

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

June 19, 2008

APPROVED

July 30, 2008

The Regular Meeting of the Treasury Oversight Committee (TOC) was held on June 19th and called to order by Bob Franz, Chair, at 3:12 PM.

Committee Members:

Present:

Bob Franz for Tom Mauk, CEO
David Sundstrom, Auditor-Controller
Bill Habermehl, O.C. Board of Education

Absent:

Also present were:

Chriss Street, Treasurer-Tax Collector; **Jennifer Burkhart**, Assistant Treasurer-Tax Collector
Paul Gorman, Chief Assistant Treasurer-Tax Collector, **Paul Cocking**, Chief Portfolio
Manager, **John Byerly**, Financial Analyst, **Yvette Clark** and **Keith Rodenhuis** from the
Treasurer's office; **Angie Daftary**, County Counsel; **Richard Mendoza**, from the office of CEO
Public Finance; **Christine Young** from Auditor-Controller's office; **Lou Bronstein** from
Supervisor Campbell's office, and **April Rudge** from Supervisor Moorlach's office.

I. Meeting Called to Order

A. Mr. Franz called the meeting to order.

II. Welcome and self-introductions

A. Introductions were made.

III. Public Comments

A. None.

IV. Approval of Prior Meeting Minutes

A. The Minutes of the June 4, 2008 Regular Meeting were reviewed.

B. Recommended Action: Mr. Franz called for a motion to approve the Minutes.
Mr. Sundstrom moved to approve the Minutes, 2nd by Mr. Franz. Passed 3-0

V. Chairman's Report

- A. Mr. Franz asked for updates on SIVs or Whistlejacket. Mr. Street explained that we received another report from the Receiver that they appointed Goldman Sachs as the investment advisor, replacing Standard Chartered Bank. They indicated the restructuring options will likely include a cash buyout and some kind of zero coupon bond. Additionally, the market value of the underlying collateral remains at 98%-99% of par. Mr. Street indicated he would be very surprised if the House of Lords will take an appeal from Party A at this point. Whistlejacket is continuing to generate cash from interest payments and principal from the underlying portfolio.

Mr. Cocking stated that Sigma Finance has funding through July and possibly through August. We are beginning to see a small secondary market and prices have come up quite a bit compared to October of last year. Bids are up to 79-82 from the secondary market distressed desk. Mr. Cocking explained that Sigma is in the same position as the last nine months, which is operating in an abnormal credit environment. Mr. Street indicated they are currently AA/Credit Watch.

VI. Treasurer's Report

- A. None

VII. Review and Discuss Treasurer and T.O.C. responses to and related to the implementation plan for PFM Asset Management's Final Report on Risk Analysis of the Treasurer's Investment Pool.

Items of Concurrence without Discussion:

- A. **PFM Recommendations #55-59, 61, 64-65, 67-69:** see attached PFM Implementation report

Concurrence: Concurred by both TTC and TOC.

Discussion: none

Recommended Action: The IPS will be amended as recommended in cases where needed, and will be submitted to the Board for approval.

Items of Discussion:

- B. **PFM Recommendation #41:** Have the Extended Fund rated separately.

TTC Concurrence: TTC does not concur, but will continue to review the situation and address with TOC annually.

Discussion: Mr. Franz wondered if this is something that should be revisited periodically. Mr. Street suggested that TTC does not concur, but will review with TOC annually.

Recommended Action: TOC concurs with TTC.

C. PFM Recommendation #46: Hire an additional Portfolio Manager.

Concurrence: TTC concurs

Discussion: Mr. Franz wanted to know if this was included in the '08-'09 Budget. He suggested that instead of "Completed" we put "Approved in '08-'09 Budget".

Recommended Action: TOC concurs and will change accordingly.

D. PFM Recommendation #53-54: Consider possible inequity in the allocation of earnings that may occur if the County continues to use the amortized cost basis of accounting to compute earnings.

Distribute earnings on the first business day of each month.

TTC Concurrence: TTC will confer with Auditor/Controller

Discussion: Mr. Franz questioned whether this is an accounting issue, and whether the TOC has a role in this decision. It was suggested to put "not a TOC issue" instead of "Concur". Mr. Sundstrom stated he would like to revisit the issue with Mr. Gorman before December 31st.

Recommended Action: This is not an issue for TOC to consider. TTC will confer with Auditor/Controller. A final decision will be made by December 31, 2008.

E. PFM Recommendation # 60: Reallocate some assets from CP to repo to benefit from the currently inverted shape of the short-end of the yield curve.

TTC Concurrence: TTC does not concur as repos are used solely for overnight liquidity rather than a strategic allocation.

Discussion: Mr. Cocking stated yield curves are no longer inverted. He indicated that PFM was recommending this action based on the shape of the yield curve at the time of their review.

PFM also requested clarification of the criteria for repo counterparties. Mr. Cocking stated that we added a section in the IPS that specifies capital of no less than \$500 million.

Recommended Action: TOC concurs with TTC. No further action required.

F. PFM Recommendation #62: Maintain a relationship with more than one counterparty

TTC Concurrence: Concur. Two counterparty relationships are currently maintained, for which one is primarily used.

Discussion: TTC currently has Tri-party agreements with both Lehman and Greenwich. However, we primarily use Greenwich due to their rates.

Recommended Action: TOC concurs. No further action required.

G. PFM Recommendation #63: Limit collateral to only Treasury & Government Agency securities.

TTC Concurrence: TTC concurs and will revise the IPS to clarify the existing policy limiting collateral to Treasuries and Agencies.

Discussion: None

Recommended Action: TOC concurs with TTC. IPS will be amended to reflect Item 2 upon receipt of Board approval.

H. PFM Recommendation # 66: Consider switching to Government-only money market funds until the credit picture firms.

TTC Concurrence: Concur

Discussion: Mr. Franz didn't think TTC's previous response was adequate (A government-only fund would yield less and potentially compromise returns to participants.) He doesn't know if he agrees with the PFM recommendation, but TTC's answer reads as if we're chasing yield. Mr. Street stated the TTC is considering the recommendation. The TTC has specifically added treasuries as a common investment and increased its ability to buy government securities. He added that TTC generally buys mutual funds that are government agency only. Mr. Sundstrom questioned how much this would shave off the portfolio? Mr. Cocking said it would cost 20bps of \$200million every day right now to invest in Goldman Sachs. Goldman Sachs' yield today is about a 2.30, and PGI & Black Rock are about 2.50-2.53. They invest in the same stuff TTC normally invests in. Mr. Sundstrom, asked if we're matching the money market activity to the rest of the portfolio? Mr. Cocking stated that TTC has put more money in Goldman Sachs because we do think it's more conservative right now. Mr. Sundstrom

asked how firm is the credit picture today compared to when PFM wrote the recommendations? Mr. Cocking stated it's much better. Most of the money market funds had SIVS and ABCP back then. Almost all of them have gotten rid of their SIV exposure and ABCP has been halved. Mr. Sundstrom stated that should be your answer, you concur, you've considered and the credit picture has been firmed.

Recommended Action: TOC concurs. TTC has taken action to move substantially to a government/agency money market fund

- I. **PFM Recommendation # 70:** Have County Executive Office contract with independent firm to produce an annual review and report of the Treasurer-Tax Collector's Investment Pools.

Concurrence: TOC & TTC concur with the concept.

Discussion: Mr. Franz stated he was concerned that this recommendation was too open-ended. Mr. Habermehl also questioned the final destination of the review. The review could possibly undermine what TOC & TAC recommends, and then it could go directly to the B.O.S. from a 3rd party without consideration.

Mr. Sundstrom suggested that a company, other than PFM, should conduct the review so that a different set of eyes are used, and recommended that the destination of the report should be to the TOC. Mr. Street concurred stating that it should be after Board acceptance of the IPS. Mr. Habermehl suggested the report should be done 1 year following the initial review. Mr. Street said he partially concurred with Habermehl's suggestion and suggested to have TOC contract with a firm within 12 months following Board approval of IPS.

Recommended Action: TOC concurs with concept and will list implementation plan.

VIII. Discuss and/or propose recommended changes to Investment Policy

- A. The Treasurer would like to propose changes to the IPS as part of the Implementation plan.

Discussion: Mr. Franz discussed page 11 of the IPS regarding long-term debt. The CEO's office has a different view on this. He stated that the changes should be explained and then we should have a discussion about whether we still concur with the rating criteria. Mr. Cocking stated that A-1 and F-1 were not changing. The TTC has tightened up restrictions on that. Mr. Franz implied that there are no issues with short-term debt, just long-term debt. Mr. Cocking stated that anything past 13 months would be AA rated. This would allow TTC to buy high grade corporates and some banks when the market changes.

- B. Recommended Action:** Discussion of IPS will be continued at next TOC meeting.

IX. Public and Committee Member Comments

Mr. Franz reminded the committee that there are two public member vacancies. Mr. Street stated he will be proposing two new appointments.

X. Schedule Next Meeting Date

- A.** The next quarterly meeting is July 30th, which will continue review of the recommendations for changes to the IPS.

XI. Adjournment

- A.** Mr. Franz adjourned the meeting at 4:24 p.m.