bonds?
- g. M. Rosenberg said no, that's the other thing when you trade bonds, there is no commission like \$50 or \$100. The way those are a spread. I'm glad that you brought that up, because basically how we select a lot of the bonds by what's competitive and what are we getting good prices on. I don't go shop bonds, and \$25,000 is the increments of these and that's about the min. you'd want to buy on an individual issue, but basically on bond desks, we have three bond desks, you can put together issue recommendations and shop for prices and basically make sure we're not taken on the spread on this. This is about as competitively as you can do it. Bond traders make a lot of money. It wasn't a considerable amount of cost, and I think the portfolio is better off as a result, especially if we keep making contributions to this in years to come.
- h. C. Springer asked what the average duration of the individual issues?
- i. M. Rosenberg said it is about 3. We have a couple over and a couple less, so it's ladder. The first maturity I think will be 2022 and 2024 and they are all right in there. The longest one is 2027. It's funny Craig, you and I, have talked about limited duration and interest rates which has just lagged. Long term treasuries are up 30% this year. Having a little duration has definitely not hurt it. This shows the fee disclosure, which is 0.84%, which is competitive. The national average for a \$1 million account is 1.02% so we are below that. We have the weighted average expense ratio with is 0.6% so that's good.
- j. M. Rosenberg said he wasn't sure if you wanted to dig into capital market expectations for securities or if you had questions. This is how we set allocation for risk targets. We are maxed at 65% by the Investment Policy.
- k. M. Rosenberg said my economic outlook is everyone talks about volatility in foreign news events, but what are taking over the headlines right now. People always say there is volatility, but there really isn't right now. In context, with historical reference we've seen DOW moves of 300, 400 and 800 this last week. As we talk about standard deviation, which is the risk in the market, that's 15 of 1% move every day would be a

15% standard deviation. Today the market didn't move 1% it was 0.9%. That means that should happen 60-70 percent of the days we should have moves of 1%. I think a lot of people says there is a lot of volatility is the size, but the market is up a ton. With the DOW at 26,000 250 is a lot, but it's gotten up there pretty quick in the last 4-5 years. We used to be 15,000 then a 250- or 300-point move was a 1-1.5% move. I don't think there is a tremendous amount of volatility and I see these things being an issue for the next year, but I don't see markets making a major move in one direction or another. The things that move the market, and these are companies who make money just like any other small business, so their profits are impacted by the cost of doing business, so inflation and wages, taxes and borrowing. Low interest rates and low taxes and wages haven't really shot up that much, even though we're at 3% unemployment. Until some of those things change, I don't see any significant downturn, so just be opportunistic in the dips if you can. The one thing I do wish, I wish Dr. Perry was still here. Inflation- everyone is treating inflation like it's dead, it's not dead it's just quiet. That's why I think TIPS are short duration TIPS are attractive because if you look at the break-even rate for 10-year TIPS in treasuries.

- l. C. McAnany asked if he could define TIPS.
- m. M. Rosenberg said they are Treasury Inflation Protected Bonds. What this means is, inflation is greater than 1.54% over the next year, then you're better off with TIPS. Things that are indexed to the amount of inflation. If inflation is less than that, then you're better off with treasuries. You know the government creates the reports on inflation and I'm not a conspiracy theorist, but I think there is more than 2% inflation right now, because prices are going up. That's why we have started implementing these TIPS into the bond piece.
- n. B. Phillips asked what does the government base the inflation rate on? Do they have specific products they price it off?
- o. M. Rosenberg said yes, CPI-Consumer Price Index is a basket of goods and service that the government evaluates every period.
- p. B. Phillips asked does that include oil and gas?
- q. M. Rosenberg said that's where the definition can get soft, is what is included in that. There is some energy related things in there, but it doesn't include housing. There are a lot of things it doesn't include.
- r. B. Phillips said I don't think it includes food, does it?
- s. M. Rosenberg said I can get you the information.
- t. C. Springer said the Fed uses the PCE-Personal Consumption Expenditures. It doesn't include food or energy.
- u. M. Rosenberg said my commonsense definition of inflation says if I go to the gas station and a coke is \$2.50-that's a holy cow. I think there is more inflation, but it isn't being reported. So, this a good place to be if we have to pull bonds.
- v. D. Reimer asked if it is a quarterly delay in reporting inflation?

- w. M. Rosenberg said I don't think the government manipulates it, but I think that the definitions are such they don't include any of the things that we actually use. And, why have interest rates gone down so much? It's because foreign interest rates. Germany 30-year bond is -0.3%. Imagine paying the Germany government 0.3% for holding your money over the next 30 years. That's a guaranteed loss. It's baffling. Some of the other things we've started doing in portfolios is calling clients and talking to them about increasing equity allocation to just own high dividend paying stocks. This isn't investment advice for anyone, I encourage you to talk to a professional. IF you look at Exxon is paying 5% dividend now and oils down and they are steadily meeting that. Shell is European oil and gas and they are in 6.5% dividend. Even telecom stocks, AT&T, Verizon are 4.5-6% dividend. It's baffling you could get equity upside and still get that kind of yield from those. Why that's so low, interest rates are so low, is foreign investors are flocking to the US because we are so high. Japan is negative, the Euro rate all that is impacting.
- x. M. Rosenberg said the things to consider what I've said is we will get to the 65% equity probably by the end of the year. What we will do is, as the portfolio grows, we will replace those funds with individual positions, because that will save on expenses and that will be more efficient with controlling the yield on the portfolio.
- y. C. McAnany said can you back up on that. You're saying that you would not be purchasing funds like money market, excuse me, mutual funds or ETFs you'd start moving to individual stocks?
- z. M. Rosenberg said yes, that's a better portfolio especially for a large and long-term portfolio. Right now, we're right on the cusp. Our equity funds are right at about \$560,000 and you have to beta replicate. What that means, I have to have enough individual stocks to be able to statistically replicate the index. That's almost at a minimum 30 stocks, but what you really want is 40-50. You have 12 different sectors and you want 3-4 stocks per sector to be able to replicate. We aren't quite there. You want to have a minimum stock position to 15,000-20,000. If you're buying individual stocks in smaller amounts than that, you're probably losing compared to just buying a fund.
- aa. C. McAnany said but if you're investing in an extended market index fund, you're, which traditionally has very low fees for management, you're saying it's still cheaper, in terms of fees to buy individual stocks?
- bb. M. Rosenberg said yes, you're paying 0.06% which isn't much. If you have a portfolio that is our size or smaller, that's a very good thing to do is pay that expense ratio for that diversification. But as you grow, you don't need to do that and you actually lose control of your portfolio with the different sectors, it doesn't allow you the opportunities to have as much maneuverability in the portfolio.
- cc. C. Springer said what kind of turnover would you anticipate?
- dd. M. Rosenberg said almost none. It's really the buys. You keep a shell of the funds and that's where you can manage the liquidity and rebalance it. You build out the core, the stuff you're never going to sell with individual position and you expense rations.
- ee. B. Phillips asked if there is oil and gas in this?

- ff. M. Rosenberg said oh yes. Energy is one of the sectors of the US market. It's one of the 12. You have to make sure you're buying enough stock to statistically replicate the index to get the same performance. We're not trying to be active and say we're going to beat; I'm just saying there is a more efficient way of getting it. And we aren't there yet. Which is why we have one or two funds in US Equities.
- gg. C. Springer asked if under our current policy if he could just do that?
- hh. M. Rosenberg said yes.
- ii. C. Springer said if we didn't approve it- you wouldn't need our approval to do that?
- jj. M. Rosenberg said I wouldn't need it, but if you didn't want it, we don't have to. We definitely can talk about it. IT's not going to happen between now and the next meeting.
- kk. C. Springer said my concern is the turnover. That's what kills you.
- ll. M. Rosenberg said you buy once, and you build those cores. Say we had \$2 million.
- mm. C. Springer said then what's a core holding?
- nn. M. Rosenberg said individual stocks.
- oo. C. Springer said I know, name one. One you would hold for the rest of your life.
- pp. M. Rosenberg said Exxon and Amazon, or Google. Apple. The big companies.
- qq. C. Springer said you would hold them for the rest of your life. Put them in a box and forget about them?
- rr. M. Rosenberg said they would go into the core. They represent-that's what the funds do. Basically, what we would do-if you look down the funds, they own all the same things. If you look on the SPTM the DOW component on the blue-chip stocks, the big ones you'd beta replicate with, make up 50% of that. Even though there are 3,000 stocks in there, it's capitalized they are basically replicated the fund.
- ss. Q. Shear said they did something similar path like they did with CMU's Foundation.
- tt. M. Rosenberg said we don't have to. I'm here to do what the committee thinks is best. You can say take that slower or hold off on it. But, it's a future direction for the portfolio with money coming in. The last point I have would be to increase the equity allocation. The thing with that is we are using the PERA statute, but that's for retirement plans, right? That's for people. Teachers are having to payout every year to do that. So, they needs to keep a 35-65% portfolio, but when you are going for endowment, you're never going to touch that money and just live off dividends and interest. You'd almost make the case for 90-95% equities. It's basically an ultra-long-term investor. In any given year you don't want to put short-term money in the stock market-stocks could be up 47% or down 39%. If you look at the 20-year rolling history, the lowest 20-year period you had 6% which was better than bonds.
- uu. C. McAnany asked if he was satisfied that all of the holdings in the portfolio comply with the statutory mandates with what we are allowed legally, with the PERA approved investment vehicle?

- vv. M. Rosenberg said yes, everything we have is very much in the box.
- ww. B. Phillips said conservative.
- xx. C. McAnany said I wouldn't say that.
- yy. M. Rosenberg said we are at 55% equities, but none of the specific securities are non-traded rets or annuities. They are very liquid, all very mainstream.
- zz. C. McAnany said that to me is the thing the Board should be focused on. That you're making the portfolio comprises legal investments and the mix follows the targeted plan.
- aaa. M. Rosenberg said yes, we had some confusion with the audit, where they gave us the statute for public funds for municipalities.
- bbb. C. McAnany said yes, we got that resolved. It was a fair question and I appreciate you bringing that to our attention.
- ccc. M. Rosenberg said yea, that got me a little nervous, because basically if you're the City of Grand Junction you can't use any equities. IT's got to be all investment grade government obligation. We are following PERA and 65% as the equity max. Their definition is 65% between com stocks, preferred stocks, high yield bonds. That was what I replaced the high yield bonds with TIPS in the portfolio. As we move into more equity with high yield bonds, those are basically equity life exposure. These are just discussion points. We do have discretion to manage the portfolio within the constraints of the IPS, but I want to keep my clients happy and I won't do anything you or board aren't comfortable with. IF there is more discussion to be had, that's fine. And we probably want to be almost double allocation, before you move into securities. If you do less, you end up with an imperfect replication. You can diversify among the sectors, but you end up with R(2) (R squared) is the measure we use to track that. Which isn't perfect.
- ddd. C. Springer said speaking just for me I want to think about that. But you don't need an answer today.
- eee. M. Rosenberg said no, you mean using the individual securities to replicate?
- fff. C. Springer said and extending the percent of the portfolio that's in stocks.
- ggg. M. Rosenberg said ok.
- hhh. C. Springer asked if that was his report.
- iii. M. Rosenberg said yes, and one more thing. Dr. Perry talked about economic impact and leakage. We are a local firm, and there is no leakage, so thank you for your business. We're glad you decided to work with us.
- jjj. C. Springer said we are glad to have you. Let's just move this down the line a meeting or two, to think about that.
- kkk. M. Rosenberg asked if there was any other information, he could provide the Board?
- lll. C. Springer said yes, I'll send you an email. Thank you.

X. **Unscheduled Business.**

- a. J. Justman made motion to adjourn the meeting. Q. Shear second. Voted. Approved. Meeting adjourned at 3:20 pm.