

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

October 31, 2007

**APPROVED**  
January 30, 2008

The Regular Meeting of the Treasury Oversight Committee (TOC) was held on October 31st and called to order by Robert Franz, for Tom Mauk Chair, at 3:07 p.m.

**Committee Members:**

**Present:**

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

**Absent:**

Also present were:

**Chriss Street**, Treasurer-Tax Collector; **Paul Gorman**, Chief Assistant Treasurer-Tax Collector, **Paul Cocking**, Chief Portfolio Manager, **John Byerly**, Financial Analyst, **Anna Bryson and Keith Rodenhuis** from the Treasurer's office; **John Abbott**, County Counsel;

**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 25, 2007, were reviewed.  
B. Recommended Action: Mr. Franz called for a motion to approve the Minutes. Bill Habermehl moved to approve the Minutes, 2nd by Mr. David Sundstrom, Auditor. Passed 3-0

**V. Chairman's Report**

- A. Mr. Franz asked Mr. Sundstrom for an update on the non compliance work started October 1<sup>st</sup>.  
1. Mr. Sundstrom discussed the status of his Internal Audit group's review of compliance since October 1, 2007.

2. Toni Smart, Audit Manager, and her staff have reviewed and documented the controls surrounding the investment and compliance functions. They are using ACL software to check compliance.
3. Mr. Sundstrom reported that the controls appear strong and they don't have any significant concerns. Treasury Accounting/Compliance staff are providing a daily electronic download of the portfolio to David's Internal Audit group.
4. Mr. Sundstrom will continue the daily review of compliance work and ask the Board for direction.

B. It was discussed that the S&P compliance monitoring proposal was on hold subject to future Board action.

## **VI. Treasurer's Report**

- A. This month we were affirmed by both Moody's and Fitch on our ratings. The Treasurer indicated the processes are going well. He believes the staff has been ahead of the issues of credit crisis.
- B. FOMC cut rates today to 4.5% from 4.75%
- C. Ken Henderson has resigned from the TOC and moved to Oregon.
- D. Discussion regarding the TOC Agenda notification requirements indicated regular notice is 3 days, special is 24 hours
- E. The Treasurer gave an overview of early tax collections and the real estate decline.

## **VII. Update on Proposed Changes to the Investment Policy Statement:**

- A. Staff presented redlined copies of the proposed IPS changes approved by the TAC at last week's meeting.
  1. Paul Cocking indicated he met with John Moorlach to make sure he agreed with the changes. Supervisor Moorlach did not agree with the need for a long term fund. This language was removed.
- B. Mr. Sundstrom questioned credit risk as relating to individual issuers and market risk described as interest rate risk. He indicated we've been experiencing a change in asset classes, which is credit risk.
  1. General credit spreads have shown it's not just an individual issuer but an entire sector that is impacted.
  2. Language stating "capital losses will be minimized" may raise questions and suggested the phrasing should be changed to be more understandable as it relates to portfolio management actions.
- C. Discussion regarding moving to managing to a specific point on the yield curve – which is a diversion from traditional municipal portfolios.

1. Mr. Sundstrom indicated that we are acting very differently than most municipalities and that we need to be explicit that we are allowing this.
- D. Discussion on exposure to a specific asset classes
1. Dr. Benkert confirmed that we were changing the maturity for Medium Term Notes from 3 years to 5 years – and this was confirmed by Mr. Cocking.
  2. The IPS proposes that the Extended Fund will be able to go out to 5 years, but we the Treasurer’s Office will not necessarily be buying a lot of 5 year paper. She feels the schools will be fine with this. Each district needs to make sure their own investment policies align with this change.
  3. This is all out of State Code – 5 year standard for US municipal portfolios actively managed and all under code except “actively” managed. County and schools have about 50/50 in extended fund.
  4. Bill Habermehl concluded that “we have confidence in the Treasurer to move and invest our funds”.
- E. Paul Cocking reiterated the changes are intended to better manage short durations and take minimal credit risk. The situation would go to the Board of Supervisors and everyone would have the opportunity to voice whether they agree with the decision or not.
- F. Paul Cocking pointed to the Money Market Fund reduction in maturity by 30 days. He indicated it was his understanding that Standard & Poor’s will require a 60 day weighted average maturity maximum
1. Bob Franz asked for additional background on the reason for this change and Paul Cocking explained it further emphasizes the function of the Money Market Funds to provide liquidity.
  2. The Extended Fund will go from 3 to 5 years in maximum maturity with specific percentage limitations for A, and AA credits. Duration is going to be 408-681 days (max is just under 2 years).
- G. Specific Investments are separate from Money Market Funds and Children & Families Commission (only set up for Treasuries) has asked for an expanded policy to include agencies and corporate debt with extended maturities. Specific long term investment pools would go out to 5 years.
1. If school districts want to set aside assets they need to sign a separate agreement - Bob Franz asked for a clearer definition of “participant” and who would sign the written agreement.
  2. The committee instructed staff to work with County Counsel to consider adding language to the Glossary to further define “participant”.
- H. Bob Franz asked for further explanation on the background for the changes and Paul Cocking explained the shift to an actively managed portfolio and comparing it to established benchmarks such as the Merrill Lynch 1-3yr Treasury index.

- I. Recommended Action: Mr. Franz called for a motion to approve the proposed changes to the IPS. Bill Habermehl moved to approve the IPS as changed, 2nd by Mr. David Sundstrom, Auditor-Controller. Passed 3-0

**VIII. Public and Committee Member Comments**

- A. None

**IX. Schedule Next Meeting Date**

- A. The next regular meeting was scheduled for January 30, 2008 in the Treasurer's Office, Conference Room A, 3:00 p.m.

**X. Adjournment**

- A. Mr. Franz adjourned the meeting at 4:10 p.m.