

FILED
JAN 5 2005
2:35pm
CLERK

MINUTES - TILLAMOOK COUNTY BOARD OF COMMISSIONERS' STAFF MEETING
Monday, December 6, 2004
Page 1

1 **COMMISSIONERS PRESENT:** Paul A. Hanneman, Chairperson
2 Charles J. Hurliman, Vice Chairperson
3 Tim Josi, Commissioner
4

5 **STAFF PRESENT:** Paul Levesque, Management Analyst
6

7 **STAFF PRESENT FOR PORTIONS OF MEETING:** Aaron Suko, Public Works Director; Bill
8 Campbell, Community Development Director; Tim Lutz, Assessor/Tax Collector; Michael Soots,
9 Communications/I.S.; Teri Gaffney, GIS Coordinator; Craig Schwinck, Human Resources &
10 Information Services Director
11

12 **GUESTS:** Mark Gervasi, Tillamook City Manager; Wendell Hesseltine, TCGH Director; John
13 Upton, Retirement Group, Inc.; Gus Meyer
14

15 **CALL TO ORDER:** By Chair Hanneman at 9:05 a.m. in the Commissioners' Meeting Room.
16

17 **ITEM NO. 1: PUBLIC COMMENTS - NON-AGENDA ITEMS:** There was none.
18

19 **ITEM NO. 2: DISCUSSION CONCERNING BOUNDARY ADJUSTMENT OF COUNTY-**
20 **OWNED PROPERTY, OCCUPIED BY TILLAMOOK COUNTY GENERAL HOSPITAL,**
21 **BY THE CITY OF TILLAMOOK:** Mr. Gervasi said the City was in the process of annexing all
22 sewerer properties east of the City. The property owners had signed consent forms. He was seeking
23 Board approval of a "consent to annex" form. A city hearing would be held in January.
24

25 There was a discussion regarding whether the current description was an error. It was determined
26 that such boundaries were based on metes and bounds description, which was approved by the
27 Department of Revenue. There was a consensus to schedule the consent once the legal description
28 was prepared.
29

30 **ITEM NO. 3: COMMUNITY DEVELOPMENT UPDATE: Consideration of ORMAP Grant**
31 **Application:** Mr. Campbell distributed a copy of the grant worksheet for the ORMAP program.
32 The grant was for \$23,125 on total project cost of \$68,910. It would result in a \$45,000 match. The
33 funds would purchase a server and software.
34

35 Mr. Lutz said if it was approved, it would also go into the property tax grant. He supported it. Mr.
36 Soots said the addition of recent data had strained the network. The grant would ease the strain. Ms.
37 Gaffney described why this portion of the grant was coming so early in the process. It would help
38 the County know by the budget whether the funds were available.
39

40 Commissioner Josi moved to approve the grant application, Chair Hanneman seconded.
41

42 Mr. Soots said the server was only \$5,000 because the I.S. Staff would be formatting it and setting
43 it up. Training would cost \$3100 per person, so Ms. Gaffney would be the only one attending. She

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1 would train other employees on her return. Ms. Gaffney said the program would digitize stream
2 edges, not centerlines. A lot of activities within the County could use the data. The photos were
3 taken in July 2004. Mr. Lutz said ORMAP would only provide \$5000 for a server.

4
5 Motion passed with three aye votes.

6
7 Mr. Campbell distributed copies of the Building Section report (attached). He would provide a year-
8 end report at the end of the month. Activity had not slacked off. The new code was in effect this
9 month. Ms. Steiner will take training in March; Steve Winstead was in the office approximately one
10 day per week.

11
12 Mr. Campbell reported on the Transportation Planning meeting in Hebo. A draft plan, with public
13 input, was ready for Wednesday night at the U.S. Forest Service office. He reviewed some of the
14 details for specific sites along the highways. The final report would come to the Board for
15 acceptance.

16
17 Mr. Campbell said ten appraisals had been received on the \$1.9 million in property acquisitions.
18 Meetings would be scheduled with each owner. The owners now had to accept the appraisals or
19 provide their own; owners would receive 75% of the value. Funds were included in the grant for
20 removing the buildings.

21
22 Mr. Campbell reported on matters before the upcoming Planning Commission Meeting on Thursday
23 night.

24
25 Mr. Campbell said no claims had been filed under Measure 37 since the effective date. They just
26 had two prior claims, on which the forms had now been submitted. The Department was compiling
27 all the ordinances, which filled seven binders. There were seventeen inquiries as of Tuesday, the
28 previous week. There have been less than ten claims statewide. He described some of the larger
29 ones in the State.

30
31 The Chair noted the Oregonian editorial regarding the range of fees.

32
33 **ITEM NO. 4: PUBLIC WORKS UPDATE:** Mr. Suko reported on coordinating with Neskowin
34 residents on tree limb removal, necessitated by larger vehicles on narrow roads. He offered to do
35 a news release for the column and described the outreach they would be doing. Public Works crews
36 will be marking the trees. They would be doing the work by hand.

37
38 Chair Hanneman was concerned about the trees between roads and streams, and the creation of
39 unequal balance by trimming just the road sides. Commissioner Hurliman wondered about a
40 cooperative program with homeowners for doing the handwork. Mr. Suko would consider it, but
41 he was concerned about the administration costs. He said that by marking the trees, it afforded the
42 owners the opportunity to do it on their own. He would work with ODF on the stream side trees.

43
44 **ITEM NO. 5: HUMAN RESOURCES & INFORMATION SERVICES:** Mr. Soots presented

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1 the Tillamook Lightwave (TLW) request to purchase a power supply.

2
3 Commissioner Josi moved to authorize I.S. to purchase the equipment and replenish the funds from
4 other County sources, if not reimbursed by TLW, Commissioner Hurliman seconded, passed with
5 three aye votes.

6
7 The Chair recessed the meeting at 10:03 a.m. and reconvened at 10:14 a.m.

8
9 **ITEM NO. 6: QUARTERLY REPORT ON THE RETIREMENT FUND FOR CERTAIN**
10 **COUNTY EMPLOYEES:** Mr. Upton was present and gave a report on the Index Return Summary.
11 He would be recommending in the near future to cut the County's equity position from 55% to 50%,
12 and going largely to bonds.

13
14 Mr. Upton then looked at foreign stocks as being comparable to U.S. stocks and for that reason, he
15 suggested moving some funds to bonds to be more cautious. He also looked for more investing in
16 the economy by businesses. He discussed issues with devaluation of U.S. currency and the Social
17 Security system. He suggested there was now a small voice that wanted to not fund retirement plans
18 with stocks. He also said real estate prices were also artificially high.

19
20 Mr. Upton recommended stocks be allocated to 30% and move foreign stocks to 25%.
21 Commissioner Hurliman suggested ratcheting back at 5% per year on U.S. Stocks until 2012. Mr.
22 Upton said that was not a bad idea. Mr. Schwinck would bring the recommendation to the Board
23 for action. He added that Milliman & Associates, the actuaries, would likely recommended that the
24 County lower the assumption and fund more into the plan.

25
26 Mr. Schwinck agreed with Mr. Upton; however, he stated it might cause a 2% increase in funds
27 needed for the plan. He added that PERS was at 65% equities and was digging a bigger hole. Mr.
28 Schwinck said the County would lengthen the range from 30% to 60% but reduce the value by 5%
29 this year. The \$1 million deposit in May could be used to make the reduction in value stocks.

30
31 Commissioner Hurliman reiterated that the County should ratchet back 5% per year on the upper end
32 of equity allocations. He also suggested reallocation of some bond funds from Mid-term to short-
33 term.

34
35 Mr. Upton also distributed an article on stable value funds and SEC issues regarding those funds.
36 He reinforced that stable value funds were not without risk. He just wanted the Board to be aware
37 of those risks, but he felt those risks were reasonable.

38
39 **ITEM NO. 7: MANAGEMENT ANALYST UPDATE: a. Execution of Order Canceling Tax**
40 **Land Installment Contract with Gary Dinges for Nonpayment:** Mr. Levesque noted that Mr.
41 Dinges was not served as indicated in the draft order; therefore Order #04-96 needed to be re-signed.

42
43 Commissioner Josi moved to sign the modified order, Commissioner Hurliman seconded, passed
44 with three aye votes.

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1 The Commissioner signed Order #04-96.

2
3 **ITEM NO. 8: STAFF UPDATE/CALENDAR REVIEW & SCHEDULING/AGENDA**
4 **REVIEW/SUGGESTION BOX/INTER-OFFICE MATTERS:** There was a consensus to add an
5 item to the agenda for Wednesday regarding joining other State Forest land counties in a law suit
6 concerning the Legislative raid on the Forest Development Fund.

7
8 The Library Board wanted to appoint Heather Huzefka, who had been interviewed in the prior round
9 of applications. The Board agreed and asked that an order be prepared for the Wednesday agenda.

10
11 The Commissioners reviewed, amended and approved the weekly calendar.

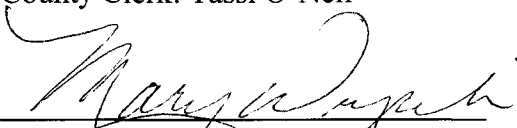
12
13 **ITEM NO. 9: BOARD CONCERNS - NON-AGENDA ITEMS & ANNOUNCEMENTS:**
14 Commissioner Hurliman reported on the O&C Meeting and the reauthorization of the Safety Net
15 payment.

16
17 **ITEM NO. 10: PUBLIC COMMENTS:** There were none.

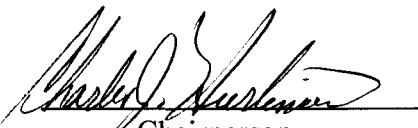
18
19 The Chair adjourned the meeting at 11:20 a.m.

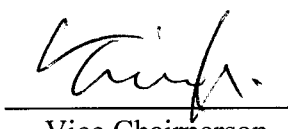
20
21 **RESPECTFULLY** submitted this 29 day of Dec, 2004.

22
23 County Clerk: Tassi O'Neil

24
25 
26
27 Mary Wujcik, Recording Secretary
28 & Special Deputy

29
30 **APPROVED BY:**

31
32 
33
34 Chairperson

35
36 
37
Vice Chairperson


Commissioner



CALL TO ORDER – December 6, 2004

1. **9:00 a.m.** Public Comments – Non-Agenda Items – **REQUEST TO SIGN GUEST LIST**
2. Discussion Concerning Boundary Adjustment of County-Owned Property, Occupied by Tillamook County General Hospital, by the City of Tillamook/Mark Gervasi
3. Community Development Update/Bill Campbell
4. Public Works Update/Aaron Suko
5. Human Resources & Information Services Update/Craig Schwinck
6. **10:00 a.m.** Quarterly Report on the Retirement Fund for Certain County Employees/John Upton
7. Management Analyst Update/Paul Levesque
 - a. Execution of Order Canceling Tax Land Installment Contract with Gary Dinges for Nonpayment
8. Staff Update/Calendar Review & Scheduling/Agenda Review/Suggestion Box/Inter-Office Matters
9. Board Concerns, Non Agenda Items & Announcements
10. Public Comment

ADJOURNMENT

The Tillamook County Courthouse will be **CLOSED** to the public from 12:00 noon to 1:00 p.m. on **Wednesday, December 22**, for the annual Holiday Potluck.

The Tillamook County Courthouse will be **closed** on **Friday, December 24**, for the Christmas holiday and on **Friday, December 31**, for the New Year's Day holiday. Oregon State Circuit Courts will also be closed.

Inauguration of newly elected County officials will be held at **8:00 a.m. on Monday, January 3, 2005** in the Circuit Courtroom of the Tillamook County Courthouse. The ceremony is open to the public and the Courthouse is handicapped accessible (handicapped parking in the rear of the building).

BOARD OF COMMISSIONERS'
STAFF MEETING
Monday, December 6, 2004

PLEASE PRINT

Name	Address	Item of Interest
Gus Meyer	On Record. CITY OF TILLAMOOK	General CONSENT TO ANNEX FOOD - HOSPITAL
MARK GERVASI	210 LAUREL AVE	
Ray Gough	TOD	#3
Craig Skurwald	#R/ES	# 3, 5, 6
Wendell Henselton	1000 3RD	
AARON Sulko	RW.	#4, #6
Michael Soals	I.S.	# 3, 5
Tim Lutz	AS...	# 2 ORMI grant R...
John J... ..	RCG Scappoose, OR	Pension plan

(Please use reverse if necessary)

12/6/2004

Dept. of Community Development - Building Section

Week Ending	Plan Review	Structural Inspections	Mechanical Inspections	M.D. insp.	Mileage for Inspectors	Electrical Inspections	Plumbing Inspections	Investigate Proj. check	Citations Issued	Stop Work Orders	Court Hours
10/15/04	14	87	18	0	1328	55	40	2	0	0	0
10/22/04	12	76	19	1	1362	46	27	5	0	1	0
10/29/04	4	64	22	3	1314	29	28	5	0	1	0
11/05/04	10	74	19	0	1120	35	35	4	0	1	0
11/12/04	10	80	21	2	1200	24	31	0	0	0	0
11/19/04	9	81	17	1	1218	82	31	0	0	0	0
11/26/04	17	40	12	1	783	48	16	1	0	0	0
12/03/04	12	57	22	0	1311	43	28	0	0	0	0
Total											
YTD	773	3793	804	71	57505	2239	1456	56	0	11	1

G:\Build\forms\Insp Log.xls

For the week ending _____

Submitted By: _____

GRANT WORKSHEET

FY 2005/2006 BUDGET

Please check here if no salaries are funded by this grant. If the grant is funding all or part of an employees salary:
COMPLETE PAGE 2 OF THIS WORKSHEET

Funding Source Code _____

For Accounting Department use only

County Fund & Dept Receiving Grant
Assessment & Taxation (GIS)

Award Period:

Begin: 6/1/2005

End: 5/31/2004

Common Name	Formal Name
ORMAP FY Spring 2005	ORMAP Discretionary FY 2005 (Spring)

Everyday name used within your department

Complete formal name given to grant by funding source

PLEASE ATTACH COPY OF GRANT AWARD

Source of Funds

Where did the funding come from?

Did the funds come directly to the county from the federal government?

Did the funds pass through the State of Oregon or another organization before arriving at the county?

Grant Number:

If Federal Grant: CFDA Number

If State Grant: Number assigned by state funding source

- Direct, federal government, dept of _____ CFDA: _____
- Indirect, federal government, dept of _____ CFDA: _____
and State of Oregon, dept/division of _____
- Indirect, federal government, dept of _____ CFDA: _____
and another entity or organization _____
- Direct, State of Oregon, dept/division of _____
- Indirect, State of Oregon, dept/division of _____
via another entity or organization ORMAP (recording fees)
- Other _____

Total Amount of Award: \$ 23,125.00

Is this a new grant? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Match Requirement Amount <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	Is this a multiyear grant? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Payment Method: <input type="checkbox"/> Advance <input checked="" type="checkbox"/> Reimbursement	How Much \$ <input type="checkbox"/> Hard Dollar Match <input checked="" type="checkbox"/> In-Kind (IDENTIFY below) Technical support by IS and GIS and sw/hw procurement that is planned.	IF Yes: Amount Applicable to Current Budget Year: \$ 68,910.00
Reporting Cycle <input type="checkbox"/> Monthly <input type="checkbox"/> Quarterly <input checked="" type="checkbox"/> Semi-Annual <input type="checkbox"/> Annual	Grant Administrator: _____	
	Accounting Contact: _____	

6. Project and Cost Timeline

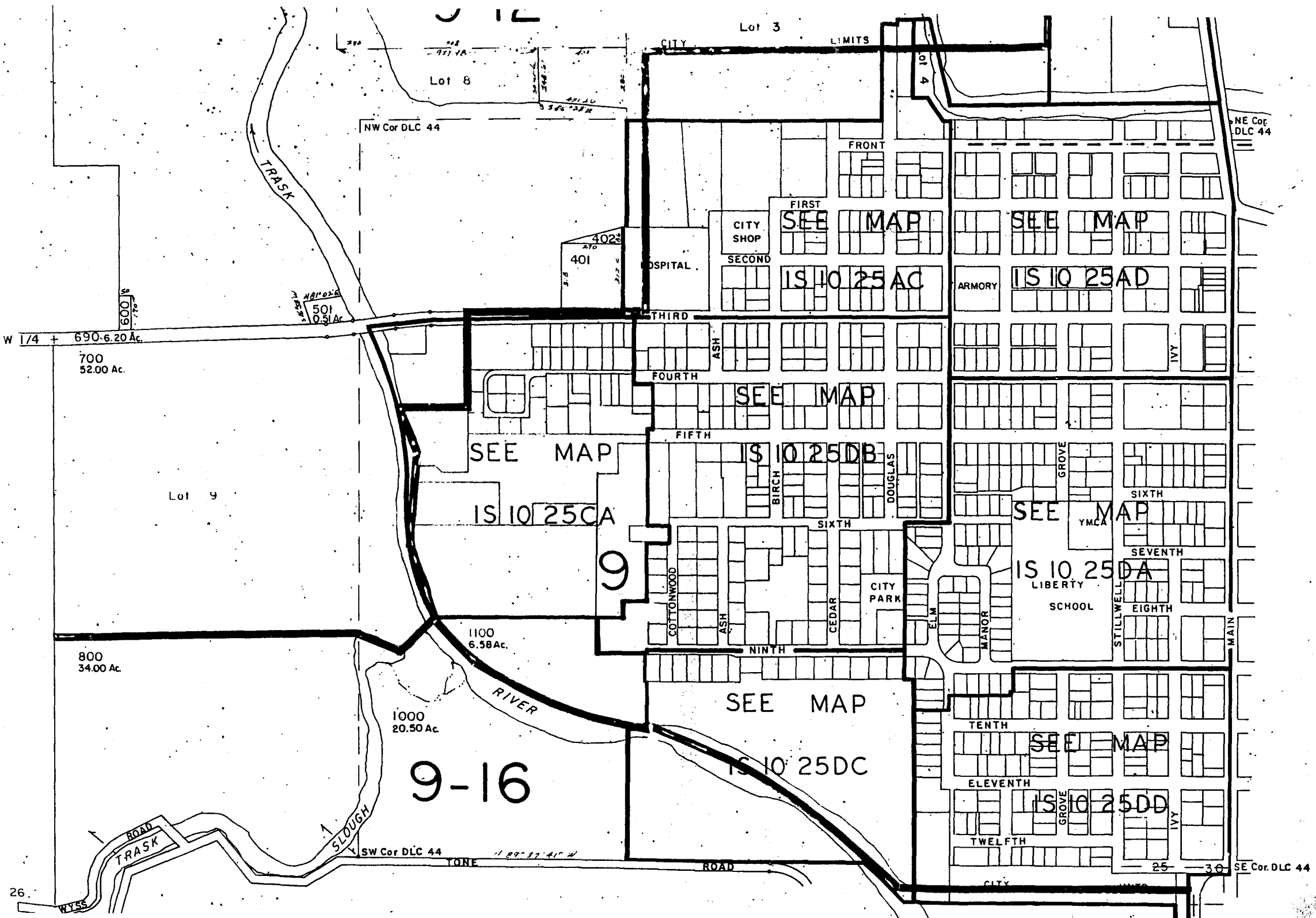
This list is to summarize what your county's plans are for achieving Goal 4 over the next 9 funding cycles. This information will be compiled with the other counties plans and used by the Advisory Committee to assure the effective use of the ORMAP fund. For each cycle that you will be requesting ORMAP funds, please include a brief description of the project, the approximate number of taxlots, actual number of tax maps completed and any edge matching efforts with neighboring counties.

Funding Cycle	Project Type/Area	Approx. # of Taxlots	Total # of Goal 4 Maps	% of Total # of County Maps	Funding Source		
					ORMAP	Other	Total
Current Status		0	0	0	164,575.00	228,500.00	393,075.00
Spring 04	GPS points, software, plan report, photos		0	0%	50,995.00	172,650.00	223,645.00
Fall 04	Cartography Quality Control Support	8631	169	23%	26,850.00	131,990.00	156,605.00
Spring 05	Server Integration and migration, and hydrography				23,125.00	45,785.00	68,910.00
Fall 05	Cartography Quality Control Support	10722	289	38%	25,338.00	115,544.00	140,882.00
Spring 06	Survey retooling and edgematch				50,000.00	125,000.00	175,000.00
Fall 06	Cartography Quality Control Support	9977	295	39%	26,099.00	127,098.00	153,197.00
Spring 07	Tax code districts, and soils				30,000.00	125,000.00	175,000.00
Fall 07	Finalize quality control, publish new tax map books and resolve problem areas.				25,000.00	115,000.00	140,000.00
Spring 08	Online Mapping				25,000.00	115,000.00	140,000.00
Mapping Totals		30000	750		446,982.00	1,324,692.00	1,766,314.00
MONEY TOTALS to reach Goal 4							

ORMAP Grant Application - 2005 Spring Request

Section I. County and Grant Information			
a. County/Region	b. Type of Funding (Check only one)	c. Grant Request (Only the amount for the funding type selected in Section I.c)	
Tillamook County/ Northwest Region	<input type="checkbox"/> Regional <input checked="" type="checkbox"/> Discretionary <input type="checkbox"/> Combination (For grants requesting both type of funds in one project)	Discretionary Fund Request \$23,125	
Project will help ORMAP Goal(s): 3 & 4		Regional Fund Request \$	
Section II. Summary of Project			Tech Group Assessment
a. Brief Description of the Request and if the project will meet the ORMAP Data Exchange Standards.			<input type="checkbox"/> Yes <input type="checkbox"/> No
Tillamook County seeks support to fund the procurement of a GIS Server to host the Assessors GIS Information, the ArcSDE software to use as the gateway to serve the information in the department, training support to accomplish the work and funding to have the stream edges digitized.			
Scope and Detail of Deliverables			<input type="checkbox"/> Yes <input type="checkbox"/> No
Check	Deliverables	Details	
<input type="checkbox"/>	Taxlot Conversion	Number:	Percent of County:
<input type="checkbox"/>	Tax map Conversion	Number:	Percent of County:
<input type="checkbox"/>	Control Points	Describe	
<input checked="" type="checkbox"/>	Hardware/Software	Describe	Server and ArcSDE
<input type="checkbox"/>	Scanning	Describe	
<input type="checkbox"/>	Reports	Describe	
<input type="checkbox"/>	Development	Describe	
<input checked="" type="checkbox"/>	Other Assistance	Describe	Digitize stream edges
<input type="checkbox"/>	Other Deliverable	Describe	
b. Timeline (funding not to exceed 1 year from contract date)			<input type="checkbox"/> Yes <input type="checkbox"/> No
6/1/2005 to 5/31/2006			
c. Costs of total project			<input type="checkbox"/> Yes <input type="checkbox"/> No
County Contribution: \$45,785 – Support, equipment ORMAP Money: \$23,125 Total Cost This Project: \$68,910			
d. Partnerships and contributions:			<input type="checkbox"/> Yes <input type="checkbox"/> No
Tillamook County Assessment and Taxation Office, Community Development, Information Services and State of Oregon Engineering Support Unit. Project will promote data exchange with outside agencies.			
e. How does this help ORMAP Goals 1, 2, 3, or 4:			<input type="checkbox"/> Yes <input type="checkbox"/> No
Goal 2 is completed. This project addresses the ability to maintain and to sustain the necessary objectives for ORMAP Goal 4.			
f. Benefits to Users:			<input type="checkbox"/> Yes <input type="checkbox"/> No
Production of a tax parcel base map for Tillamook County. Use of the base map will enable improved land management decisions and definitions, which impact the lives of all Tillamook County citizens.			

g. Promotes Partnerships:		<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p>This project is a collaboration of several groups - Assessment and Taxation, Surveyor's Office, County Commissioners, Community Development, Information Services, and Tillamook Emergency Service District as well as the cities and communities in Tillamook County, state and federal partners. The goal is to use the parcel GIS data layer as the base map for the development of future spatial datasets and to align existing spatial datasets.</p>			
h. Innovation:		<input type="checkbox"/> Yes <input type="checkbox"/> No	
<p>Tillamook County follows a standard method for tax parcel digitization. The primary challenge faced in Tillamook County is creative methods to manage the workflow to accomplish the project in a timely manner with limited resources and funding.</p>			
i. Assessor's Signature:			
Project Contact – Name:	<i>Teresa Gaffney</i>	e-mail:	<i>tgaffney@co.tillamook.or.us</i>
Title and Phone Number:	<i>GIS Coordinator (503) 842-1810</i>		
Mailing Address:	<i>201 Laurel Av, Tillamook, OR 97141</i>		



SEE MAP IS 9 30

9-16

SEE MAP

SEE MAP

IS 10 25 AC

IS 10 25 AD

SEE MAP

SEE MAP

IS 10 25 DB

IS 10 25 CA

SEE MAP

IS 10 25 DA

SEE MAP

SEE MAP

IS 10 25 DC

IS 10 25 DD

Bond Squad: Is This the Death of Stable-Value Funds?

Eric Jacobson | 08-31-04

The fund industry witnessed an unusual event earlier this month when PBHG announced that it planned to radically alter its IRA Capital Preservation Fund PBCPX.

Until now the fund has been designed to maintain a completely stable net asset value by "wrapping" a portfolio of short-term bonds with insurance contracts. The firm is seeking shareholder approval, however, to convert the fund to a more plain-vanilla short-term bond offering. In the meantime, the fund's expense ratio has been slashed to 0.75%.

Why would a company tinker with a \$1.5 billion dollar stable-value fund and a fat expense ratio at a time when investors, fearful of rising rates, might otherwise come flocking to the door?

A Scrutinized Investment

We've known for more than a year that the SEC has been taking a closer look at stable-value funds. In particular, the commission has been looking into how the so-called "wrapper" agreements used in stable-value funds were being accounted for in fund pricing. The crux of the problem for the SEC seems to be how to reconcile the fact that stable-value funds boast completely stagnant NAVs, even though their underlying bond portfolios change in value every day. Although the funds' wrapper contracts are the glue meant to hold that scheme together, the SEC seems to be questioning how they can be valued in such a way as to justify the funds' static NAVs.

Apparently, PBHG became so concerned that the SEC would eventually disallow the current accounting treatment and usage of those agreements that the firm felt it had to take action. In particular, the fund's filing notes the following factors:

"...[the] current regulatory uncertainty regarding the valuation methodology of wrapper agreements by mutual funds, the potential future lack of availability to mutual funds of wrapper agreements on economically viable terms necessary for the IRA Fund's investment strategy and the current rising interest rate environment."

The SEC didn't mandate PBHG's decision, and the commission has declined to make any further clarification or comment about its ongoing inquiry into the stable-value sector. It seems pretty clear that the questionable availability of different wrapper agreements in the future, and the fact that the firm doesn't want to be put in the position of having to disassemble a stable-value fund in the midst of a rising-rate environment, have triggered PBHG's decision to act now rather than later.

Still, the overall decision is clearly linked to the SEC inquiry. But while we applaud the SEC's scrutiny of this fund sector, the elimination of this fund is a troubling development. In isolation, the loss of this PBHG option may not be that significant. But as *The Wall Street Journal* reported last year, and as we've heard from other managers, some fund companies appear to have shelved plans to get into the stable-value business, while others may consider shutting down their funds.

To be sure, we have just as many questions about the sector as the SEC does. Until now, it seems that the design and use of wrapper contracts, bond portfolios, and even the stable-value name may have been lacking an appropriate level of oversight. The PBHG fund has always been somewhat conservatively run, but other stable-value funds, for example, have used more-aggressive underlying portfolios and have apparently had

less wrapper coverage protecting investors from losses. We've been cautious about recommending stable-value funds over the years, not only because we think most levy unnecessarily high fees, but also because it's not apparent that all of the inherent risks of the concept have been fully vetted, or understood by investors.

Investors' Loss?

It's not clear, though, that the elimination of stable-value mutual funds--if that's where the SEC is headed--is the best resolution, or would best serve investors. We know anecdotally that the stable-value strategy, as we've described it, has been used for several years, by many reputable managers, to oversee many billions of institutional client dollars. Clearly, there's legitimacy to the format, and something that Fidelity was apparently ready to endorse last year before shelving its plans to enter the stable-value fund arena.

And given the dearth of high-quality, high-returning options available to fixed-income investors to combat the danger of rising interest rates, this admittedly pricey asset class has been a welcome diversifier for many investors. In fact, we had hoped that the entrance of Fidelity, a traditionally low-cost, high-quality provider, would have helped pressure others in the sector to shape up.

More broadly, it would be a shame for individual mutual fund investors to lose an innovative investment option, even if it does court some controversy. The industry is full of funds with bigger risks and more questionable usefulness that nonetheless provide investors with choice. Although some of us at Morningstar have expressed concern over the seeming proliferation of hedge fund accessibility to individual investors, for example, that reticence has little to do with a desire to cut off access to particular strategies. Rather, we're concerned that investors may be unwittingly drawn to investments with more risk, weaker regulation, and higher costs than are appropriate. Ultimately, though, more innovation and a diversity of choices and strategies for mutual fund investors can only be a good thing.

A Middle Ground

So while we laud the SEC's scrutiny of the sector, we hope the commission ultimately chooses a path other than destruction. One manager suggested to Morningstar that perhaps a special set of rules could be designed for stable-value funds, much in the same way that money market funds--which are, after all, mutual funds--operate with special guidelines of their own. That's a particularly appropriate comparison because money market funds are allowed to hold their prices steady at \$1 per share, partly because they're restricted to owning a very specific set of securities whose limits are mandated for safety reasons.

Why then, couldn't the SEC mandate that stable-value funds maintain an appropriate quality and level of wrapper insurance, and perhaps a certain level of underlying portfolio safety, in exchange for the privilege of maintaining a stable net asset value? Such a scheme would provide some assurance of standards and safety, and it would help level the playing field for managers. Above all, it would permit the industry to continue to innovate in ways that give investors more choice rather than less.

Eric Jacobson is a senior analyst with Morningstar.

Questions and comments about this article should be directed to site manager Jerry Kerns.