

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

January 24, 2001

APPROVED
March 14, 2001

A Regular Meeting of the Treasury Oversight Committee (TOC) was held on January 24, 2001 and called to order by Robert Fauteux, Chair, at 3:06 p.m.

Committee Members:

Present:

Robert Fauteux, Chair
David Sundstrom, Auditor-Controller
Charles Schroeder, Public
Michael Schumacher, CEO
Wendy Margarita, Representing John Dean

Absent:

John Dean, Superintendent, Dept. Of Education

Also present were:

John Moorlach, Treasurer-Tax Collector; Dick Hilde, Assistant Treasurer; Judy Jacobson, Investment Officer; Paul Cocking, Assistant Investment Officer; Brett R. Barbre, Public Information Officer; Peter Hughes, Ele Littner, Pam Parisien & Alan Marcum, Internal Audit; Gary Burton, Tom Beckett, Office of the CEO; John Abbott, Office of County Counsel; Jeff Thomas, George Jeffries & Clyde Kendzierski, Treasurer's Advisory Committee; Martin Wisckol, Orange County Register; and Jean Pasco, Los Angeles Times..

1. Meeting Called to Order

Robert Fauteux called the meeting to order.

2. Welcome and self-introductions

Introductions were made.

3. Public Comments

None

4. Approval of Minutes

The Minutes of the November 29, 2000 were reviewed.

Recommended Action: Mr. Fauteux called for a motion to approve the Minutes. Mr. Schroeder moved to approve the minutes, 2nd by Mr. Sundstrom. Passed 4-0.

5. Chairman's Report

The Chairman had no comments.

6. Election of New Chairman

Recommended Action: Mr. Fauteux opened nominations for Chairman. Mr. Charles Schroeder was nominated. Mr. Fauteux closed nominations. Mr. Sundstrom moved to elect Mr. Schroeder Chairman, 2nd by Mr. Schumacher. Passed 4-0.

7. Treasurer's Report

(Wendy Margarita arrived during this item)

Mr. Moorlach presented information pertaining to two investments in Edison International totaling \$40 million that were downgraded because of the uncertainty in the California energy arena. This downgrade led to a reduction in the rating of the Educational Pool to AA status. Discussion.

Mr. Schroeder asked whether or not there was enough money to cover payroll if Edison International defaulted on their obligations. The answer was yes.

Mr. Schumacher asked when the payments were expected. The \$20 million Commercial paper matures January 31, 2001. The \$20 million Medium Term Note matures July 18, 2001, with interest payments expected on the 18th of each month.

Mr. Schroeder thought this was a bad credit decision, yet did not believe the addition of a financial analyst to the staff would absolve reliance upon the professional rating agencies.

Mr. Kendzierski expressed the view of the market place that "...risks do exist..." and that any policy should recognize that "...any reasonable losses should not exceed yearly gains." He also expressed the view that the addition of a financial analyst would not have prevented this situation.

Mr. Jeffries believes that some sort of advanced "Political Warning System" should be added to the evaluation process.

Mr. Sundstrom stated that the Security of Principal is the most important policy in the Investment Policy Statement.

Mr. Schumacher inquired as to the procedures for making investments. Mr. Moorlach responded.

Ms. Margarita asked on behalf of the Schools for an independent review of the processes and procedures utilized in the trading process.

Mr. Schumacher mentioned the addition of the Treasury Workstation should be accelerated to aid in the investment decisions.

Mr. Schroeder asked if there were any benefits to altering the credit standards.

Mr. Kendzierski responded that this could happen in any industry.

Mr. Marcum asked why the securities were purchased while Edison International was on credit watch?

Mr. Hilde responded that companies are put on credit watch because of mergers, and that to restrict purchases due to credit watch only would limit investment possibilities.

Mr. Kendzierski added that such a “red flag” should not prevent the purchase of such securities.

Mr. Thomas added that it would be advisable to hire an outside consultant to assist in researching companies that are on credit watch in order to evaluate their worthiness.

Mr. Schroeder declared a break at 4:08 p.m. The meeting resumed at 4:13 p.m.

Mr. Sundstrom stated that all procedures are beyond compliance, that the Investment Policy Statement is complied with at all levels, and that there was no reason for a review of internal controls.

Mr. Marcum felt the addition of the Treasury Work Station would computerize and automate the investment process.

Mr. Hughes stated that Mr. Moorlach and staff has always been forthright, and expresses the highest sense of integrity.

8. Amend By-Laws

Two minor technical corrections were made:

Page 6 – Rule 32 – the phrase “*and annually thereafter*” was inserted after the word **Committee** and before the word **each**.

Page 5 – Rule 26 – a comma was added after the word **Code** and before the word **County**.

There was discussion pertaining to Rule 6. The question was raised whether or not the CEO could appoint an alternate to attend in his absence. Mr. Moorlach stated that under current law that was not permissible, but the necessary changes to allow such appointments are being pursued by the California Association of County Treasurers and Tax Collectors in Sacramento.

Mr. Schroeder called for a motion to approve the proposed changes. Mr. Sundstrom moved to approve, 2nd by Mr. Fauteux. Passed 5-0.

9. Fitch Update

Fitch recently acquired Thompson Bank Watch.

10. SB 866 Compliance Audit Status Report

Mr. Marcum reported that the SB866 audit report was released November 30, 2000. It was a "Clean Opinion" and the Treasurer's Office was in total compliance for the year ended December 31, 1999.

11. Public Comments

Mr. Kendzierski wanted to reiterate that in the years since Mr. Moorlach became Treasurer, the county has accrued over \$750 million in earnings and the whole Edison International discussion pertains to a possible loss of \$40 million. Not a bad record.

12. Schedule Next Meeting Date

The next regular meeting is scheduled to be held on April 25, 2001 in the Treasurer's Office, Conference Room A, 3:00 p.m.

13. Adjournment

Mr. Schroeder called for a motion to adjourn. Mr. Fauteux moved to adjourn, 2nd by Mr. Sundstrom. Passed 5-0. The meeting was adjourned at 4:35 p.m.