
RESOLUTION PROPOSAL

DATE: October 22, 2009

SUBJECT: Amend PM 4.02Q Financial Management: LMOA Investment Policy to restore language consistent with restrictions of 1998 vote of the membership

SPONSOR: Treasurer Mike Harrison

BACKGROUND INFORMATION:

The proposed changes are different than those submitted by Director Ellen by reflecting better definition and authority to withdraw funds.

Since 1999, the ERA has provided a means of avoiding the need to seek a dues increase to cover operations. In 2009, we have completed a \$130 dues increase to deal with operations, making the investment income from the ERA available for long deferred reserves and capital needs. The ERA produces between \$280,000 and \$360,000 a year that supplements dues income. This represents a direct savings to the members of between \$60 and \$78 dollars each year.

The "principal" is at risk because it is invested. The amount of risk is controlled by policy. But the \$6.63 million is not a sacred market value. There is no language in the original motion that would lead to a conclusion that it is a minimum balance that must be maintained. LMOA has had a legal opinion that investment does not constitute use. Use would mean an actual member-approved withdrawal for a specific purpose.

STAFF RECOMMENDATION:

PROPOSED FINANCIAL IMPACT:

If there is either a legal interpretation or decision by the Board that the obligation is to sustain the original principal, if market forces cause the market value to fall below the \$6.63 million, then no investment income is available for use by the Board until the level is restored in the Emergency Reserve Account. This means forcing a dues increase, or deferring use for reserves or capital needs. A worse case is a 20% loss, down to \$5.3 million. With such a market pull-back, it would take approximately 4 years to build back the reserve, leaving the Board with the choice of deferring other investments (where we are already in a hole) or seeking a dues increase created by the market forces.

PROPOSED SOURCE OF FUNDING:

STRATEGIC PLAN REFERENCE:

POSSIBLE MOTION:

FIRST READING

PERSONS RESPONSIBLE FOR FOLLOW-UP: Treasurer and General Manager