



OFFICE OF THE TREASURER-TAX COLLECTOR

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AGENDA

REGULAR MEETING OF THE TREASURY OVERSIGHT COMMITTEE

Wednesday, July 28, 2010, 3:00 PM

Auditor/Controller's Office
12 Civic Center Plaza, 3rd Floor, Santa Ana
Conference Room# 300

1. CALL TO ORDER
2. WELCOME AND SELF INTRODUCTIONS
3. PUBLIC COMMENTS
At this time members of the public may address the Committee regarding any item within the subject matter jurisdiction of the Committee provided that **NO** action may be taken on off-agenda items unless authorized by law.
4. APPROVAL OF THE APRIL 28 & MAY 26, 2010 MEETING MINUTES
Recommended Action:
Approve Minutes
5. CHAIRMAN'S REPORT
6. CFO'S REPORT
7. RECEIVE & FILE TREASURER'S MONTHLY MANAGEMENT REPORTS FOR APRIL 2010 THROUGH JUNE 2010
8. NEW PROCEDURE FOR THE ORANGE COUNTY EXTENDED FUND & MONEY MARKET FUND ALLOCATION
9. APPROVE SELECTION OF NORTHERN TRUST AS THE TREASURER-TAX COLLECTOR'S CUSTODIAN BANK SUBJECT TO FINAL CONTRACT NEGOTIATIONS.

T.O.C. Meeting Agenda cont.

Recommended Action:

Authorize the Treasurer-Tax Collector to execute a Custody Service Agreement with Northern Trust for a five-year initial term at \$135,000 per annum, with annual renewals thereafter. The cost of this contract is fixed, however this fee will be subject to review if there is a 25% or more increase in the number of transactions as listed in the Request for Proposal (RFP) or if the number of accounts increases beyond 12.

In the event that the Treasurer-Tax Collector is unable to negotiate a contract with the selected vendor, further authorize the selection of US Bank, as the next best qualified bidder.

10. PUBLIC COMMENTS

At this time members of the public may address the Committee regarding any item within the subject matter jurisdiction of the Committee provided that **NO** action may be taken on off-agenda items unless authorized by law.

11. SCHEDULE NEXT MEETING DATE

Recommended Action:

Schedule Meeting date for Wednesday, October 27, 2010 at 3:00 p.m., Auditor/Controller's Conference Room 300, 12 Civic Center Plaza, Santa Ana, California.

12. ADJOURNMENT

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

April 28, 2010

DRAFT

April 28, 2010

The Regular Meeting of the Treasury Oversight Committee (TOC) held on April 28, 2010 at the Orange County Auditor/Controller's Office, 12 Civic Center Plaza, Conference Room #300, Santa Ana, CA 92701, and called to order by David Sundstrom, Chair, at 3:02PM.

Committee Members:

Present:

David Sundstrom, Auditor-Controller (Chair)
Wendy Benkert for Bill Habermehl, OCDE
George Jeffries, City of Tustin
Raghu Mathur, SOCCD

Also present were:

Bob Franz, CFO, Public Finance; **Paul Gorman**, **Paul Cocking**, **Keith Rodenhuis**, **Fahad Haider**, **Ginika Echebiri**, and **Yvette Clark** from the Treasurer's office; **Angie Daftary** from County Counsel; **Nancy Ishida**, from Auditor-Controller's office; **Alan Marcum** & **Kenneth Wong** from Internal Audit and **Steve Kozak** from Children & Families Commission.

1) Meeting Called to Order

Mr. Sundstrom called the meeting to order.

2) Welcome and Self-introductions

Introductions were made.

3) Public Comments

None.

4) Approval of January 27 & 29, 2010 Meeting Minutes

- Ms. Benkert **moved** to approve the minutes. Dr. Mathur **seconded**. **All approved.**

5) Chairman's Report

- None

6) CFO's Report

- Mr. Franz stated that he would combine this item with agenda Item #9.

7) Receive & File Treasurer's Monthly Management Reports for January through March 2010

- Received & Filed

8) Status Report on Serpentine Funding Holdings

- Mr. Gorman stated that we own 17.9% of the entity Serpentine Funding. We used to own a lower percentage however many owners chose to take the cash-out option leaving us with more ownership.
- Mr. Gorman explained that we have a few options regarding the action we take with Serpentine Funding.
- 1st option would be to inform Serpentine we want to auction some or all of our Serpentine holdings by Class . 2nd option would be to take an in-kind distribution of our share of each of the securities in the Serpentine portfolio. 3rd option would be to hold & defer to next year. 4th option is to find a buyer outright to purchase.
- Cairn Group is able to provide services that would evaluate the assets of Serpentine Funding. Their pricing for those services would approximately be \$250k for a full extensive evaluation of assets or \$60k for a market value pricing. Class C assets would take a significant amount of work to price because there is less pricing available in the market.
- Mr. Gorman explained that there are 5 classes in Serpentine. For each of those classes we can make a decision.
- Mr. Gorman stated that the duration of the holdings has not changed much from it's beginning estimate of 4 ½ years. However, the final maturity on some assets could be up to 25 years.
- Mr. Sundstrom stated that if he we're running the pool, he would auction off a big chunk.
- Mr. Cocking explained that JP Morgan has researched who has traded Serpentine notes in the past & has an idea of who used to buy them & would possibly buy them now. He doesn't see large institutions such as ourselves buying them. We could take an in-kind transfer & then we could do what we want with them piece by piece, but we don't recommend doing that because the bids would be exceptionally low on the small pieces. Gordian Knot, who has managed Sigma, would possibly be a candidate to buy.
- Mr. Franz stated that we would be comfortable with 90 cents on the dollar or greater. Then, we would probably move forward to sell.
- Mr. Sundstrom asked if we would consider selling Class C or auctioning it. Mr. Cocking responded that with the bidding process it's all or none, so if we received a zero bid than we would get zero for it. We could pick a firm & say we'd like to sell Class C, however if you put it out in the market you shouldn't pull it back. It's not clear who they would market it to.

- Mr. Jeffries stated that there has been so much bad publicity about Whistlejacket & the particular number of \$80 Million. His opinion is that we just get rid of it all together. The media will not let it go otherwise.

9) Status Report on Transfer of Investment Responsibilities

- Mr. Franz stated the he is getting involved as much as he can since the transfer of Investment responsibilities. He assumes that the newly elected Treasurer in January 2011 will take over the delegation of authority. In the interim, he stated the fine Treasurer's staff is managing the portfolio. We may make minor changes in the future.

10) Public Comments

- None

11) Schedule Next Meeting

- Next meeting is a regular meeting scheduled for July 28, 2010, 3:00 PM at the Auditor-Controller's Conference Room 300, 12 Civic Center Plaza, Santa Ana, CA 92701.

12) Adjournment

- Mr. Sundstrom adjourned the meeting at 3:53 PM

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MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

SPECIAL MEETING

May 26, 2010

DRAFT

The Special Meeting of the Treasury Oversight Committee (TOC) held on May 26, 2010 at the Orange County Treasurer's Office, 11 Civic Center Plaza, Conference Room A, Santa Ana, CA 92701, and called to order by David Sundstrom, Chair, at 10:31 AM.

Committee Members:

Present:

David Sundstrom, Auditor-Controller (Chair)
Tom Mauk, CEO, Public Finance

By Teleconference:

Mr. Bill Habermehl, Superintendent, O.C. Dept of Education

- **Location:** Orange County Dept. of Education
200 Kalmus Drive
Costa Mesa, CA 92626

Dr. Raghu Mathur, Chancellor, S.O.C.C.C.D.

- **Location:** SOCCCD
28000 Marguerite Parkway
Mission Viejo, CA 92692

Mr. George Jeffries, Treasurer, City of Tustin

- **Location:** Town & Country Manor, Garden Room
555 E. Memory Lane
Santa Ana, CA

Also present were:

Bob Franz from CEO Public Finance, **Paul Gorman**, **Paul Cocking**, **Leslie Morales**, **Ginika Echebiri**, **Fahad Haider** and **Yvette Clark** from the Treasurer's office; **Angie Daftary** from County Counsel; **Nancy Ishida**, **Dat Nguyen**, **Christine Young** from Auditor-Controller's office.

1) Meeting Called to Order

Mr. Sundstrom called the meeting to order.

2) **Welcome and Self-introductions**

Introductions were made.

3) **Public Comments**

None.

4) **Revs Custody Banking**

- Mr. Gorman explained that the Treasurer's current custody bank, Bank of New York (BONY), has asked us to move to a different platform which would cause us to go through a new implementation & new training. Because of this reason as well as fees, the Treasurer's Office has decided to put a Request for Proposal (RFP) out for a new custody bank.
- Ms. Echebiri added that the Treasurer's Office also had some customer service issues with BONY which is another reason why they decided to launch an RFP. On February 11, 2010, the Treasurer's Office opened an RFP & received six responses. The respondents were the following banks: Bank of New York (BONY), US Bank, Northern Trust, State Street, Union Bank & Wells Fargo Bank. The RFP Committee members were Ginika Echebiri, Paul Cocking, Leslie Morales, Uyen Phan & Kim Hansen from the Treasurer's Office. These members selected three out of the six banks on the basis of technology, customer service levels, overall operational outlook, implementation process & price.
- Ms. Echebiri continued stating that the RFP committee called in the three banks to meet face to face. Joining the committee members listed prior were Paul Gorman, Fahad Haider & Marjon Shabanpour also from the Treasurer's Office. We made our selection using the criteria already indicated in addition to the daily approach, daily settlements & the relationship management process. We selected Northern Trust as our most responsive bidder as they have committed to the lowest fixed price, had a impressive customer service team, thorough implementation plan, and a comprehensive web platform. We believe that this platform would be a valuable platform to the Treasurer's Office.
- Mr. Mauk stated that he was not a big fan of Northern Trust. He believes that in the trust industry there are a lot of stories about them & their bureaucracies, etc. He continued saying, I asked my secretary for the back-up material on this item and there was none. You've asked for an effective date of today & the authorization request to proceed with a second vendor if not Northern Trust. We don't even know who that is. He questioned why there was no back up material provided with the agenda & no indication of who the second vendor is. He also questioned why there was a special meeting called with no material provided & the request for an approval of Northern Trust today.
- Mr. Gorman responded that the Treasurer's Office initially thought the Treasurer had this responsibility without going to the Board for approval. We

- now know that's not the case. In fact, our IPS does state that we need to go to the TOC with this prior to taking it to the board. We haven't changed our custody banking vendor in fourteen years. We met with vendors last week & we asked staff to schedule a TOC meeting now rather than waiting until the end of July, that way we could move forward. The requested May 26 approval date on the agenda isn't exactly accurate. Our plan is to start as soon as we have approval from this group then start negotiating with the vendor & then take it to the board.
- Mr. Gorman continued stating that the RPF committee does have a summary of the rating scores as well as the prices. We are trying to push for an implementation in early August. We have had some pressure from BONY to move to a different platform and our desire to move forward is largely related to that. We don't want to convert & then go back & re-implement again. A few of the vendors came in with variable pricing based on transactions & portfolio size. We then requested the vendors give us a fixed pricing bid & that's when Northern Trust came back with the lowest bid. We saw higher quality, stronger staffing, more professionalism, and a strong desire for our business from Northern Trust. They have a great online reporting platform which we thought would bring added value to our office. We see this as a commodity. It's something we need to hold our securities electronically as well as settle our daily trades. Customer service is a component of it & that's what we've been unhappy with in the past.
 - Mr. Mauk asked if the RFP committee talked to other customers of Northern Trust or if the analysis was based off their submittal.
 - Ms. Echebiri responded that she doesn't believe the committee talked to any of Northern Trust's customers, but rather based it on their submittal.
 - Mr. Sundstrom stated that he is very concerned that there wasn't any reference checking done. At the very least that would have to be done before going to the board. He asked what the timeline is.
 - Mr. Gorman answered that the Treasurer's Office can defer & push back the move by BONY to change platforms. We are paying \$185,000 to BONY currently.
 - Mr. Mauk stated he believes the RFP committee should defer it and get recommendations and reference checks.
 - Mr. Jeffries stated he was disappointed that if things were not going well with our current custody provider that the Treasurer-Tax Collector didn't get on the phone & raise the issue with the vendor. He also stated that he didn't receive any back-up materials for this agenda item. He questioned whether there was any inquiry made about who is the biggest Northern Trust provider that would be comparable both in size & complexity in a public entity to Orange County. He expressed his discontent in the lack of information provided.
 - Mr. Cocking stated that the RFP committee did call other counties that would be considered in its peer group and solicited them at the very beginning for the names of their current custody banks. Northern Trust wasn't one of them, but we did get feedback on the other ones. A majority of them used BONY & were being moved to the new platform as well.

- Mr. Franz responded that we should bring this back to TOC after we get some reference check information & comparable size organizations that use Northern Trust. We will also look at the other two finalists.
- Mr. Sundstrom requested to see BONY's figures as well.
- Mr. Mauk requested to see who Northern Trust served in the public arena.
- Ms. Echebiri added that we can also provide the price that the other banks submitted.
- Dr. Mathur requested to know how long we've had the contract with BONY & when it ends.
- Mr. Gorman responded that it is an open-ended agreement & we've been with them for at least 14 years.
- Dr. Mathur stated that he only received a one page attachment as well to the agenda & requested more comprehensive information for the next meeting.
- Committee members stated that they would like to see the RFP responses.
- Mr. Sundstrom suggested that the RFP committee try to find someone that has switched from BONY to Northern Trust.
- Mr. Gorman stated each of the banks we talked to are doing an implementation for BONY customers.
- Mr. Franz stated that he would meet with staff & schedule another TOC meeting to address the discussed issues & gather the requested information on this agenda item.

5) Public Comments

None

6) Schedule Next Meeting

- The next meeting was scheduled for July 28, 2010 at 3:00 pm at the Auditor-Controller's Conference Room 300, 12 Civic Center Plaza, Santa Ana, CA 92701.

7) Adjournment

- Mr. Sundstrom adjourned the meeting at 10:55 am.



County Executive Office

Memorandum

July 20, 2010

To: Treasury Oversight Committee

From: Robert J. Franz, Chief Financial Officer 

Subject: New Procedure for the Orange County Extended Fund and Money Market Fund Allocation

(Information item. No TOC action required.)

Staff from Investment, Cash Management and Accounting has created a new internal procedure (attached) for determining a minimum amount to be maintained in the Orange County Money Market Fund. The purpose of this procedure is to provide a methodology to calculate liquidity requirements, thereby also determining the amount of funds to be allocated to the Orange County Extended Fund.

The procedure creates a staff committee to meet three times per year and review the data relating to liquidity requirements. Utilizing historical and projected cash flows, adjustments to the target Money Market Fund balance will be made. Minutes of the meetings will be generated and distributed to the committee. In addition, the procedure addresses situations when the Money Market Fund might fall below the target balance and what steps are to be taken to resolve the issue.

The implementation of this procedure will result in greater allocations to the Extended Fund than has been the case historically in the County. Since the procedure requires a very conservative approach to determining liquidity needs (Money Market Fund allocations), it will maintain the priority of "liquidity" while offering the opportunity to increase yield through the greater allocation of the overall portfolio to the Extended Fund.

If you have any questions about the procedure, please contact Kim Hansen at khansen@ttc.ocgov.com or (714) 834-5508.

Attachment

<p>Treasurer Procedures Manual Treasurer-Tax Collector, County of Orange</p>

SUBJECT: Determining Minimum Balance Requirements for the Orange County Money Market Fund	NUMBER: Version 1.0				
APPROVED BY: Paul Gorman	EFFECTIVE DATE: 06/30/10				
TITLE: Assistant Treasurer-Tax Collector	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; padding: 5px;">DATE SIGNED:</td> <td style="width: 50%; padding: 5px;">DATE RECEIVED:</td> </tr> <tr> <td style="height: 30px;"></td> <td style="height: 30px;"></td> </tr> </table>	DATE SIGNED:	DATE RECEIVED:		
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PURPOSE:

The purpose of this procedure is to ensure enough liquidity in the Orange County Money Market Fund (Money Market Fund) to meet the disbursement requirements for the County of Orange (County) while allowing for excess balances to be invested in the Orange County Extended Fund (Extended Fund). The procedure requires the Money Market Fund balance to provide enough liquidity to cover three months of County disbursements.

BACKGROUND:

A committee will meet three times per year to determine the County’s disbursement requirements for the upcoming four months. The process provides for the specific calculation of the disbursement requirements and steps to take if there are unexpected changes to the County’s requirements or the Money Market Fund balance.

COMMITTEE MEMBERS:

The Cash Flow Review Committee is currently comprised of the Treasurer, Assistant Treasurer, Portfolio Manager and Cash Manager or their designee.

PROCEDURES:

1. The Cash Flow Review Committee will meet three times per year on or near (within five business days) the determination dates listed below.
2. Determining the Money Market Fund balance requirement¹ will be performed three times per year: February 1, June 1 and October 1 – referred to as the determination date². These time frames were chosen because they fall at a time where fund balances are not significantly affected by tax receipts.

3. The Money Market Fund balance requirement will be based on the average of actual cash flow disbursements for the prior three months and the projected cash flow disbursements for the upcoming three months. For example:
 - As of June 1, the *actual* disbursements for the prior three months are:
 - March - \$426,273,409
 - April - \$381,533,914
 - May - \$364,005,132
 - As of June 1, the *projected* disbursements for the upcoming three months are:
 - June - \$348,114,227
 - July - \$491,093,735
 - August - \$429,221,682
 - The average of the six figures above is \$406,707,017.
 - This is the figure to be used as the Average Disbursements³ for the period of June 1 – September 30.
 - Note: The actual and projected cash flow disbursements will not include tax apportionment payments to the cities, special districts and Department of Education. These payments are just a pass-through and do not affect the potential cash needs of the County.
4. The Money Market Fund balance requirement is then calculated as:
 - \$406,707,016 (Average Disbursements) x 3 months = \$1,220,121,050 (See Exhibit A)
5. The Money Market Fund balance requirement is the minimum amount of liquidity to be held in the Money Market Fund until the next determination date and subsequent Money Market Fund balance requirement calculation. The period covered by each Money Market Fund balance requirement is as follows:
 - **February 1 determination date** – Money Market Fund balance requirement remains in effect from February 1 – May 31.
 - **June 1 determination date** – Money Market Fund balance requirement remains in effect from June 1 – September 30.
 - **October 1 determination date** – Money Market Fund balance requirement remains in effect from October 1 – January 31.
6. The Portfolio Manager is responsible for monitoring the Money Market Fund balance on a daily basis.
7. The Money Market Fund balance should remain at or above the Money Market Fund balance requirement.
8. If the Money Market Fund balance falls below 90% of the calculated Money Market Fund balance requirement during the period, the Portfolio Manager will call a meeting of the Cash

Flow Review Committee to evaluate the situation and determine if money needs to be moved from the Extended Fund to the Money Market Fund.

- The Cash Flow Review Committee will look at whether there are sufficient expected receipts to restore the Money Market Fund balance in the upcoming 10 business days and;
 - They will review the upcoming maturities in the Extended Fund to determine if there are sufficient maturities to restore the Money Market Fund balance in the upcoming 10 business days.
9. The Cash Manager is responsible for providing the data and will calculate the Average Disbursement and the Money Market Fund balance requirement. This information will be available at each of the Cash Flow Review Committee meetings and in the interim, as needed.
10. Any monies in excess of the Money Market Fund balance requirement are eligible to be placed in the County's Extended Fund.

¹ Money Market Fund balance requirement – the balance the Money Market Fund should maintain, at a minimum, to ensure adequate liquidity

² Determination Date – one of three dates throughout the year designated for a required review of the Money Market Fund balance requirement

³ Average Disbursements – an average monthly disbursement amount calculated by adding together the prior three months actual disbursements plus the upcoming three months projected disbursements and then divide by six