

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE ORANGE COUNTY, CALIFORNIA

December 1, 1999

A Regular Meeting of the Treasury Oversight Committee (TOC) was held on December 1, 1999 and called to order by Robert Fauteux, Chair, at 3:05 p.m.

PRESENT: **Committee Members:**
 Robert Fauteux, Chair

ABSENT: John Dean
 Jan Mittermeier
 David Sundstrom

Also present were:

John Moorlach, Treasurer-Tax Collector; Dick Hilde, Assistant Treasurer; Joanne Guerriero, Secretary; Wendy Margarita, Department of Education; Peter Hughes & Carol Swe, Internal Audit; John Abbott, Deputy County Counsel

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 September 29, 1999 were reviewed. Mr. Fauteux asked for a motion to approve the minutes. Ms. Mittermeier moved to approve the minutes, seconded by Mr. Sundstrom. Passed 3-0.

5. **Treasurer's Report**

Mr. Moorlach began his report by advising since the last meeting Senate Bill 275 and Assembly Bill 1679 were signed into law by the Governor effective January 1, 2000. SB 275 now allows either the Treasurer's office or the Auditor-Controller's office to issue the report for cash receipts and cash disbursements. AB 1679 enhanced the definition of Medium Term Notes which we had already taken a position on.

Mr. Moorlach and Mr. Hilde attended the California Association of County Treasurers and Tax Collectors semiannual meeting in October in Eureka. They proposed another legislative opportunity to make it elective that county treasurers running pools, in essence that are money market funds, could run them as money market funds and have access to the investments that the private sector has with the same limitations. That has been approved. We are now looking for a sponsor.

The September, October and November Treasurer's Management Reports were sent out. If anyone has any questions, Mr. Moorlach or his staff can respond.

To update the Committee on the "white paper," Mr. Moorlach advised that he and staff have met with the Chief Financial Officer, the Auditor-Controller and Internal Audit. Our draft has been revised twice and we are moving forward.

6. Chairman's Report

Mr. Fauteux stated he does not have a report at the present time. He will reserve his comments for the end of the meeting.

7. IPS - 2000

Ms. Jacobson distributed handouts of a draft Money Market Investment Policy Statement and a draft of the Extended Fund Investment Policy Statement with a summary of proposed changes for both documents. The Money Market Investment Pool is the basic pool that has been used for the last several years. There are some legislative changes. Internal Audit asked for a change in specific investments. The definition of liquidity in Commercial Paper was clarified because of AB 343. The WAM calculations were struck out and the percent limitations were changed from 30% to 40%. The change in the 5% per issuer language is struck out because of redundancy. It is listed in Section V, Investment Restrictions. Fitch was added as an accepted third nationally recognized credit rating agency, and the split criteria, A-1/ P-2, A-2/ P-1, was eliminated if we have two of the three rating agencies, which is basically stricter than California Government Code allows. The compliance language under Repurchase Agreements was rewritten for clarification. The Bankers Acceptances definition was clarified by removing the 5% per issuer to concentrate it in Section V and adding Fitch as a rating agency. Subparagraphs under Money Market Mutual Funds and State of California or Municipal Debt were changed. Fitch was added under Medium Term Notes as a rating agency for two of the three criteria requirements. The split-rating was eliminated. The "At trade date" language was moved to Section V, paragraph nine. In paragraph three of the Investment Restrictions "and agency" was added in addition to U. S. Treasury, which was already listed to the zero coupons and strips' criteria and is a government-sponsored AAA security. We elaborated on the investment restrictions under paragraph nine, changing "At trade date" to "At the time of purchase" and how it affects future downgrades. The last one is the reflection of the 40% limit on Commercial Paper from AB 343.

Ms. Jacobson further explained that the content and changes to how we actually invest are very minimal. Mr. Moorlach added it is basically housekeeping and modifications to allow for AB 343 and Fitch. Mr. Sundstrom asked how risky are the agencies and does the Treasurer have a plan as to how much is going to be put into them? Ms. Jacobson responded right now we hardly do any agencies. They are an authorized investment as noted on page three under U. S. Government Agency Securities. We identify them as a zero coupon or a strip. Most of our experience with them has been with collateral for a repo. Agencies are about 1% to 2% of our portfolio. Mr. Hilde stated we could invest 100% of our portfolio in agencies and that they are AAA securities. They are one notch below U. S. Treasuries. Mr. Fauteux asked what the rate difference is. Mr. Hilde responded it depends on which agency. It is usually in the range of five basis points over treasuries depending on the yield curve. Mr. Sundstrom stated treasuries are backed by the full faith and credit of the Government and asked if agencies are not? Ms. Jacobson responded agencies are sponsored but are not backed.

Mr. Hilde commented the IPS, amended to reflect only legislative changes, is not the one we want to go forward with. Ms. Jacobson began the discussion on the 2000 Investment Policy Statement. All the changes that are proposed with the Money Market IPS have been incorporated in this new document. In addition, we are introducing another fund called an "extended fund" in which we are proposing to go out further in our average maturity and our maximum maturity per investment. The summary sheet indicates the basic changes. The

proposed IPS begins with an explanation of the two separate funds and then lists the individual pools we will be investing. The next section includes a more detailed description of the funds and an explanation how the cash flow will determine our core balances. On page six we have changed the maximum maturity for Medium Term Notes in the "extended fund" to three years while the Money Market Fund remains at 13 months. The "At trade date" language is the same. Page seven, #5 and #6, is the meat of what we are proposing. Increase the average maturity and the maximum maturity per investment in the "extended fund" but leave the constraints of the Money Market Fund unchanged. The second paragraph on page twelve under Voluntary Participants explains that any local agency not required to invest with us will be in the Money Market Fund unless they sign a waiver that they understand the possibility of NAV fluctuations if they participate in the "extended fund."

Mr. Moorlach provided background on this proposal. Mr. Fauteux and Dr. Margarita have been watching this Committee since its inception, and we have spent the last four years plus trying to determine how we could extend our WAM without taking on extra risk or having to deal with NAV and all the issues that entails. We have come up with a hybrid where we have our Money Market Investment Pool and we know from our cash flow management that our balances in both the Educational Pool and the County Pool do not go below certain amounts. We always have these average balances which allow us a little bit of ability to go out further with those funds. We also have a lot of funds that should go out longer, such as IWMD and PF&RD. The extended pool is designed for the Treasurer, not the participants, to choose either the Money Market or extended pool. Mr. Moorlach provided an example. If we decide 20% should go in the extended pool, the participants will get the blended yield for their account. Those funds will be segregated in a separate pool, and we will still transact all the County business through the Money Market Fund. The NAV is still at \$1. Investments that have a life of 13 or 14 months or more have a nicer, attractive yield that we could acquire in the extended pool.

Ms. Mittermeier stated this is a really significant departure from what the Treasurer has been doing in the past. Mr. Moorlach agreed and stated it is an issue that has been debated numerous times with our Advisory Committee, and we have finally come up with what we believe is a comfortable and appropriate blend.

Mr. Fauteux thinks it is a political overtone that has been involved. Safety, liquidity and yield have been hanging over us ever since the debacle five years ago. As far as these factors were recognized economically realities, the reality being the better return on the long investment and how appropriate it is for the County to be involved with that. It is one of these things where perhaps reality is more appropriate today to recognize that there is enough safety to go out longer at this point. We argued this at the TAC meetings and it came down to the question of would Mr. Moorlach be willing to face up to the political resistance. Perhaps this is the time we are ready to do it.

Ms. Mittermeier asked if Mr. Moorlach wants approval on the existing IPS or the new extended fund IPS? Mr. Moorlach responded the approach is to have our extended fund IPS approved. If the Committee is not comfortable with the extended fund, we are comfortable with our existing IPS. Ms. Mittermeier stated she is not comfortable with approving it today and suggested taking a good look at it and thinking about the ramifications. Since Mr. Moorlach makes the decision of which pool the funds go into, she is not sure that it is the right way or the wrong way to go. The existing IPS with the minor changes looks fine and if something has to be approved today, from her standpoint, that is the one she is comfortable with.

Mr. Sundstrom asked if the IPS states that the Treasurer's intent is to hold all these investments to maturity and how will it be determined how much will be put into the long term pool? Mr. Moorlach responded some of the investments in the extended pool are candidates for what we would call "swaps" where we might find it would be more attractive to take something that matures down to 13 or 14 months. We would take those funds and go

out further. We would be more active than passive and have that opportunity so we wouldn't necessarily have to hold it to maturity. He still wants a substantial amount maturing every month so he has some good liquidity in the extended pool. Mr. Sundstrom asked if this would be marked to market? Mr. Moorlach stated absolutely. We would do a monthly valuation. The money market is done daily. It would probably be very close.

Ms. Mittermeier stated the first IPS looks good. The changes are relatively minor. If you need an IPS to operate on today, we could approve that one today. Ms. Mittermeier asked Mr. Moorlach if he can change his IPS anytime. Mr. Moorlach responded yes. Ms. Mittermeier then stated we can adopt the first one today to become effective January 1, giving us time to digest the second one. Mr. Fauteux asked Mr. Sundstrom if he wants some consideration time also. Mr. Sundstrom responded he would like to bring it back at the next meeting. Ms. Mittermeier added since there is no need for immediate action and it is such a big departure from what the Treasurer has been doing, she doesn't think it should be rushed through. The Treasurer has been working on this for a long time and this is the first time she has seen it. We need to think of all the ramifications, pros and cons so that we can relay to the Board of Supervisors that we are comfortable with this new pool. Mr. Moorlach stated he did not have a problem tabling this discussion until the next Oversight meeting. He respects Ms. Mittermeier's position. Mr. Fauteux concurred on tabling this item for March 15. Ms. Mittermeier asked if Mr. Moorlach wanted a vote on the first IPS at this time. She also asked for clarification of the title as agenda item #7 refers to both statements as "IPS - 2000." She wants it understood that it is the first IPS they are voting on.

Mr. Moorlach apologized for the confusion and not giving the Committee more time to review the second IPS. It has almost been overkill to our Advisory Committee and our staff. There is no sense of urgency. He explained there are two points that come to mind. (1) We can be criticized for being too short, which sometimes we are, but the yield curve has been so flat these last four years that we have been showing you the 30 year yields and that we have been okay. (2) We are seeing interest rates rising (tightening). This might be in an environment where we want to lock in something longer. He wants to take a creative approach to do something that he is comfortable with. Ms. Mittermeier stated she doesn't have any problem looking at anything new or any better way of doing something, but her concern now is that it has always been, safety and liquidity first. If we get concerned and start chasing yield, the next thing you know your principles change and you start doing things that you wouldn't have done if you had put safety and liquidity first. That is the first thing that comes to mind when discussing how to get a better yield with a longer maturity. Mr. Moorlach stated he would like a motion on the Money Market Investment Policy Statement.

Recommended Action: Mr. Fauteux asked for a motion to approve the Money Market Investment Policy Statement. Motion moved by Ms. Mittermeier, seconded by Ms. Sundstrom. Passed 3-0.

8. Bylaws

Mr. Fauteux began his report by reminding everyone that the Bylaws have to be reviewed every year and submitted to the Board of Supervisors if they are updated. Referring to the proposed draft dated December 1, 1999, he summarized the following changes:

- C Page 1, Rule 6 The Committee is going to be expanded from four to five members.
- C Rule 6 (b) The County "chief" Executive Officer's title is changed to County 'executive" Officer.
- C Rule 6 (c) "Designee" was added to the Superintendent of Schools.
- C Rule 6 (d) "two" members of the public were added.

- C Page 2, Rule 8 (d) Up to "four" members of the public was changed to "three."
- C Rule 13 The limitation for securing employment with a financial institution was changed from "three" years to "one" year. That was recently passed State legislation.
- C Page 6, Miscellaneous Provisions. Old Rules 30 and 31 were changed to new Rules 30, 31 and 32.
- C Rule 30 acknowledges the Board of Supervisors' approval of the Bylaws.
- C Rule 31 addresses the review, discussion and approval of any changes or amendments to the Bylaws.
- C Rule 32 addresses the acknowledgment conflict of interest restraints that are placed on the Committee.

Mr. Fauteux asked Mr. Abbott if he had reviewed those changes, particularly the wording in rule 32. Mr. Abbott responded Rule 31 is the suggested language that was discussed at the last meeting. Rule 32 is basically what was approved at the last meeting. He drafted the Certificate of Compliance that is attached to the Bylaws which is drawn very closely to the actual statutory provisions. Dr. Margarita asked for an explanation of Item #3. Mr. Abbott responded that is a statutory provision almost verbatim from the Code. Basically, it states a TOC member cannot raise money for the Treasurer. Dr. Margarita asked if that excludes the County Superintendent of Schools because he is not part of the governing body. In the Education Code, the County Board of Education and the County Superintendent are separate. Mr. Abbott commented the statement means no governing body of any mobile agency which has deposited funds with the Treasury. The Superintendent of the Board of Education has funds in the County Treasury. Mr. Moorlach believes Dr. Dean might be excluded from this provision, but he could not raise money for candidates for the Department of Education. Mr. Abbott believes that to be correct, though he has never had the opportunity to determine what the Superintendent of the Board of Education's role is in local agencies. Dr. Margarita stated she wants to have the Schools' counsel look into it. Mr. Sundstrom requested the Committee receive an interpretation of Item #3.

Ms. Mittermeier questioned a possible typographical error in item 2 (b). Change "so" to "of." Mr. Abbott stated he believes that is a typo. He will double check with State Statute to make sure the word should be "of." Mr. Sundstrom asked for clarification of whether or not "contributed" has the same meaning as "endorse" as endorsements do go out on fund raising material. Mr. Abbot stated "contributions" would be defined as time or money spent.

Mr. Sundstrom referring to Rule 6 (c) asked if allowing for a designee means a permanent designee to attend the meetings? Mr. Moorlach stated that language is also included in SB 866. He doesn't believe that the Superintendent, Dr. Dean, has had anyone commit to being the official designee. Changing the language in Rule 5 was discussed to clarify the Board's approval of the designee. Mr. Abbott suggested rewording the language to, "County Superintendents of Schools or designee appointed by the Superintendent." He assumes the Schools may want the Superintendent to have that authority and present the Board of Supervisors with a list of designees. Ms. Mittermeier commented the language in the Code needs to be checked out because we cant elaborate on the changes to the meaning of the Code. If this is the exact wording, she recommends Mr. Abbott provide an interpretation to the Committee. Discussion continued whether or not the designee is permanent, if the designation has to be determined by the Board, how the one-year law affects designees and who has the appointment authority.

Mr. Moorlach recommended approving the language in Section (c) as it is stated and spend sometime next year cleaning up Rule 6. Some questions were raised that are not answered

in the Code. What is a designee? How does a designee interface with the one-year rule? How many designees can there be? Ms. Margarita asked if Dr. Dean should write a letter to the Board appointing his designee? Ms. Mittermeier stated that would be considered process. The Bylaws set the rules. It is then up to the Committee to develop a process to implement those rules. Dr. Margarita explained the reason for her question is to clarify the language in Rule 6 as to the appointment and approval of the designee or designees. The Committee agreed that the language will not be changed at this time. Mr. Fauteux asked if there were any other comments. There were none.

Recommended Action: Mr. Fauteux asked for a motion to approve the Bylaws. Motion moved by Mr. Sundstrom, seconded by Ms. Mittermeier. Passed 3-0

9. Annual Report to the Board of Supervisors

Mr. Fauteux asked if everyone has seen the draft of our Annual Report to the Board of Supervisors and if there are any comments. Mr. Sundstrom asked Mr. Moorlach about the use of the periods between the letters C.P.A. Mr. Moorlach responded that is a trademark. C.P.A. is required to have periods between the letters. Mr. Fauteux acknowledged all the work that the Treasurer's Advisory Committee does, adding they aren't given enough credit. He asked if there were any further observations or comments. There were none.

Recommended Action: Mr. Fauteux asked for a motion to approve the Annual Report to the Board of Supervisors. Motion moved by Mr. Sundstrom, seconded by Ms. Mittermeier. Passed 3-0.

10. Internal Audit

Mr. Fauteux, presuming Internal Audit's report is for the period ending 12-31-98, asked if it was complete. Mr. Moorlach responded it is close. Our response is almost completed. There are no issues and we are not doing an exit interview. It will be agendized for the March meeting. Mr. Fauteux stated since the report is not complete it will not be included in the TOC's Annual Report to the Board of Supervisors. Mr. Moorlach stated it might be nice to have this Committee review it before it goes to the Board of Supervisors. Mr. Fauteux agreed.

11. Public Comments

None

12. Schedule Next Meeting Date

The next regular meeting was scheduled to be held on March 15, 2000 in the Treasurer's Office, Conference Room A, 3:00 p.m.

13. Adjournment

Mr. Fauteux adjourned the meeting at 4:15 p.m.