

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

July 30, 2008

**APPROVED**  
October 15, 2008

The Regular Meeting of the Treasury Oversight Committee (TOC) was held on July 30th and called to order by Bob Franz, Chair, at 3:03 PM.

**Committee Members:**

**Present:**

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

**Absent:**

Also present were:

**Chriss Street**, Treasurer-Tax Collector; **Paul Gorman**, Chief Assistant Treasurer-Tax Collector, **Paul Cocking**, Chief Portfolio Manager, **Anna Bryson** and **Yvette Clark** from the Treasurer's office; **Angie Daftary**, County Counsel; **Tom Beckett** and **Richard Mendoza**, from the office of CEO Public Finance; **Christine Young**, **Nancy Ishida** and **Dat Thomas** from Auditor-Controller's office; **Lou Bronstein** from Supervisor Campbell's office, and **April Rudge** from Supervisor Moorlach's office, **Steve Kozak** from the Children & Families Commission.

**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 July 30, 2008 Special 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 Ms. Benkert, Passed 3-0

**V. Chairman's Report**

A. None

**VI. Treasurer's Report**

- A. Mr. Street stated that TTC has started to buy municipal bonds, including an offering by OCTA. Mr. Cocking gave a SIV update.
1. **Whistlejacket:** The House of Lords appeal by Party A did not go through. Black Rock assumed day-to-day operations from Standard Chartered Bank, and Goldman Sachs was appointed the workout investment banker. They should have some ideas finalized in September.
  2. **Tango:** One issue of \$40million par was called today.
  3. **Sigma:** Moody's downgraded them to A3 two weeks ago. They still seem to be obtaining funding 3-4 weeks out. Their pre-funding hasn't changed in the last few months, but August will be a very big month for them. Our maturity date is October 30<sup>th</sup>, 2008 and we are in constant discussions with Gordian Knot regarding their status.

**VII. Receive and Approve the Final Treasurer Implementation Plan**

**A. Recommended Action: Approve Implementation Plan**

1. Mr. Franz called for a motion to approve the Implementation Plan. Mr. Sundstrom moved the motion. Ms. Benkert seconded. Passed 3-0

**B. Recommended Action: Direct CEO & Treasurer Staff to submit the plan to the Board of Supervisors for approval.**

1. This recommended action was deferred until both the PFM Implementation Plan and IPS were completed at the next TOC meeting in September.

**Discussion:** Mr. Beckett brought up **Item # 13** on the Implementation Plan which requires follow up at today's meeting. Mr. Cocking referred to the duration hand-out, and stated that it is our goal to purchase a software package in the near future that would assist the Treasury team in checking duration.

At the direction of the TOC, Mr. Cocking confirmed that some of the major counties in California with portfolios in excess of \$1 billion were contacted to determine whether they used duration as a portfolio measure. The majority of the counties indicated they used Weighted Average Maturity (WAM) rather than duration. Of the counties that calculate duration on the portfolios, the average duration is about one year. This is to be expected since they are investing the majority of their money in the securities with 1 to 2 year maturities. Predominantly, they are investing in Treasuries and Agencies as well as some Corporate bonds. For example, Placer County's duration is .6 years, but their WAM is 1,000 days. This indicates they have a high number of callable bonds. However, San Mateo County has a shorter WAM of 260 days, but their duration is 1.5 years. This indicates they have less callable bonds. He indicated that this is the reason

PFM recommended us to use a duration measure because it helps identify potential exposure better than final maturities.

Mr. Franz stated that the recommendation from PFM is about changing the maximum duration. Mr. Cocking stated that the issue before the committee, regarding the Extended Fund only, is whether we move from our current measure using WAM to setting a maximum duration for the portfolio, or some combination of both. Mr. Cocking showed the chart with the comparison for the Merrill Lynch 1-3 index which averages 1.5 years vs. the Extended Fund's duration of approximately .5 years.

Mr. Franz referenced the January meeting and the discussion of the IPS was about changing from a 3 year maximum term to 5 year. This is slightly different than PFM's recommendation, but they are related. Mr. Gorman indicated that the key was being able to track the measurement from the compliance perspective due to the discrepancy between the Bloomberg system and the back-end Quantum system where everything is tied out and reconciled. It would be easier to review this measure on a periodic basis i.e. monthly rather than a daily basis. Mr. Sundstrom agreed with reviewing on a monthly basis with weekly data points compared and monitored against the WAM. Mr. Franz stated that the implementation plan should be modified to state "provide weekly reported duration per Bloomberg, along with exceptions, reported monthly with weekly data."

Mr. Beckett brought up #16 on the Implementation Plan. Mr. Sundstrom said we will have to follow up on this one.

Mr. Franz stated he wanted clarification on Item #11 of the Implementation Plan. The first column indicates the limit is 40% of each fund, but the second column refers only to the money market funds. Mr. Cocking stated that the Extended Fund is already limited to 40%, but we will add this fact to the narrative.

Mr. Franz brought up Item #70 on the Implementation Plan. Mr. Beckett stated he thought the CEO's office was going to initiate a contract with an independent firm, and that that firm's independent review would be submitted to the TOC. Mr. Gorman said discussion went back & forth at the last meeting, but it was agreed that it should be a TOC function as an oversight of the Investment Policy.

Mr. Beckett questioned how TOC was going to engage the services of an independent firm. Mr. Sundstrom stated this would occur through its agent, similar to the "866 audit". Mr. Beckett raised the issue of how this is different from Item #16, which recommends "the TOC engage an external advisor to assist with deliberations". If so, then TOC has 2 advisors.

Mr. Franz stated that it was discussed at the last meeting that the results would come to TOC first, but the way the hiring of an independent firm was not really covered. He would prefer the current wording, i.e. for CEO to contract with a firm and the results be provided to the TOC.

Mr. Sundstrom stated that if the purpose of the report is to oversee TOC, then the TOC should not be the one hiring an outside firm. Mr. Franz said he believes the purpose of this recommendation is to oversee the investment pool on a periodic basis. Last meeting, the TOC agreed that a year after changes to the IPS were made, then this recommendation would occur. Mr. Sundstrom indicated that the TOC's role has been to review the IPS with additional limited powers. PFM was called upon to give the committee more tools to work with, and recommends this committee contract with the firm so we can communicate clearly on what are the committee's needs and requirements.

Mr. Franz said he views it as a CEO contract. Mr. Sundstrom suggested the committee vote on it. Mr. Franz said if we were to go back to the pre-bankruptcy days, it would have been helpful. Part of PFM's recommendation is to institutionalize this in some way. The Board needs to have a periodic review to provide them with input on the question of delegating investment authority. He believes this review currently resides with TOC exclusively. While it is a primary responsibility for the TOC, this is an additional check and balance that would be good.

Mr. Sundstrom stated that if California legislature thinks TOC is capable of doing a task such as this, then we ought to just do it. It provides the extra independence from the Board itself and helps to have an absolutely fair and unbiased report. The TOC recommends the Investment Policy and the Board approves it. Ms. Benkert stated that the School District is the customer with half the money; however they have no position on the Board.

**Mr. Franz suggested there be a motion. Mr. Sundstrom motioned to keep Item #70 as it is printed and leave it up to TOC. Ms. Benkert seconded. Vote 2-1 with Mr. Franz dissenting. The motion carried.**

Mr. Franz asked whether there was anything further for the PFM Implementation Plan. Mr. Mendoza asked whether we are ready to go to the Board with a final implementation plan. **Based on the review of the recommended actions, Mr. Franz motioned 1.) to approve the implementation plan, 2.) to submit the implementation plan to the Board, and 3.) to provide quarterly updates. Mr. Sundstrom moved to approve the motion, Ms. Benkert seconded. Vote 3-0. Motion carried.**

Mr. Beckett pointed out that the plan includes items that state they are not going to be implemented until December 31, 2008. Mr. Sundstrom suggested the TOC should agendaize all of the open items and get back to the committee before December 31st. Mr. Street agreed to do so by the October meeting. Mr. Sundstrom stated he would commit to looking at the two open accounting issues. He requested someone to explain the issues to him and it needs to happen before October.

Mr. Sundstrom requested that all open items be moved up and closed out by the next meeting. Mr. Franz clarified that the recommendation is to hold off on taking the report to the Board until the items are significantly completed.

**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. Street suggested that we hold off on the IPS & PFM changes to be presented all at once to the Board. We will see when the next available board meeting is to put it on the agenda.

- B. **Recommended Action:** Discussion of IPS will be continued at next TOC meeting. Mr. Franz suggested that we set a TOC meeting for late September to finish review.

**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 October 15, 2008, 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.