Indian Prairie Public Library
Board of Trustees Minutes
Regular Meeting of February 21, 2018

Board of Trustees Regular Meeting
February 21, 2018 – 7 p.m.

A. Roll Call
President Suriano called the meeting to order at 7 p.m. Secretary Deshmukh called the roll.
Present: Asma Akhras, Donald Damon, Beena Deshmukh, Marian Krupicka, Crystal Megaridis, Diane Ruscitti, Victoria Suriano
Absent: none
Staff Present: Jamie Bukovac, Laura Birmingham, Maria Wlosinski
Others: Dave Pequet and Brad Smith of MPI Investment Management regarding Investments (K1 of Unfinished Business)

President Suriano asked for additions and/or corrections to the agenda. Bukovac had one addition to Communications and Announcements, D6 Noman K. Nooruddin to Victoria Suriano re: Reception Invitation

B. Mission Statement: Secretary Deshmukh read the library mission statement. We enrich people's lives by providing opportunities to explore, connect, and be inspired.

Vision Statement: Secretary Deshmukh read the library vision statement. Our community depends upon the Indian Prairie Public Library District as a vital and trusted resource for achieving personal goals and enhancing quality of life. With a welcoming environment and state-of-the-art services, the library is an essential center of learning, inspiration, and community pride.

C. Public Comment

At this point Dave Pequet and Brad Smith spoke to the Board regarding Investments (item K1 of Unfinished Business). They left at 8:30 p.m. and the Board continued with the rest of the agenda

D. Communications and Announcements
1. Sadowski to Trustees re: Wouldshop
2. Weaver to Suriano re: James Kiser, 2018 Citizen of the Year Award
3. Beardsley to Bukovac re: Soap Collection Project
4. Padalik to Bukovac re: Darien Dash
5. Bukovac to Padalik re: Darien Dash
6. Noman K. Nooruddin to Victoria Suriano re: Reception Invitation
Bukovac distributed item D6 to the Trustees this evening.

E. Omnibus Consent Agenda
1. Minutes of Regular Board Meeting, January 17, 2018
2. Treasurer's Report

3. Action on Bill/Additional Bills
4. Approval to Spend $2,210.00 from Corporate Reserves for Self-Check Terminals
   Damon moved, Akhras seconded to set the Omnibus Consent Agenda. Motion carried unanimously. Krupicka moved, Megaridis seconded to approve the Omnibus Consent Agenda. Motion carried unanimously.

F. Items Deleted from Omnibus Consent Agenda - none

G. Library Director's Report
Bukovac reported that the Building and Grounds Committee met tonight before the Board meeting. Joe Sadowski has offered a donation to upgrade the Family Center. The Committee reviewed some concepts for upgrading the space. The idea is to create zones such as a baby zone, a zone for building and construction, and a zone relative to imaginative play. The Committee agreed that Bukovac should move forward with talking to the Sadowskis about our vision for the space.

H. Department Reports

I. Staff Report – none

J. Reports
1. ILA Trustee Workshop – Ruscitti attended the workshop. The main topic was Advocacy Bootcamp which was having the libraries take a proactive stance in requesting and addressing the needs from the community and then incorporating it into its programs and agendas. Ruscitti noted that Bukovac already does this with staff in terms of basic outreach to the community. In the legislative session, topics usually discussed such as the status of grants, RAILS etc. were not addressed. They did say that libraries were generally in good shape but then went on to say there's a seven billion dollar gap between the budget the government proposed and reality.
2. Chamber Reports – backup in packet.
3. RAILS – backup in packet.
4. Building and Grounds Committee- no report.
5. Finance Committee – no report.
6. Planning/Outreach Committee – no report.
7. Policy Committee – no report

K. Unfinished Business
1. Investments – Dave Pequet and Brad Smith from MPI Investments gave a complete review of the library's portfolio. Their full presentation is in the packet. Discussion after the MPI presentation:

   Diane: I think the question that some people had is there's a portion of the portfolio that has the long dated maturities and you showed us for individual bonds what the effect is of a change in interest rates, if that were to happen across all of those bonds that have the longer dated maturities and there is an unexpected cash requirement by the library, in your opinion would we be in a position to…

   Dave: You don't have any long dated maturities in notes and agencies, you have a few long dated maturities in your mortgage backed which is approximately 20% of your portfolio but again the date of that maturity is irrelevant. It may appear to be a 20 year piece of paper but it's a 2 year piece of paper, it's a 3 year piece of paper. The average life of that entire portfolio is under 2 years. If interest rates went up 300 basis points tomorrow your whole section of that portfolio which is mortgage backed, 21%, might extend 6 months, maybe a year. No impact. As far as liquidity, we've always managed for the last decade around your liquidity requirements. But if you needed a million dollars tomorrow, we could easily provide you a million dollars tomorrow.

Asma: That's what I wanted to ask you. So that's what that liquidity security is. What I'm saying is in case of an emergency of some sort, something happens…

Dave: We can meet six figure emergencies tomorrow, 7 figures..

Asma: So if there was some sort of a catastrophe, which I'm not in any financial related position to tell you what those could be but whatever they would be, there is percentage wise of ability to liquefy in need.

Dave: 100%. One day. 100%.

Asma: Okay. For me that's all I wanted.

Diane: But if there were a rising interest rate environment there could be a loss of principal.

Brad: Prices could fluctuate.

Jamie: Loss of principal?

Dave: Not if you hold until maturity which is inside of 2 years. If you had to sell your entire portfolio tomorrow it's going to impact your yield a little bit but I don't think you'd lose principal. It'd wipe out some interest. If that hypothetical occurred, if interest rates did go up 3 percentage points tonight, they went up 5, 6 percentage points tonight, I assure you the money funds are going to have enormous liquidity problems for people wanting to get out or make adjustments and because they're pooled and because of all the reasons we went through, you'd be far better off

Asma: I think we're talking differently. I think you're (to Diane) talking about loss of principal. My concern is not about principal. I mean at that time of crisis everybody is losing principal. Liquidity if need be in an emergency that's my perspective.

Brad: The most liquid instrument in the world are the bonds that you own.

Asma: Right. I get that you're going to lose principal. Everybody is going to lose principal.

Dave: But not necessarily because these are high quality short bonds.

Vicki: We've also made money. We have made money on that principal since we originally invested with them. So there's still a cushion should we have a liquidity situation where we have to sell.

Diane: **S**he's done a base case and she did some sensitivities if there's some changes to the grant receipts we get or property taxes so we kind of understand what our fluctuations are and you know we may have to stress that a little bit more.

Dave: Not an issue. The portfolio is designed to meet those kind of situations.

Diane: Yeah. The outflows could begin to exceed the inflows by a more significant amount at some point in the future for whatever reason. And I don't know if it's an inverted yield curve or if it's a rising interest rate environment. Certainly we would want liquidity but we would not want to see any loss of principal and obviously that would be consistent with our investment policy.

Dave: And we are far more conservative than your investment policy. And way more conservative than State statute.

Brad: I think another thing to keep in mind is not just liquidity from sales, we structure maturities so that they actually line up with what could be anticipated liquidity events. If you come to us and tell us you're going to have a liquidity event we'll structure our maturity to occur at that time. But even if you don't come to us we always want to have something coming due on a monthly basis even a quarterly basis so that it's there if you do have an unexpected event but also because as rates go higher we want to have funds available to invest at higher rates. So the portfolio is really structured to naturally create liquidity and on top of that it has the ability to be sold. One other thing I think is important to keep in mind is typically every crisis you've ever seen geopolitically or in the marketplace results in high quality bonds rallying and their prices going up.

Dave: In 2007 when the market crashed the average bond manager was down almost 5%. Our portfolios that year were up 4%. And the reason being we own all this paper that everyone runs to when there's a crisis. So if you're thinking of a crisis but your portfolio would go through the ceiling – it's all the paper that everyone goes to in a crisis. They sell all that corporate stuff and they buy treasuries. Higher interest rates are a different scenario but your portfolio is an average life of less than 2 years.

Diane: Yeah I understand the concept of duration. I was just trying to understand in a changing interest rate environment and some of the scenarios you can get because of what's going on with the Fed and its balance sheet. Are we protected?

Dave: Absolutely.

Diane: Certainly the opportunity to earn more money is attractive, but I'm focused on principle.

Dave: Principal is first and foremost. And liquidity is second. And yield is third. And that is always how we approach the portfolio. But the higher interest rates that are on the horizon, even if those interest rates are twice what are anticipated, your portfolio is structured fine.

Diane: Yeah it's usually the unexpected events that you know…

Dave: Unexpected geopolitical, we go to war tomorrow, it's going to be horrible, your portfolio is probably going to appreciate 10% because of that.

Diane: Okay.

Dave: Higher interest rates a little different scenario but interest rates, every expert in the world thinks interest rates are going to go up 75 basis points, that's doesn't mean anything because the experts are always wrong. But say they go up instead of 1% they go up 2%, we don't care. Actually it's good as all of our research tells us it's going to be a good thing because we have all these maturities.

Diane: I'm thinking more about there's a 10%, like what happened with Lehman I thought that at least commercial paper rates and I thought other rates actually went up fairly substantial – everything went way up.

Dave: No, everything but governments went up. Government yields crashed. Government yields went down probably 100 basis points overnight because everyone was buying the government paper. All the Lehman and Bear Stearns, corporates and repos and commercial paper – not only, you couldn't trade them. Commercial paper froze up – you couldn't sell it but we don't own…

Brad: And just to piggy back on that. Bond guys are very smart, very pragmatic and conservative. It's very good that your portfolio is market to market every day because you get to see what the market really thinks of these instruments. In a money fund or a CD you don't really know because it's always market par so you're not sure what the market really thinks. We know exactly what they think. And what the market has already got priced into your bonds are 3 rate hikes. They're not going to be surprised by the Fed. And there isn't a bond trader worth his salt that hasn't considered 4 or 5. So every one of these securities already has priced in higher rates and with the tools that are available we can see not only what hypothetically can happen if rates spike higher but we've also already lived through – that chart that Dave showed, all those events actually led to lower rates. That curve went down and down and down

Diane: I know the Fed has a big balance sheet, there's certain foreign governments that have a lot of holdings and government securities and if they were to start unwinding their positions that's actually going to put a lot of pressure on yields. Short term and high quality instruments.

Dave: The Fed's balance sheet is going to take a long time to unwind and they've already started that. Again that's a good thing because short rates have gone up and we're a short portfolio. T bills a year ago yielded 5 basis points, 90 day T bills. Today they yield 80 or 90 basis points.

Brad: All those central banks that are unwinding their balance sheets also have treasuries that have a lot of debt. So when the Federal Reserve is thinking about unwinding their balance sheet, the last thing they want is a spike in interest rates because we've got to issue a trillion dollars in new debt to pay for our budget. So they're going to be as reasoned as they can and I understand there are always unexpected but just so you understand the bond market is a living thinking non-emotional marketplace.

Diane: The only reason I ask is the budget director for the U.S. actually came out and said with the deficits we could see a spike in interest rates.

Dave: We have seen a spike. Interest rates have doubled. They went from a quarter a percent to a half a percent. It was a spike. But the 50 year average on fed funds is 4%. And we're at 1 ½.

Diane: You understand what our concerns are.

Brad: It's good for us to hear.

Vicki: Are there any questions regarding MPI and the investment structure?

Beena: No I do not.

Crystal: No I do not.

Vicki: Diane, have your questions been answered?

Diane: Yeah. I raised the question as best as I could. So yeah.

Vicki: Okay. That's good. Asma?

Asma: I'm good.

Don: I'm good.

Marian: I only have one comment. I think it was even more clear. I mean we knew this before, but I think that it solidifies some of our thoughts. It's the only place that we can do other than CDs which as he points out it's locked in. So really this is the best use of our tax money because it's getting interest and it's still liquid. Because the tax money has to keep funneling into payroll, things that we buy, so this is the only way we can make money and still have our money liquid.

Normally MPI presents to the board in July. Since they provided this in depth overview in February, Vicki suggested they come back in November. There was general agreement from the board.

L. <u>New Business</u>

1. Ground Rules for Meetings – Suriano distributed this information at last month's meeting for the Trustees to review and discuss tonight. She asked everyone to be present during our meetings and to be respectful to each other. She asked if the Trustees had any comments. Akhras asked if it was feasible to consider putting a time limit on a topic or agenda item to be efficient. Suriano said that usually we don't run over like in tonight's presentation. She noted that this is an unusual evening and we have not had a lot of topics that have run over extended periods of time. She tries to be mindful of that. Ruscitti thought one bullet point

should be added “respond to people in a non-dismissive, respectful manner.” Megaridis suggested we add a bullet point “insure everyone has an equal voice”. Bukovac said the article talks about the rules being easily visible and accessible. Damon suggested we include them at the end of each Board packet. The Trustees thought that was a good idea.

M. Scheduled Meetings

1. A Policy Committee meeting is scheduled for February 27, 2018 at 5:15 p.m.
2. Finance Committee - Suriano said there was talk about having a Finance Committee meeting on March 8 to go through different scenarios. Bukovac said she will be out of town but the Committee could still meet. Ruscitti said she will also be out of town. Bukovac noted that there will be a Finance Committee meeting at the end of May with the budget information. She will not have any budget information available to present until then. Krupicka said to hold off on setting a Finance Committee meeting date.

N. Community Events

O. Library Event

P. Adjournment

At 8:47 p.m. Damon moved, Deshmukh seconded to adjourn the meeting. All ayes. Motion carried unanimously.

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Beena Deshmukh, Secretary