

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

SPECIAL MEETING

December 19, 2007

Approved
January 30, 2008

The Special Meeting of the Treasury Oversight Committee (TOC) was held on December 19th and called to order by Tom Mauk Chair, at 8:33 a.m.

Committee Members:

Present:

David Sundstrom, Auditor-Controller
Bill Habermehl, Superintendent, O.C. Board of Education
Tom Mauk, CEO and Chair of TOC

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, **Keith Rodenhuis** Treasurer's office; **Ben de Mayo and Angie Daftary**, County Counsel; **Tom Beckett**, CEO: Public Finance; **Bob Franz**, CFO, **Wendy Benkert**, Assistant Superintendent, OCDE; **Louis Bronstein**, Policy Advisor, Third District

I. Meeting Called to Order

A. Chair Mauk called the meeting to order.

II. Welcome and self-introductions

A. Introductions were made.

III. County of Orange Structured Investment Vehicles (SIVs) Current Status

A. Treasurer Street explained current status of SIVs and the recent Citi announcement that SIVs held by OC are among those they are bringing back on their balance sheet.

B. Chairman Mauk inquired about the underlying credit quality both before and after the credit action by Moody's.

1. Staff informed the committee that the credit quality of the underlying assets in the SIV had not been impaired by the action.

C. Tom Beckett inquired who the Capital Note Holders (first loss) were and staff explained that they may include some large banks, high net worth individuals, and not for profit institutions.

- D.** The Chair asked for a description of what happens when the sponsoring bank takes the SIV “back on balance sheet”.
1. Staff explained that all the details have not been released but the rating agencies look at how the Bank’s Tier 1 capital ratio is affected.
 2. The bank sponsors have a strong incentive to protect their reputations and ensure the debt payments are paid timely and are not in default which would affect the bank’s credit rating once they are taken back on their balance sheet.
- E.** The Chair discussed the importance for all TOC to be kept informed about developments such as the effect of the credit crunch and rating agency actions on SIVs.
- F.** David Sundstrom discussed the need to increase oversight by the TOC and the Board such that they partner in making decisions about new investment structures so they all have a vested interest in the process or “skin in the game”.
- G.** Chair Mauk inquired about future write-downs of SIVs currently under credit watch. Staff indicated it wasn’t likely given the quality of the assets and the actions being taken to restructure and support the SIVs by their sponsors.
1. Staff indicated we expect to know more in late January.

IV. Discussion on Broker/Dealer Fess and Commissions

- A.** Chair Mauk asked the Treasurer to ask broker/dealers for the amount of commissions and fees paid to brokers on SIV purchases.
1. Staff agreed to ask and said they may not wish to provide the information. Treasurer Street indicated a written request would be a mistake and the committee agreed a telephone call would be adequate.

V. County of Orange Investment Policy Statement – Authorization of SIV Investments

- A.** Staff described the provisions of the IPS that allow for investing in ABCP and MTN’s issued by SIVs. A discussion ensued about the preferable way to inform the Board, their aides, and TOC members about important developments regarding the Treasurer’s investments pools.
1. Ben de Mayo offered that County Counsel sends communication to each Board member in writing with a red stamp indicating immediate attention is required.
 - a. The Chair asked Ben de Mayo to send the Treasurer some examples of correspondence that required immediate attention as a sample.
 2. Chairman Mauk further suggested that the Board Chair can add items to agenda as late as Friday afternoon before the meeting. Ben de Mayo indicated notice to each Board member should be in writing in addition to a phone call.
 3. David Sundstrom added that walking the Board offices on Monday afternoon is also effective.
 4. Bill Habermehl emphasized the importance of transparency and receiving important information upfront.

- B. The Treasurer expressed appreciation for the direction and suggestions and agreed to make a better effort to inform both the TOC and the Board. He wants to continue to provide such information in a transparent and expedient manner.

VI. Review of Credit Watch Provisions within the Investment Policy Statement

- A. Chair Mauk asked staff to direct members to the provisions of the IPS regarding the purchase and holding of securities on credit watch negative. The provisions on page 10 and 11 of the IPS were reviewed and discussed. No action.

VII. Approval Process for New Investment Vehicle Structures and Products

- A. David Sundstrom asked staff to describe what an SIV is and how they operate. He also asked how a foreign bank originating debt in the US fit into the Medium-term note definition.
 - 1. Staff explained that SIVs were issuing corporations organized in the US generally as Delaware corporations. We also are authorized to invest in Yankee CD's and issuers such as Toyota that are also issuing debt in the US.
 - 2. Mr. Sundstrom expressed concern about foreign banks issuing debt through a Delaware corp. He admitted SIVs are approved as medium-term notes about questioned the level of oversight by SEC for such private entities.
- B. Mr. Sundstrom suggested that new asset types or investment structures should be explicitly reviewed by the TOC and perhaps by the Board. It was also discussed that joint meetings with the TAC to obtain their feedback would also be helpful.
 - 1. There was discussion about whether this would be considered an internal policy approved by TOC or rise to a provision of the IPS to be approved by TOC and submitted to the Board is part of the decision the TOC will want to consider. Such new asset classes or types could be initially limited to 5% or 10%.
- C. Bob Franz questioned whether the internal policy limit of 15% for each government agency issuer should be made part of the IPS also.
 - 1. The consensus was to bring these items back after receiving the independent risk analysis report on the Treasurer's investment pools.
- D. Treasurer Street welcomed an outside review of the Treasurer's office and acknowledged the value of a second set of eyes with industry experience. At this point there is no direction from the Board as to whether this type of outside review will be a one-time or periodic review.

VIII. Chairman's Report

- A. Chair Mauk inquired about the IPS provisions that were pulled from the Treasurer's 12-18-08 ASR.
 - 1. Treasurer Street replied that any recommendations in the outside report and the proposed changes will be vetted with the TAC and TOC in future meetings.

IX. Treasurer's Report

- A. Treasurer Street again acknowledged the support of the TOC and welcomed their suggestions and discussion about best practices and improvements to the IPS. He shared his intention to fully cooperate with the TOC and the firm selected for a review of the Treasury.

X. Public and Committee Member Comments

- A. None

XI. Adjournment

- A. Mr. Mauk adjourned the meeting at 9:45 a.m.