

Minutes of the Jones Library and Town Libraries Board of Trustees

June 2, 2009, Trustees' Room of the Jones Library

Present: President Patricia Holland, Trustee Greenbaum, Trustee McKee, Trustee Gray, Trustee Wang, Trustee Hoffmann.

Also Present: Bonnie Isman, Library Director; Scott Merzbach, Press; Arnie Alper, Precinct 2; Kay Moran, Finance Committee; Kristin Kay, resident & contract Library employee; Susan Wennemeyer and Andrew Bellek, Stakeholders Capital; Jim Gorman, Vanguard Investment Advisor; and Nancy Gregg, resident, and the public.

The meeting was called to order at: 7:06 p.m.

1. Consideration of Minutes of May 27, 2009.

Change: Chris Hoffmann added under discussion on p. 3, 3rd paragraph, After "tax support" add "based partly on staff comments."

Carol Gray suggested add "off" after paragraph 5, after we passed motion as amended. Ms. Gray said that we should present only the two numbers that were in the resolution and there were no dissenting opinions.

Motion: To approve the Minutes of May 27, 2009 as amended. Motion by: Patricia Holland, Second by: Carol Gray. **Vote:** Unanimous.

2. Treasurer's Report: The current total of the invested funds is: \$ 6,738,498.08 which is up about \$180,000.00 from last week.

Jim Gorman, Vanguard Asset Management Service, spoke saying the Jones Library, Inc. has been a client for nearly four and a half years using the 60% equities/40% bonds formula. He advises this formula for endowments, including Jones. He understands that we want Vanguard's opinion on whether to go to Treasuries completely, and the trailing stop loss strategy we voted to implement last meeting. If the Library had moved to Treasuries at the last Board of Trustees' meeting, the Library would have lost the recent gain in the portfolio. According to Mr. Gorman, now is probably the worst time to move to an all Treasury portfolio. He provided a handout which explains why Vanguard recommends a mixture of stocks and bonds. The invested funds are up 6.6% from January 1, 2009. The handout discusses a tradeoff between market risk and inflation risk. Treasury bills are completely safe, but with inflation, Treasury bills and Treasury bonds have not kept pace with inflation. The worst year in stocks is 37%. Stocks are much more volatile than Treasury bills. **But you** lose money (though different percentages) the same # of years in Treasuries & equities. Vanguard does not believe in market timing because it's impossible to time the market. Vanguard does, however, manage actively.

Consideration of the Market Risk Table on the handout: – different asset allocations from 100% bonds – 100% cash. From 1926 to 2008, the real return after inflation is 5.32% (using the Consumer Price Index). Inflation right now is close to zero. If the Jones Library wants to perpetually only spend 4%, it is conceivable that a 30% equities/70% bond split would work. 2008 was much worse than 2005 through 2007, when the Jones endowment began its association with Vanguard. Vanguard thinks that the market will recover this year and that the U.S. will be out of recession by the year's end. Mr. Gorman said, long-term, markets tend to go up, and although he is not an economist, Vanguard expects that government spending will get us out of this recession. Mr. Gorman observed that the Library would be better off increasing our stock allocation every time the market goes down. Mutual funds are valued every day at 4 p.m. after the market closes. His client who went to cash recently went back into the stock market today; it had lost \$1 million. But his client who left the market earlier is still in cash – was “brilliant.” Mr. Gorman told the group that none of his clients has a stop-loss clause.

Chris Hoffmann noted, ‘One concern: we can’t hold a Trustees’ meeting without a 48 hour public notice. Ms. McKee said, “If we’d had a trigger when the endowment stood at \$9,000,000, we’d have more today.” Bonnie Isman talked today with the investment officer at Amherst College (Ms. Isman provided notes from that conversation.) Amherst College does not have a “trigger,” but a market fluctuation of 3% is not uncommon any more. Mr. Gorman said using the Trustees’ \$200,000 trigger, it will trigger within the next six months, or maybe with the next two weeks. Kay Moran told the group that there are open meeting law allowances for emergency meetings. Bonnie Isman will find out about these rules.

Mr. Gorman confirmed that there is no cost to move to Treasuries – if it is done once or twice. He thinks that if this were done several times, the Jones Library would not be a good fit for Vanguard Investment services since this is ‘market timing,’ which is not part of Vanguard’s strategies. Mr. Gorman said of his two previously mentioned clients that both had made their decisions based on fear but one was lucky and one was unlucky. Mr. Gorman expressed possible difficulty in monitoring the investments with a \$200,000 trigger, but he did need to determine if Vanguard management would enable this strategy. He promised an answer in two days. Upon questioning, Mr. Gorman defined “stop-loss” as a standing order to sell a particular stock if it drops below a given price. He also added that the portfolio is stocks and bonds and many individual stop-loss orders would be needed.

Mr. Bellek, from the audience, talked about his product, including a hedge fund.

Ms. Gray asked if the Trustees were taking too much money out of the endowment and Mr. Gorman answered, “Yes, that’s a valid concern.” He told the Board that if Vanguard cannot implement the Trustees’ voted trigger, he would determine if there were another trigger to use.

Motion: We resolve to direct our Vanguard investment manager to withdraw from the current allocation and invest the endowment in the Vanguard Intermediate Bond Fund if, at any time,

the endowment falls by 3% from its highest point as of any date on or after June 2, 2009.

Motion by: Ms. Gray. Second by Ms. Holland.

Louis Greenbaum is persuaded by statement of Amherst College finance officer saying the stock market is rising and we seem to be recovering, and reasonably handsomely. So Mr. Greenbaum thinks that getting out now and into Treasuries, is not so good. At Ms. Gray's request, Mr. Gorman will research how many times a 60/40 has fluctuated more than 3%. Mr. Bellek noted that mutual funds only trade once per day, and any changes would have to wait until the next day. Ms. McKee asked if we were in exchange-traded funds, would the same consideration apply? Mr. Gorman said mutual funds trade during the day. Patricia Holland asked if ETFs are something the Trustees should pursue. Mr. Gorman responded that the first step is to find out if Vanguard can implement the trigger. Chris Hoffman feels that since the market is so volatile, the current trigger may be too low.

Ms. Wang was on the Board of Trustees four years ago when Vanguard was chosen and she thought it was a good decision which resulted in saving a lot in management fees. She feels there is a larger question of our relationship with Vanguard. She suggested tabling the motion until we find out what Vanguard can do. Mr. Gorman told the Board, 'We do want to manage your money. If we do take a client out of funds, it's to protect the other clients.'

Holland – as a stop-gap measure -- would support this motion that she seconded above.

Mr. Greenbaum read from Bonnie's notes on her conversation with the Amherst College investment advisor, "Don't get out now. Your losses are paper only. If you get out now, you'll lose your money and it won't come back. He then addressed Mr. Gorman saying, 'The Town of Amherst has cut our funds just enough to make us lose our certification and Amherst College says adjust your spending rate and use other income. We had two other advisers tell us that it's unsustainable to spend at the current rate. What do you think?' Mr. Gorman said most of his clients are trying to cut, after increasing their spending during the good years, instead of reinvesting.

Motion: Table Ms. Gray's previous motion until Vanguard tells whether it can implement our trigger. Motion by Kathleen Wang. Greenbaum seconded.

Vote: 3 Ayes. 3 Nays. Motion to table fails.

Mr. Greenbaum is not in favor of any type of trigger. He feels that we are not in any imminent danger and he also feels that we have enough controls and a good relationship with Vanguard.

Ms. McKee observed that 'the economy is in the dumps. We need to protect endowment.' Ms. Gray thinks the economy going great guns.

Ms. Gray withdraws her motion resolve to direct our Vanguard investment manager to withdraw from the current allocation and invest the endowment in the Vanguard Intermediate Bond Fund if, at any time, the endowment falls by 3% from its highest point as of any date on or after June 2, 2009.

Mr. Hoffman requested a revision of the minutes to say that IF endowment falls by \$200,000, rather than TO.

Mr. Gorman will determine if another Vanguard client will talk with the Board and if Vanguard can implement the trigger. If not, what can Vanguard do about a different strategy. When asked about socially conscious investing, Mr. Gorman said Vanguard does not know what the endowment is invested in because it's just indexes. Vanguard just has a proxy that addresses this. Ms. Gray asked if the Jones could offer charitable annuities and Mr. Gorman responded that Vanguard could manage the money & group it with others in a pool. However, these have not been very successful because there is a problem in finding donors. Vanguard had started a department for this but it no longer exists. President Holland thanked Mr. Gorman for attending.

Director's Report: Bonnie Isman spoke with Jerry Bogdanovich, at Hampshire College. We were sent the policy from 1996 and someone will send us the new one. Also, the Boston Public Library (BPL) has cut back from 7% to 5% spending rate. They have a socially responsible investment policy with the City of Boston. Together with the City, the BPL has a contract with www.nepc.com who check on the performance of the investment managers to make sure that they're being socially responsible. There is a cost for this service. Ms. Isman will get in touch with Yale.

FY2010 Budget Proposal: The Trustees' Town Meeting handout went to the Town Manager's Office for inclusion in the Town Meeting members' packet. There will be a decrease in public services because of the decrease in amount for materials. The allocation for Special Collections is higher due to salaries. There is no one at the Munson who receives step raises and the building rental stays flat. The North Amherst Librarian is getting an increase in salary, first year of longevity pay. The increase in salaries balances out the decreases in materials. Technical Services has two junior employees who are getting both COLAs and step increases.

Our electrical energy saving program has garnered an increase, rather than a decrease, in electrical expenses. Ms. Isman will work with Ms. Gray in addressing this. The Friends of the Jones Library approved a \$16,000 donation for materials.

From the audience, Kirsten Kay asked how decertification would affect the relationship with CW MARS. Ms. Isman responded that CW MARS is a private nonprofit entity with school and college members, and as long as you can afford the fees, you can participate. The biggest issue is how decertification affects our relationships with Northampton and Springfield because if decertified, the Jones' patrons cannot get interlibrary loans from those libraries. Ms. Moran explained that the Finance Committee made its recommendation for the Library's budget after looking at all of the Mass. Board of Library Commissioners' information on waivers (for the Municipal Appropriation Requirement). All of the Town

budgets are taking a hit of 1.4 to 1.5% of state aid. The capital budget is taking a hit of 9%. Ms. Isman told the Board that the Mass. Library Assn. has put out another email about influencing the conference committee and she asked the Trustees to support the House figure on state aid to public libraries and funding for library technology. Ms. Holland will send an email on behalf of the Trustees to Representative Ellen Story and Senator Stan Rosenberg supporting these.

Ms. Wang pointed to an omission in the Town Meeting handout saying it should be only 2.9 cents of each general revenue dollar which goes to libraries. Ms. Holland will address this when she addresses Town Meeting. Ms. Gray said, 'Let's have a subcommittee regarding Town Meeting.' Ms. Holland likes this idea and Ms. Wang will serve if there are not a lot of meetings. Ms. McKee will serve on this committee as well. Ms. Isman noted that the Select Board will talk about the Library at its meeting this coming Monday. She urged the Trustees to attend the Select Board meeting.

Mr. Greenbaum likes the front of the Town Meeting handout, but is not so pleased with the reverse because it does not say what will happen to Town services if there are cutbacks in hours. How will this affect the availability of Library services? Mr. Greenbaum said, 'People understand cuts in hours because it brings home to them what the cuts mean.' In Mr. Greenbaum's opinion, the handout omits this.

Ms. Isman told the Board of Trustees she needs to be able to set the personnel schedule for July. The Trustees have not yet voted on a budget, telling her if she needs to cut staff. Ms. Wang asked what the process is to get a waiver if Town Meeting doesn't vote sufficient funds. Ms. Isman said she must do a lot of reports and the financial one is an application in September for state aid. This application must go the Mass. Board of Library Commissioners and the earliest we could get a waiver would be December. Ms. Gray wants more handouts for Town Meeting. She wants to highlight how the Library is different from other departments, including a calculator which shows what people gain from the Library. Ms. Gray expressed concern about the handouts that had been given to the Finance Committee. There had been no affirmative agreement by the Board as to what to send to Finance Committee. Ms. Isman had emailed the document to all of the Trustees before the Finance Committee's meeting.

250th Parade: Yes, we'll participate. Ms. Wang asked if John Ramsay from Western Mass. Regional Library System would go to Town Meeting to explain the ramifications of decertification.

The meeting adjourned at 9:51 p.m.

Respectfully submitted,

Sarah McKee, Clerk

