

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION

**Harbor Branch Oceanographic Institute Foundation, Inc.
Minutes of the Finance Committee Meeting
September 16, 2015**

COMMITTEE MEMBERS PRESENT: Mike O'Reilly, Chair*; Sherry Plymale*; Karl Steene*; Mike Toner*

ALSO PRESENT: Ed Michelson & Matt Bauder, Atlanta Consulting Group*; Katha Kissman, President & CEO; Colleen Brennan, Director of Operations

*participated telephonically

Call to Order

The meeting was called to order at 8:35 am by Chair O'Reilly.

Approval of Minutes

The minutes of the April 16, 2015 meeting were approved unanimously.

Investments Presentation & Discussion

Matt Bauder and Ed Michelson of the Atlantic Consulting Group provided an overview of the market from both the 2nd Quarter report and current conditions as well as an overview of the asset allocations and current performance from the August 31, 2015 scorecard.

After discussion regarding its continued poor performance, a motion to terminate investments in Southern Sun and move remaining assets to the Small Cap Equity Index effective immediately was approved unanimously.

Due to current market conditions, a motion to terminate investments in the Loomis Sayles Bond Institutional and move remaining assets to PIMCO Short Term in Fixed Income effective immediately was approved unanimously.

Per the Committee's past requests, the Atlanta Consulting Group provided information, suggestions, and questions regarding moving the portfolio into a Core / Opportunistic approach. This would not change the asset allocations of the Investment Policy but rather help the Finance Committee to think about how we manage the process of maintaining principle while working to maximize growth. After discussion, the Finance Committee agreed to think about this further and it was agreed that Kissman and Brennan would get back to The Atlanta Consulting Group with additional information before the November Committee meeting.

Based on Chair O'Reilly's recommendation, the Committee requests The Atlanta Consulting Group to organize Scorecards in the future as follows (using current investment funds in this example):

CASH

Cash or money market fund if we have one

EQUITIES

Vanguard 500 Index Fund

Vanguard Russell 2000

EuroPacific Growth F-2

Opportunistic:

Ironwood International Ltd (Class C&D Shares)

Etc.

FIXED INCOME

PIMCO Short Term Fund

Legg Mason BW Global Opp Bond

Chair O'Reilly raised a budget issue regarding our investment fees and the need for complete understanding and better transparency regarding the fees we pay. Due to a misunderstanding of terminology, the Foundation staff was provided a figure of \$80,000 as the amount to budget for FY16 in Investment Fees. The Atlanta Consulting group provided that figure based on "investment manager fees" (Kornitzer and Southern Sun) and did not include their consulting fees in that number which are traditionally around \$80,000. Now that we no longer have Kornitzer, this initial actual budget number should have been \$120,000 (\$40,000 for Southern Sun and \$80,000 for The Atlanta Consulting Group).

When we cashed in Archstone and Collins we did realize a savings of \$44,000 in fees. However, because Archstone and Collins had been subsidizing The Atlanta Consulting Group for about \$10,000 of his fees; the Foundation now has to pick that up making our net savings on the sale of Archstone and Collins actually around \$34,000. For the mid-year budget revision, we anticipate the new investment fee line will be revised to be \$120,000. The actual savings we will have reaped from the sale of Archstone, Collins and SouthernSun will be netted at \$89,839.

Michelson noted that a full fee analysis had always been included in the December quarterly report. Kissman noted that due to our budgeting cycle, we will always need to confirm with him a projection of all investment fees that we pay directly around April of each year for the upcoming fiscal year. Michelson noted he will include the full fee analysis in each quarterly report going forward.

Review of Current Financials

Kissman presented the current financials (provided in advance to the Committee members). A third set of reports is now being shared showing prior year comparisons per period. Because we are two months into the fiscal year, activity is minimal and there were no budget anomalies to report.

Request to Close Bank Accounts

As previously noted, Brennan proposed the closing of the PNC Gift Shop Account; we no longer need this account now as we have turned over Gift Shop Operations and Inventory to FAU Harbor Branch. The motion to close the account was approved unanimously.

Update on HBOIF Real Estate Holdings

"Green Acres" Peacock Road Property

We have sent the letter opposing the Compost USA project. Kissman is scheduled to attend the next special hearing in December. We have received an updated appraisal on the property: As of August 18, 2015 "as is" \$515,000. This is up: the most recent assessed value was \$301,900 (5/17/13) with appraised value determined to be \$400,000 (5/10/13). On a parallel track, Bill Kerr (a Scrub Jay expert and President of BKI Inc. Consulting Ecologists (<http://bki-ecologists.com>)) has been retained to provide a feasibility study regarding the possibility of doing a wetlands mitigation bank for this property. See below.

"Lakela's Mint" Property (former Learning Garden Montessori School site)

Kissman reported on her meeting with St. Lucie County regarding their acquisition of the property as a potential use for the County including parking, trail head & possibly a satellite nature center facility to serve the new Harbor Branch Preserve project. A non-obligatory Willing Seller Letter has been submitted to St. Lucie County. It is anticipated we would include the transfer of "The Triangle" in any purchase. This parcel is not deemed to be of value to anyone. Patrick Boles has mentioned that he thinks this parcel may have been overlooked at the time of the FAU merger; however considering its location, it appears it would not be of value to FAU. It is small, unbuildable, and may include wetlands. It is immediately bordered on all three sides -- on the east by the railroad tracks, on the west by Old Dixie Highway, and north and south -- by FCT held land. Kissman recommends including the property as part of a sale of the school property to St. Lucie County. Its assessed value as of 8/16/12 was \$11,300.

Kissman further reported meeting with an interested party who would relocate the four onsite portables which Learning Garden has titled to the Foundation. They would first remove of stairs & ramps and prepare for the removal and transport of the units. All costs will be borne by them. We have confirmed title transfer of portables to HBOIF and will arrange for title transfer of portables from HBOIF to the new owner(s). We have initiated the utilities terminations. This makes the land and building more attractive to St. Lucie County.

The “Old Citrus Grove” Property

The first “conceptual” map of the trails for the proposed Harbor Branch Preserve on the FCT lands which are adjacent to HBOI and which surround HBOIF’s The Old Citrus Grove parcel showed a trail on HBOIF property. The map, on p. 91 of the Harbor Branch Preserve Management Plan (attached) shows one proposed trail on the backline our property. Amy Griffin has confirmed the FCT/SLC Management Plan will be revised to remove any reference of trails on HBOIF property.

The Harbor Branch Preserve project has been on hold because St. Lucie County has not been able to find a way to gain access to the site to start the improvements (site clearance, clear invasive species, preparing trail paths, etc.) St. Lucie County Mosquito Control is currently gaining access from the north to build up the berms on the IRL with agreement from the Seiman’s group (developers of Coconut Cove, which is now active again.) She explained they had requested access from HBOI and HBOI is reluctant to grant them access from the south from inside the campus. We explained that HBOI has a secure campus and we could understand why there was that reluctance. However, we suggested a possible alternative. Since we do have a crossing over the railroad tracks onto the Old Citrus Grove, we said we might be in a position to allow them access to the FCT property via our property. We took her on a tour to show her where this was located off Old Dixie Highway. Amy Griffin has requested a draft temporary access from our County Attorney office and will forward to us for consideration.

On a parallel track, Bill Kerr (a Scrub Jay expert and President of BKI Inc. Consulting Ecologists (<http://bki-ecologists.com>) has been retained to provide a feasibility study regarding the possibility of doing a saltwater mitigation bank for this property.

Mitigation Banks Feasibility Study

The September 11, 2015 Parcel and Mitigation Bank Basin Assessment document from BKI, Inc., was previously provided to Committee members.

- a. To create a mitigation bank for the “Old Citrus Grove” property will require:
 - An estimated approximately \$250,000 construction costs to restore the property and rid it of exotic invasive species.
 - Setting up of a Conservation Easement Escrow account in the amount of 110% of the construction costs; upon this, a possible 25% of the credits could be released – this amount could then fund the construction costs.
 - Setting up of a Perpetual Management and Maintenance Escrow Account. BKI estimates this to require \$680,000 based on \$40,000 per year at 6% interest). The estimated cost would be updated every 5 years.

This initial feasibility indicates a possible 10 to 12 credits generated from this bank at approximately \$100,000 per credit. Possible net before expenses and fees: \$1,000,000 - \$1,200,000

- b. To create a mitigation bank for the “Peacock Road” property will require:
 - An estimated approximately \$150,000 construction costs to restore the property and rid it of exotic invasive species.
 - Setting up of a Conservation Easement Escrow account in the amount of 110% of the construction costs; upon this, a possible 25% of the credits could be released – this amount could then fund the construction costs.
 - Setting up of a Perpetual Management and Maintenance Escrow Account. BKI estimates this to require \$1,300,000 based on \$62,000 per year at 6% interest). The estimated cost would be updated every 5 years.

This initial feasibility indicates a possible 22 to 27 credits generated from this bank at approximately \$100,000 per credit. Possible net before expenses and fees: \$1,000,000 - \$1,200,000

Either or both properties would need to be “permittable.” There are varying factors that would play into this and based on this preliminary assessment, BKI suggests that the “Old Citrus Grove” has a greater potential for success as a mitigation bank over Peacock Road.

The next step for either property would be for BKI to prepare a prospectus that would include detailed site inspections and meetings with the appropriate agencies which would then provide an “indication of permissibility.” The cost to do this for both properties is estimated to be \$10,000 to \$15,000. This would take approximately 90 days. Should the “indication of permissibility” be favorable, the next step would be the process for acquiring the permits. Until a prospectus is completed, it is hard to make an estimate of the costs (it could be anywhere between \$50,000 and \$200,000 paid on a per hour of time basis). It will also likely take up to 18 months to 2 years to acquire the permits due to unknown circumstances that are hard to predict or control.

The Committee agreed with Kissman’s recommendation to engage BKI for a prospectus on the “Old Citrus Grove” property but not on the Peacock Road property. Funds are available in the legal line for the additional fee to produce the prospectus. The Committee also agreed that upon the findings of the December hearing on the Compost USA project, to put the Peacock Road property officially on the market. Chair O’Reilly noted that the sale of the property could fund the construction costs and some of the other fees associated with pursuing a mitigation bank on the “Old Citrus Grove” property.

Adjournment

There being no further business the meeting was adjourned at 10:15 am.