

the opinion from County Counsel. Mr. Sundstrom moved to approve the minutes, 2nd by Dr. Dean. Passed 3-0.

5. Introduce New Member

Mr. Moorlach introduced Charles Schroeder whose experience includes being a very proactive member of the public and has shown an interest in the Treasurer's department by attending several meetings in the past of the Treasurer's Advisory Committee. He also served on an oversight committee for the City of Mission Viejo. Mr. Moorlach knows Mr. Schroeder from his background in finance, and not on a personal level. He felt very comfortable nominating him as a new member. Mr. Schroeder thanked Mr. Moorlach and, per Mr. Fauteux's request, shared some of his background with the Committee. He is currently a Cal State Fullerton Finance Professor where he teaches money in capital markets and business finance and financial analysis. Prior to that he spent 20 years with Ford Motor Company and Ford Aerospace, three of which were involved in managing their portfolios. His degrees are BA and MBA in Economics and Finance, Case Western Reserve University. Mr. Fauteux welcomed Mr. Schroeder and thanked him for volunteering his services.

6. Treasurer's Report

Mr. Moorlach apologized for the various meeting delays due to an attempt to make sure everyone was present because of the importance of the new IPS - 2000 on today's agenda. Ms. Mittermeier's late notification of nonattendance caught him off guard. She can address any concerns she might have when the AIT is submitted. Mr. Fauteux read a memo he received from Ms. Mittermeier, with a copy to the members, apologizing for not attending today's meeting and stating her approval of the new IPS.

Five monthly reports have been produced since our December 1, 1999 meeting. During this time period, we have had multiple Fed tightenings that we have been projecting and anticipating. Our portfolio is structured for tightenings. We did not experience any Y2K problems.

In February we held our 2nd annual Treasurer's Conference that concluded with very successful results. The Committee has begun planning for the next conference on February 1, 2001 and has tentatively lined up some good speakers for that event.

On the legislation front, we have one bill this year in the investment arena as opposed to last year when we had multiple bills. New language was submitted to be added to the code on the accrual method. It is being taken care of by local Senator John Lewis in SB 1493 and has already gone through the Senate on the consent calendar with full approval. We did not get a sponsor to carry our money market legislation.

The Board of Supervisors approved our IPS, which was approved by this Committee on December 1. They also accepted our Treasury Oversight Committee Report and the Annual Authorization for the Treasurer to Invest the County's Funds.

The distribution of the litigation settlement proceeds went smoothly.

Three major staff changes were made:

- C Leysa Amador, Cash Manager, resigned to raise her three small children. Ms. Jacobson is currently covering the cash management side and overseeing investments.
- C Bill Eberhardt, Assistant Investment Officer, accepted another position offering a 50% increase in salary. Paul Cocking, a recent graduate from Chapman University who recently went to work for Pacific Mutual, accepted Mr. Eberhardt's vacated position.
- C Alicia Cavazos, Human Resources and Purchasing Manager, was recruited away from us by OCERS for a significant amount more than we could offer her. We Astole@ a human resources manager from another department, receiving permission from that department head first.

The Attorney General's office is suing KPMG for the manner in which they handled the County. Although the litigation proceeds have been completed, that issue is not over.

Mr. Sundstrom has been very accommodating in reviewing the concept of the accrual method that we have been working on for a long time. He has concurred and provided some ground rules on how he would like it administered. It entails another set of subaccounts which we will set up. We currently have some programming issues we are trying to resolve internally.

Our December report contained data suggested by Mr. Eberhardt, just for the sake of trivia, to compare ourselves with the Local Agency Investment Fund, which is the State pool. We have been outperforming the State for quite some time and will probably continue to do so because of the recent rate hikes.

Our Business Plan was submitted in December and our Web site is current, which includes our monthly reports for the past several months. We received input from elected individuals on School Boards on how they would like the reports presented and looked into what our capabilities were to comply with their requests. The report was broken into different sections. Requests have also been received on having the report formatted all together so it can be printed out in its entirety. Our software may have to be upgraded. Our goal is to make sure everything is accessible to everyone.

Mr. Fauteux remarked that after being a member of the Grand Jury during the bankruptcy, it is a ray of sunshine to see the Treasurer's office function the way it does now from the way it did in the past.

7. Chairman's Report

Mr. Fauteux commented on the AIT presentation to the Board of Supervisors on December 21, 1999. The Investment Policy Statement and the TOC's Annual Report were submitted, and received with the usual grace of the Board.

8. Internal Audit Annual Compliance Audit

(A) Mr. Fauteux inquired if the commentary items on the Annual Compliance Audit letter have been completed to satisfaction prior to the audit. Mr. Moorlach advised that all issues have been addressed and taken care of.

Recommended Action: Mr. Fauteux called for a motion to receive and file Internal Audit's Annual Compliance Audit. Dr. Dean moved to approve, 2nd by Mr. Schroeder. Passed 4-0.

(B) Mr. Fauteux inquired if there were any comments on the engagement letter prior to approval and signature. Mr. Moorlach reported Internal Audit's plan supplements what Fitch does and beyond. He added, for Mr. Fauteux's benefit, whenever Internal Audit finishes a quarterly audit, it is also included in our monthly report. Confirmations are issued quarterly on all of the Treasurer's balances.

Mr. Sundstrom asked if there were any variances from last year on the Agreed-Upon-Procedures. Mr. Marcum responded they are basically the same but Internal Audit selected 16 days for their test period in their prior year and they traced out at 100% where they show 60 days over a thousand transactions. He believes they will cut it down to four or five days.

Recommended Action: Mr. Fauteux entertained a motion to approve the engagement letter. Dr. Dean moved to approve, 2nd by Mr. Schroeder. Passed 4-0. Mr. Fauteux signed the letter.

9. Yield Restriction Requirements on Certain County Funds

Mr. Moorlach commented that the L.A. Times recently ran an article on the yield restriction requirements issue. He then turned this item over to Mr. Hilde, who has been in dialogue with the CEO's office, to give an update to the Committee.

Mr. Hilde reported this issue arose a couple of years ago and derives from the bonds issued related to the bankruptcy. When municipal bonds are issued, they go through a bunch of hoops to make sure they stay tax exempt. There is usually a provision that if the calculated yield on the bonds is exceeded, the interest earned over that amount on the bond proceeds is subject to rebate to the Federal Government.

Certain of the County's bonds issued during the bankruptcy, however, have yield restrictions rather than the normal rebate provisions. The yield restriction requires that county funds associated with the bonds may not earn a yield greater than the yield of the bonds. For the past several years, yields on the Treasurer's pool have been below the bond yield, but as interest rates have risen, we are getting close to the yield restriction rate. Mr. Hilde stated he asked the question in a meeting over a year ago if this is a cumulative yield or is it a yield at any point in time? The response was that it was a yield at any point in time. Many very complicated spread sheet calculations were made in

determining how much money had to be yield restricted. In this case it is not the proceeds of the bonds, but other funds of the County that would be available. The CEO worked with the Auditor Controller for a number of months on this project and finally came up with a figure of about \$300 to \$350 million, which is a substantial amount of money to yield restrict. We were in the mode of developing the mechanics in the Treasurer's office and had planned to set up a separate pool. We would then probably invest in State Local Government Securities (SLUGS) issued by the Treasury that can be tailored to a specific requirement and the funds that would be restricted.

Mr. Hilde further advised he was included in a conference call with bond counsel in New York. He asked the question again, if this is the cumulative yield or is it the yield at any point in time? This time bond counsel responded that it is cumulative yield, the average over time. Meanwhile, this has created a stir at the Board of Supervisors' meeting. We pulled the plug on establishing separate fund yield restrictions. We are still faced with the issue but we know just by looking at what the pool yield has been for the past five years that we do not have any monies subject to yield restrictions at this point. We will set up the mechanisms to manage this fund, but we are not going to start anything until we have the okay from the County. The last thing we want to do is restrict the yield on the portfolio.

Mr. Moorlach described how this issue arose during a conversation with Gary Burton and Tom Beckett of the CEO's office and the events that developed when Mr. Beckett wrote a letter documenting the matter for Ms. Mittermeier's signature. The Board of Supervisors became involved and reacted. Mr. Hilde concluded by advising it is not a problem but something that has to be addressed.

10. IPS - 2000

Mr. Moorlach stated Ms. Jacobson and Mr. Cocking have put together a power point presentation and will explain the concepts of extending the maturities for the investments in our portfolio. A 10-page handout was distributed.

Ms. Jacobson pointed out the graph presentation, 1) emphasizes the safety of the fund in the extended pool, 2) the limited risk that is being taken and, 3) what can be realized now as opposed to what happened in 1996 when it really was not an issue.

Overall Restrictions to Money Market Funds

County Pool Actual (Projected) Funds Available 08-96 to 02-00

Education Pool Actual (Projected) Funds Available 08-96 to 02-00

AGreater Risk Means More Defaults in 1999"

Defaults by S&P Credit Rating 1999 - broken down by rates

Treasurer's Investing Environment Defaults by S&P Credit Rating - broken down by rates

One-Year Default Rates by Moody's Alpha-Numerical Ratings, 1983-1999

Price Sensitivity

Historical Yield Curve

The Bottom Line

Copies of the draft extended fund IPS were distributed. Mr. Moorlach provided the following history for the benefit of bringing Mr. Schroeder up to date: We have been debating the restriction for more than five years and the big issue has always been the NAV, which is why we suggested the two pool concept. A dollar in the County pool would theoretically be 40 cents in the money market and 60 cents in the extended pool to get the blended yield. We will work with our accounting system and not have participants arbitrarily request moving more of their money over because our plan is to do a simple calculation at the end of the month, a straight percentage, no pro rata. We think this is a creative and safe way to handle it.

Ms. Jacobson explained the new copy of the IPS has not changed since it was approved by the TAC and distributed a summary sheet of the proposed changes. Mr. Hilde added it is basically the same idea that is currently in place with very few changes. He explained some of the changes and stated to the Committee this is a decision they have to make if they want to take the risk. If they feel strongly enough and have enough information that the funds will not be at risk, a separate fund will be set up. Dr. Margarita questioned whether the new IPS addresses the separation of the Education and the County's funds or not. Ms. Jacobson responded it is not addressed in the IPS. Mr. Sundstrom commented under Internal Controls, page 10, a reference to the quarterly Internal Audit reports to Treasurer's office is made. He recommended the language be changed to the quarterly cash accounts required by the Government code section. Mr. Moorlach agreed with Mr. Sundstrom's suggestion and stated it will be rewritten and submitted to him to review before the IPS is finalized. He added once it has been approved by this Committee, we will submit it to the Board of Supervisors with an AIT, hopefully before the end of June. Mr. Fauteux asked if Ms. Mittermeier has seen the new IPS. Mr. Moorlach responded that she has as well as Mr. Burton, and Mr. Hilde has addressed every concern they had. Mr. Schroeder stated he will abstain from voting since he has not been involved in the new IPS and its changes.

Recommended Action: Mr. Fauteux entertained a motion to approve the new Investment Policy Statement 2000. Mr. Sundstrom moved to approve. 2nd by Dr. Dean. Passed 3-0 with one abstention.

11. Public Comments

None.

12. Schedule Next Meeting Date

The next regular meeting was scheduled to be held on September 13, 2000 in the Treasurer's Office, Conference Room A, 3:00 p.m.

13. Adjournment

Mr. Fauteux adjourned the meeting at 4:40 p.m.