

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

July 29, 2009



The Regular Meeting of the Treasury Oversight Committee (TOC) was held on July 29, 2009 and called to order by David Sundstrom, Chair, at 2:35 PM.

Committee Members:

Present:

David Sundstrom, Auditor-Controller (Chair)
Bob Franz for Tom Mauk, CEO, Public Finance
Bill Habermehl, Superintendant, O.C. Dept of Education
George Jeffries, Treasurer, City of Tustin
Dr. Raghu Mathur, Chancellor, S.O.C.C.C.D.
(Dr. Mathur arrived at 3:08 pm during Agenda Item #11)

Also present were:

Chriss Street, Treasurer-Tax Collector; **Paul Gorman**, **Jennifer Burkhart**, **Paul Cocking**, **Fahad Haider**, **Keith Rodenhuis**, **Anna Bryson** and **Yvette Clark** from the Treasurer's office; **Richard Mendoza** from CEO Public Finance; **Angie Daftary** from County Counsel; **Nancy Ishida**, **Christine Young** and **Dat Thomas** from Auditor-Controller's office; **Dr. Wendy Benkert**, from O.C. Department of Education, **Brenda Manriquez** from Children's and Families Commission; **Glen Stroud**, **John Cole**, **C.B. (illegible)**, **John J. Moohr** and **Rich McCarthy** from the Orange County Grand Jury, and **Peter Brennan** from Bloomberg.

1) Meeting Called to Order

Mr. Sundstrom called the meeting to order.

2) Welcome and self-introductions

Introductions were made. Ms. Benkert stated that she was filling in for Mr. Habermehl until he arrived. Mr. Habermehl arrived shortly after.

3) Public Comments

None.

4) Approval of Prior Meeting Minutes

- Mr. Habermehl **moved** to approve the Minutes of the April 29, 2009 & June 24, 2009 Meetings. Mr. Franz **seconded**. **Approved 4-0**. Mr. Sundstrom requested that a period be put in place of the question mark on Item #7 of the 6/24/09 minutes.

5) Chairman's Report

None

6) Treasurer's Report

Mr. Street gave an update on the following:

- The Moody's rating was pulled on July 13, 2009. The last rating action was June 2008 and we received an AAA/MR1.
- In the last meeting, the purchase of Revenue Anticipation Warrants (RAWs) was discussed. Because California's long term debt rating is BBB, this does not comply with our IPS. We will not be purchasing RAWs. However, our office is currently holding \$10.4 Million in RAWs issued to various County agencies by the State. They are being booked as a receivable.
- All Structured Investment Vehicles are off our books except Serpentine. Serpentine's current price is 0.754 and the book value is about \$52.9 million. It continues to make monthly payments to us. In May we received approximately \$26,539; June: \$9 million, July: \$953,956. The Treasurer's office made over \$65 million on our Structured Investment Vehicles excluding Whistlejacket/Serpentine.

7) Review TOC's Draft Response to Grand Jury Report: "Orange County Investments: The Need For Stronger Oversight"

- Mr. Sundstrom provided his response to the Grand Jury report and asked if anyone had any questions. He stated that it would be put on the agenda for the next possible Board of Supervisor's meeting.
- Mr. Franz stated that the plan from the CEO's office was to combine their response with the TOC response. The plan was for those that require Board approval to be combined into one document & put on the agenda for next week's Board of Supervisors meeting. Mr. Franz stated that Mr. Mauk & himself reviewed the responses & have concurred with them. The Grand Jury Report pointed out a lot of things that needed to be reviewed & they believed the responses reflected the correct way to deal with them.
- Mr. Habermehl **moved** to approve the draft response for submission to the Board of Supervisors. Mr. Franz **seconded**. **Approved 4-0**

8) Receive and File Treasurer's Monthly Management Reports for April through June 2009

- Mr. Sundstrom requested that we bring a hard & electronic copy of each month's report for the quarter to future TOC meetings.

- Mr. Habermehl **moved** to receive and file the 2nd quarter's monthly management reports. Mr. Franz **seconded**. **Approved 4-0.**

9) Receive and File Annual Audit of Treasury Investment Compliance for Year Ended December 31, 2008

- Mr. Gorman explained that this is the last annual audit under our contract with Macias Gini & O'Connell. We are putting together an RFP to go out for bid for the annual audit. A/C Internal Audit division has taken over the monthly auditing over the course of the year which is not a mandated item.
- Mr. Gorman stated that there were no findings in this past audit. We had a very successful engagement with Macias Gini & O'Connell.
- Mr. Habermehl **moved** to approve and file the annual audit. **Approved 4-0.**

10) Review and Approved Draft Engagement Letter from Auditor-Controller Internal Audit Division for Monthly Compliance Review Services

This item was struck from the agenda by Mr. Sundstrom. No opposition.

11) Discuss Removal of IPS Provision Requiring Board Authorization to Add Voluntary Participants (IPS Section XVII).

- Mr. Gorman explained the requirements before a participant is allowed to invest money in the pool; they have to be an OC local agency or a joint powers authority with at least one member in OC and they have to present a motion by their board that approves them investing in the OC pool on a voluntary basis. We have to take that & the copy of the agreement that they sign along with a resolution by their board to the Board of Supervisors for approval. This was put in place after the Bankruptcy. The Board of Supervisors chose to add that provision in the IPS requiring each participant to receive Board approval prior to depositing their money with us. This current procedure for approving Voluntary Participants takes approximately two months. Typically that turns people away. We would like to loosen that control. We are inquiring if the TOC wants to maintain that control in the IPS or setup alternative specified procedures to have the Treasurer's office make that decision to approve a participant without taking it to the Board of Supervisors.
- Mr. Franz spoke with the CEO today regarding this item & their preference is to continue requiring Board approval. He explained that the Board may need to be involved in this & will check with Mr. Mauk & the Board.
- Mr. Habermehl stated that anything we could do to expedite the process would be helpful.
- Mr. Street stated that there are many people concerned with the State pool.
- Mr. Sundstrom added that he would like to review the agreement at the committee level. He is concerned that the participants understand that this is a shared risk pool.

- Mr. Gorman stated that participants can send a request to withdraw money & within a few days they can withdraw their money. The Treasurer reviews the request to see if would harm other participants in the pool. They can take out the principal balance that is there today, however their accrued earnings will take about a couple of months. We can't pay what we haven't received yet.
- Mr. Gorman stated we have about less than a dozen voluntary participants right now.
- Mr. Sundstrom stated he is interested in what the CEO's thoughts are regarding this in terms of what control value there is in bringing this to the Board. Mr. Franz responded that one element is the Board's overall role as it relates to the Investment Pool responsibilities.
- Mr. Sundstrom stated that we can't forget that the Board has responsibility over the entire pool & we are the Board's committee. He would like keep the control point where it's at so that it is more than just an administrative approval.

12) Public Comments

- Mr. Cole stated he had a few questions regarding Whistlejacket & Serpentine.
- Mr. Cole asked if we plan on investing in more Structured Investment Vehicles in the future. Mr. Street responded by explaining that the Treasurer's office would not invest in these types of investments in the future & the Investment Policy Statement now prohibits it as well.
- Mr. Jeffries explained that with every investment, whether by a private person or a company, comes risk. Mr. Street's job is to minimize his loss as any portfolio manager would do and that is exactly what he is doing.

13) Schedule Next Meeting

- The next meeting was scheduled for October 28, 2009 at 3:00pm at the Auditor-Controller's Conference Room 300, 12 Civic Center Plaza, Santa Ana, CA 92701. This meeting will be a joint meeting with the Treasury Advisory Committee.

14) Adjournment

- Mr. Sundstrom adjourned the meeting at 3:37 p.m.