

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

April 30, 2008

**FINAL**  
Approved on June 4, 2008

The Regular Meeting of the Treasury Oversight Committee (TOC) was held on April 30th and called to order by Tom Mauk, Chair, at 11:04 AM

**Committee Members:**

**Present:**

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

**Absent:**

Also present were:

**Chriss Street**, Treasurer-Tax Collector; **Jennifer Burkhart**, Assistant Treasurer-Tax Collector  
**Paul Gorman**, Chief Assistant Treasurer-Tax Collector, **Paul Cocking**, Chief Portfolio  
Manager, **John Byerly**, Financial Analyst, **Yvette Clark and Keith Rodenhuis** from the  
Treasurer's office; **Angie Daftary**, County Counsel; **Wendy Benkert**, from the OC Board of  
Education, **Kirk Avila** from OCTA, **Bob Franz** from the CEO's office, **Tom Beckett and  
Richard Mendoza**, from the office of CEO Public Finance; and **Steve Kozak**, Children and  
Family Commission of Orange County.

**I. Meeting Called to Order**

A. Mr. Mauk 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 January 30, 2008 Regular Meeting were reviewed.

- B. Recommended Action:** Mr. Mauk called for a motion to approve the Minutes. Mr. Habermehl moved to approve the Minutes, 2nd by Mr. Sundstrom. Passed 3-0

## **V. Chairman's Report**

- A.** There was no Chairman's report.

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

- A.** The Treasurer announced that we are working together with Mr. Beckett from the CEO's office on PFM's recommendation to fill one of the open positions in the Treasurer's office.

## **VII. Status of SIVs**

- A.** Mr. Cocking discussed the status of SIVs. It was stated that the Whistlejacket interest payment of \$417,873.26 due on April 25, 2008 was not received as anticipated. The Treasurer's office, however, did receive the interest payment on the two Sigma Finance holdings in excess of \$1million today. Mr. Cocking also stated there has been no change in Sigma recently. Sigma has met a number of big maturities coming due with no problem. Their ratings have been reaffirmed by the rating agencies. The county's last obligation with Sigma is October 30<sup>th</sup>. The next maturity payment is due on May 14, 2008.
- B.** Mr. Cocking commented that the market has stabilized recently. Prices haven't moved that much. It was announced that the Fed cut interest rates by 25bps.
- C.** Mr. Franz expressed his concern regarding the Treasurer's investments in Citigroup and its removal from the eligible issuer list. Mr. Byerly corrected Mr. Franz and confirmed that it was CIT group not Citigroup. Mr. Franz wanted to know how the county has been affected by the difficulties facing big investment banks. He further inquired whether there has been any discussion of banks reversing their decisions to bring SIV assets back on their balance sheets. Mr. Cocking indicated that Rabobank already sold the underlying assets from Tango. Additionally, since Citi received \$3billion in additional bond issuance; they are not having any trouble getting cash.

## **VIII. Merrill Lynch Commissions**

- A.** Mr. Mauk discussed his concern regarding Merrill Lynch commissions. He inquired as to what kind of commissions/placements Merrill is making on the SIVs. Mr. Cocking said Merrill Lynch declined to give that information, and Mr. Street agreed, stating most brokers would not divulge this information.

- B. Mr. Street indicated there is usually an industry standard. A commission is not received on the sale of bonds, however they do mark up the bond price to the end buyer as a charge for the placement. Mr. Street estimates that Merrill Lynch makes approximately 3/8 of a point per bond. He indicated that Merrill comprises 23% of the brokerage industry, and they had been approved since the prior administration.
- C. Mr. Street stated it would be a mistake to take Merrill off our list unless they did something wrong. Merrill Lynch has accommodated the county in many ways since the bankruptcy. He believes the county would pay a bigger price by not using their services as we would end up having to buy their bonds through an intermediary broker, resulting in paying two mark ups rather than one.
- D. Mr. Mauk was concerned that Merrill Lynch recently paid out settlements to the city of Springfield, MA for alleged risky investments. He also expressed a concern for issues with them throughout the country. Mr. Street stated that Merrill Lynch has bent over backward for the county. He also expressed that Merrill Lynch cannot offer investment options to the county; they can only act as a broker. Their relationship hasn't changed. Mr. Cocking confirmed that he is comfortable with Merrill Lynch as well.

**IX. Review and Discuss Treasurer and T.O.C. responses to and related to the implementation plan for PFM Asset Management's Final Report on Risk Analysis of the Treasurer's Investment Pool.**

- A. Mr. Sundstrom recommended that the T.O.C. members meet at a later date to allow more time to thoroughly review PFM's Final Report and the implementation items to ensure all points have been covered. Mr. Beckett and Mr. Franz agreed that all members of the committee should be comfortable with the plan. Mr. Mauk indicated that all members need to do their homework for the next meeting.
- B. Recommended Action: The action will be to defer PFM responses until the recommendations have been reviewed by members of the Committee.

**X. Discuss and/or propose recommended changes to Investment Policy**

- A. The Treasurer would like to propose changes to the IPS as part of the Implementation plan. Mr. Beckett suggested that this be done at a later date as well since it coincides with the PFM recommendations.
- B. Recommended Action: The action will be to defer changes until the proposed changes are reviewed by members of the Committee.

**XI. Public and Committee Member Comments**

- A. Mr. Sundstrom announced that his office is working on the Audit. However, the process has been delayed because Whistlejacket pricing cannot be validated at this time.

**XII. Schedule Next Meeting Date**

- A. A special meeting was scheduled for 30 days from today's meeting to review both the PFM Implementation Plan and recommendations for changes to the IPS.

**XIII. Adjournment**

- A. Mr. Mauk adjourned the meeting at 11:50 a.m.