

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

SPECIAL MEETING

June 24, 2009

APPROVED

July 29, 2009

The Regular Meeting of the Treasury Oversight Committee (TOC) was held on June 24, 2009 and called to order by David Sundstrom, Chair, at 3:00 PM.

Committee Members:

Present:

David Sundstrom, Auditor-Controller (Chair)
Tom Mauk, CEO, Public Finance
Bill Habermehl, Superintendent, O.C. Dept of Education
George Jeffries, Treasurer, City of Tustin
Dr. Raghu Mathur, Chancellor, S.O.C.C.C.D.

Also present were:

Chriss Street, Treasurer-Tax Collector; **Paul Gorman**, **Jennifer Burkhart**, **Paul Cocking**, **Keith Rodenhuis**, **Anna Bryson** and **Yvette Clark** from the Treasurer's office; **Bob Franz** from CEO Public Finance; **Angie Daftary** and **John Abbott** from County Counsel; **Toni Smart**, **Christine Young** and **Dat Thomas** from Auditor-Controller's office; **Lou Bronstein** from Supervisor Campbell's office; **Dr. Wendy Benkert**, from O.C. Department of Education, **Steve Kozak** from Children's and Families Commission, **Phil White** representing the County's external auditor Vavrinek, Trine, Day & Co. and **Peter Robinson** from Bloomberg News.

1) Meeting Called to Order

Mr. Sundstrom called the meeting to order.

2) Welcome and self-introductions

Introductions were made. Ms. Benkert stated that she was filling in for Mr. Habermehl until he arrived. Mr. Habermehl arrived shortly after.

3) Public Comments

None.

4) Approval of Prior Meeting Minutes

The Minutes of the April 29, 2009 Special Meeting were reviewed. Due to some revisions, Mr. Sundstrom requested that the approval of the minutes be postponed to the next meeting on July 29th.

5) Chairman's Report

None

6) Treasurer's Report

None

7) Review Restructuring of Whistlejacket and Proposed Changes to Investment Policy Statement (IPS) for Holdings of Serpentine Funding Limited.

- Mr. Jeffries expressed that he read the article regarding Whistlejacket & thought it wasn't accurate in the way it read and was perceived. We're not expecting the return, we're talking about how likely we are at getting 100%. It is the recovery of the principal not the interest. It came across that the Treasurer was trying to get a return on the investment rather than a recovery and he wanted to know if there should be clarification. Mr. Gorman explained the handout distributed during the meeting now reflects "recovery."
- Mr. Gorman summarized the Distributions and Restructuring of Whistlejacket as of May 21, 2009 accompanied by a hand-out.
 - Mr. Gorman stated that Option A includes the 1st & 2nd distributions including interest paid by the Receiver and the overall recovery would be just under 84%, probably just over 84% if the 2nd distribution is received at higher than originally estimated. Both are based on the assumption we were to cash out.
- The second partial distribution from the Whistlejacket receivership is expected in the next few days and is estimated at about 11% of our Whistlejacket investment.
- Mr. Jeffries stated it wasn't the failure of the underlying entities to make their payments. There is a little bit of a disconnect as to what caused the receivership. It's fair for the public to understand some degree of that.
- Mr. Gorman stated there is a high percentage of highly rated assets. The Treasurer chose to hang on to Whistlejacket.
- Mr. Sundstrom questioned what caused the capital value to drop? It dropped because of Market Value. He did a weighted average of credit rating in Whistlejacket and it is AA-. It was the drop from AAA to the AA- that caused the value to disappear.
- Two alternatives were presented for modifying the IPS language regarding Serpentine Funding Limited. Mr. Gorman clarified the primary difference between Options 1 & 2. One exempts extended fund B in total. Alternative 2 exempts the specific securities in Whistlejacket and Serpentine and is the more restrictive of the two.

- Mr. Abbott stated that Serpentine Funding is technically outside of the Investment Policy. However, this is a unique circumstance. The decision to purchase the underlying investment (Whistlejacket) had already been made and we can't do anything about that. The Receivership exists. The Treasurer has no choice as to what the alternatives of the workouts of those investments are. There is no recognition of this in government code or the Investment Policy. The Treasurer has a responsibility to the investors to act to maximize the recovery of this investment on behalf of the investors. He has to determine the most prudent route to take along with the best option at that time to get his investors (County & schools) the best return possible. Mr. Gorman clarified not the best return possible, but the closest to satisfy the goals of the Investment Policy Statement. Mr. Abbott continued to state that the goal is to get the most you can get out of this asset to benefit all of these holders. The Treasurer had to act, it was unrated & in default. You had to put it in the context. Certainly the Treasurer couldn't have gone out & bought Serpentine on the street just to buy it, but in this circumstance he could as a prudent investor.
- Mr. Jeffries stated that he believed the language should be more generic in case a rare event like this happened again in the future. Mr. Habermehl agreed, however the other committee members did not and suggested to keep the language specific to Whistlejacket.
- Mr. Sundstrom **moved** to approve Option 2 (see attached hand-out). **Seconded** by Dr. Mathur. **Approved 4-1** with dissent from Mr. Jeffries.

8) Clarification of IPS Section: VI. Authorized Investments

- Mr. Cocking gave a brief description accompanied by a hand-out regarding the bonds the Treasurer's Office was interested in purchasing.
- The procedure for bringing new items for purchase to the TOC meetings was discussed. Mr. Sundstrom requested that TOC get an update at quarterly meetings. He isn't interested in "tying the hands" of the Treasurer. He suggested that the Treasurer make the distinction and decision himself as to whether the security being considered for purchase should be brought to the TOC or just bring it to the quarterly meeting for TOC to validate it.

9) Receive and Discuss Grand Jury Report: "Orange County Investments: The Need for Stronger Oversight"

- Mr. Sundstrom stated he would draft a summarized response to the Grand Jury Report for review at the next TOC meeting.
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10) Schedule Next Meeting Date

The next scheduled meeting will take place on July 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 4:13 p.m.