

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

SPECIAL MEETING

March 4, 2009

APPROVED
4/29/09

The Regular Meeting of the Treasury Oversight Committee (TOC) was held on March 4th, 2009 and called to order by David Sundstrom, Chair, at 2:03 PM.

Committee Members:

Present:

David Sundstrom, Auditor-Controller (Chair)
Thomas Mauk, CEO
Wendy Benkert for Bill Habermehl, O.C. Board of Education
George Jeffries, Treasurer, City of Tustin

Absent:

Dr. Raghu Mathur, Chancellor, S.O.C.C.C.D.

Also present were:

Chriss Street, Treasurer-Tax Collector; **Paul Gorman**, **Jennifer Burkhart**, **Paul Cocking**, **Fahad Haider**, **Anna Bryson** and **Yvette Clark** from the Treasurer's office; **Tom Beckett** from CEO Finance; **Angie Daftary** from County Counsel; **Christine Young** and **Dat Thomas** from Auditor-Controller's office; **Lou Bronstein** from Supervisor Campbell's office and **April Rudge** from Supervisor Moorlach's office; **Susan Munson** from Main Street Capital Advisors; **Laurie Holden** from CalOptima; **Darlene Hibbs** and **Don Hauptman** from the Grand Jury.

1) Meeting Called to Order

Mr. Sundstrom called the meeting to order.

2) Welcome and self-introductions

Introductions were made.

3) Public Comments

None.

4) Approval of Prior Meeting Minutes

The Minutes of the January 28, 2009 Regular Meeting were reviewed.

Recommended Action: Mr. Sundstrom called for a motion to approve the Minutes. Ms. Benkert moved to approve the Minutes, 2nd by Mr. Jeffries Passed 3-0 with 1 abstention from Mr. Mauk.

5) Chairman's Report

None

6) Discuss a Proposed Amendment to Current Investment Policy Statement (IPS) regarding California Debt

- Ms. Munson presented information to the TOC regarding Revenue Anticipation Warrants (RAWs). Her presentation included a brief history & overview of registered warrants & notes. Meeting attendees were given a handout supplementing the presentation.
- Ms. Munson explained that RAWs were issued back in 1992. They were paid off within 60 - 90 days at that time. However, RAWs have a typical final maturity of just over one year.
- Ms. Munson said interest for RAWs is paid upon redemption. In the past, RAWs had to be physically presented from the bank to the state & the bank just paid the par amount. The bank earned the coupon. I do not believe they paid the coupon. Right now, the banks have stated they are not standing by willing or able to redeem these notes & that would be something we would expect given the current financial crisis on Wall Street & the banking system. That would be part of the issue as to why they are more hesitant in this environment than in the past. There is no one there to facilitate the vendors.
- Ms. Munson discussed priority payment of warrants. As her hand-out details, the payment priority order is as follows: public school system then principal & interest payment on GO bonds & commercial payment, then payment on internal bonds. Warrants are issued sequentially in nature. If you have number 1 through 2000 issued. Number 2000 can't get paid until numbers 1 – 1,999 gets paid.
- Ms. Munson stated that in regards to payments to counties, payments would go to vendors & state people. She doesn't expect that they would issue warrants to counties. She asked if anyone thinks differently.
- Mr. Street said he believes we won't know for sure until August.
- The State is still claiming they won't issue registered warrants because it would dramatically impact their ability of going to market.
- Ms. Munson also explained the difference between Revenue Anticipation Notes (RANs) & RAWs.
- Ms. Munson explained that the State makes all priority payments before they start paying off the registered warrants. Mr. Sundstrom questioned what's to prevent Thursday's issued warrantee from cashing in on Friday & getting above everyone else? Nothing. Ms. Munson confirmed that is correct. The last registered warrant purposely matured earlier. It makes it virtually

- impossible for the State to manage cash flow. Mr. Sundstrom added it was also virtually impossible for schools & counties to receive their money.
- Ms. Benkert stated that the State is already deferring payments to schools. July's money has been deferred until October and so on. The State is passing on the borrowing costs to the local school districts. They are telling us we are not getting registered warrants, but they may continue to defer payments.
 - Ms. Munson said deferral seems to be their current mode right now rather than paying anything.
 - Ms. Munson explained her primary concerns regarding RAWs. Her first concern is that the state of CA credit rating is currently the lowest in the country as we know. The Gen Obligation bonds are rated A/A1 which fits in our guidelines (1 year and under). However, current revenue notes are rated P2/F2, which does not fit into our guidelines. We would anticipate that any RAW would have the same rating or less. She also expressed her concern for potential lawsuits. In times like these there is a higher potential for lawsuits. When it gets into detail, the trust indenture needs to be reviewed by Bond Counsel. That is what is driving the priority of payments. Analysts have suggested a high likelihood of lawsuits if people claim their money needs to get paid prior to others getting paid. These issues don't get worked out until they get into the court system & that is a timely process especially during extreme periods of financial stress. If this happens, it would be an extended period of time before these would get paid.
 - Mr. Sundstrom expressed concern about selling the warrants if the rate dropped below 5%. He believes no one would want to purchase them. It is questionable that someone would buy them even at 5%. In this market, 5% to me equates to very high risk & makes me very nervous.
 - Mr. Street stated he wanted to educate everyone on warrants because they may show up on our doorstep. We are probably the only County having this conversation right now.
 - Ms. Munson said things will happen very quickly if they do happen. She believes it is good that we are getting the education now rather than later and being ahead of the curve.
 - Mr. Street said he is not looking for approval of this today, but it's definitely a conversation that must start now.
 - Mr. Jeffries added that he doesn't think we should give any interest to stuff like this. I think that it's prudent to hold out. First of all, this is A2 stuff anyway you're not going to sell them to Money market fund, etc. Let's hold out. Unless this thing is a lot more forthright with its credit & its application than I don't want anything to do with it.
 - Mr. Street again reiterated that he just wanted to educate everyone about this, because if it happens then it will be sudden and people are going to scramble.
 - Mr. Mauk agreed with Mr. Street, and believes the knowledge initiation is important. I don't think were in the position to do much, there are now lawsuits in regards to the initiatives on the ballot for May. These are going to become

a reality in one way or another. If we're not talking about investing in them, which I hope we're not, we're talking about them showing up on our doorstep.

7) Investment Compliance Monitoring

- Mr. Sundstrom recommended reducing the amount of daily monitoring by Auditor/Controller's office to maybe 10 days/month or 50%.
- Mr. Jeffries **moved for approval**, Ms. Benkert **seconded**. Passed 4-0

8) Discuss Moody's Rating Methodology Change

- Mr. Cocking explained that the Treasurer is in discussions with Moody's to rate only the County and Educational Money Market Funds thereby eliminating the Extended Fund from their ratings. As the County does not guarantee a \$1 Net Asset Value (NAV) Moody's wants 1-2% max per issuer and they aren't willing to be flexible. AA on long term. In order for TTC to receive a rating of Aaa/MR1 from Moody's, we would have to expand our list of approved issuers.
- Mr. Gorman stated that the driving force is for Moody's to rate us similar to their rating of 2a7 money market funds.
- Mr. Jeffries explained that Moody's is looking at treasuries like a MM fund, which makes you fit into their box.
- Mr. Cocking stated that we could expand companies to invest in, but that would require hiring more staff to conduct research or we could invest little in existing companies but gain little yield.
- Mr. Cocking stated that we already have a Standard & Poor rating & we are not required to have a Moody's rating. S&P is a principal stability rating.
- Mr. Gorman explained there is a fundamental difference in how they rate. Moody's addresses liquidity risk in their rating whereas S&P focuses on principal stability.

9) Public Comments

None

10) Schedule Next Meeting Date

The next scheduled meeting will take place on April 29, 2009 at 2:30 p.m. at the Auditor-Controller's Office, 12 Civic Center Plaza, Conference Room #300, Santa Ana, CA.

11) Adjournment

- a) Mr. Sundstrom adjourned the meeting at 3:00 p.m.