

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE
ORANGE COUNTY, CALIFORNIA

SPECIAL MEETING

May 26, 2010



The Special Meeting of the Treasury Oversight Committee (TOC) held on May 26, 2010 at the Orange County Treasurer's Office, 11 Civic Center Plaza, Conference Room A, Santa Ana, CA 92701, and called to order by David Sundstrom, Chair, at 10:31 AM.

Committee Members:

Present:

David Sundstrom, Auditor-Controller (Chair)
Tom Mauk, CEO, Public Finance

By Teleconference:

Mr. Bill Habermehl, Superintendent, O.C. Dept of Education

- **Location:** Orange County Dept. of Education
200 Kalmus Drive
Costa Mesa, CA 92626

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

- **Location:** SOCCCD
28000 Marguerite Parkway
Mission Viejo, CA 92692

Mr. George Jeffries, Treasurer, City of Tustin

- **Location:** Town & Country Manor, Garden Room
555 E. Memory Lane
Santa Ana, CA

Also present were:

Bob Franz from CEO Public Finance, **Paul Gorman**, **Paul Cocking**, **Leslie Morales**, **Ginika Echebiri**, **Fahad Haider** and **Yvette Clark** from the Treasurer's office; **Angie Daftary** from County Counsel; **Nancy Ishida**, **Dat Nguyen**, **Christine Young** from Auditor-Controller's office.

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) **Revs Custody Banking**

- Mr. Gorman explained that the Treasurer's current custody bank, Bank of New York (BONY), has asked us to move to a different platform which would cause us to go through a new implementation & new training. Because of this reason as well as fees, the Treasurer's Office has decided to put a Request for Proposal (RFP) out for a new custody bank.
- Ms. Echebiri added that the Treasurer's Office also had some customer service issues with BONY which is another reason why they decided to launch an RFP. On February 11, 2010, the Treasurer's Office opened an RFP & received six responses. The respondents were the following banks: Bank of New York (BONY), US Bank, Northern Trust, State Street, Union Bank & Wells Fargo Bank. The RFP Committee members were Ginika Echebiri, Paul Cocking, Leslie Morales, Uyen Phan & Kim Hansen from the Treasurer's Office. These members selected three out of the six banks on the basis of technology, customer service levels, overall operational outlook, implementation process & price.
- Ms. Echebiri continued stating that the RFP committee called in the three banks to meet face to face. Joining the committee members listed prior were Paul Gorman, Fahad Haider & Marjon Shabanpour also from the Treasurer's Office. We made our selection using the criteria already indicated in addition to the daily approach, daily settlements & the relationship management process. We selected Northern Trust as our most responsive bidder as they have committed to the lowest fixed price, had a impressive customer service team, thorough implementation plan, and a comprehensive web platform. We believe that this platform would be a valuable platform to the Treasurer's Office.
- Mr. Mauk stated that he was not a big fan of Northern Trust. He believes that in the trust industry there are a lot of stories about them & their bureaucracies, etc. He continued saying, I asked my secretary for the back-up material on this item and there was none. You've asked for an effective date of today & the authorization request to proceed with a second vendor if not Northern Trust. We don't even know who that is. He questioned why there was no back up material provided with the agenda & no indication of who the second vendor is. He also questioned why there was a special meeting called with no material provided & the request for an approval of Northern Trust today.
- Mr. Gorman responded that the Treasurer's Office initially thought the Treasurer had this responsibility without going to the Board for approval. We

- now know that's not the case. In fact, our IPS does state that we need to go to the TOC with this prior to taking it to the board. We haven't changed our custody banking vendor in fourteen years. We met with vendors last week & we asked staff to schedule a TOC meeting now rather than waiting until the end of July, that way we could move forward. The requested May 26 approval date on the agenda isn't exactly accurate. Our plan is to start as soon as we have approval from this group then start negotiating with the vendor & then take it to the board.
- Mr. Gorman continued stating that the RPF committee does have a summary of the rating scores as well as the prices. We are trying to push for an implementation in early August. We have had some pressure from BONY to move to a different platform and our desire to move forward is largely related to that. We don't want to convert & then go back & re-implement again. A few of the vendors came in with variable pricing based on transactions & portfolio size. We then requested the vendors give us a fixed pricing bid & that's when Northern Trust came back with the lowest bid. We saw higher quality, stronger staffing, more professionalism, and a strong desire for our business from Northern Trust. They have a great online reporting platform which we thought would bring added value to our office. We see this as a commodity. It's something we need to hold our securities electronically as well as settle our daily trades. Customer service is a component of it & that's what we've been unhappy with in the past.
 - Mr. Mauk asked if the RFP committee talked to other customers of Northern Trust or if the analysis was based off their submittal.
 - Ms. Echebiri responded that she doesn't believe the committee talked to any of Northern Trust's customers, but rather based it on their submittal.
 - Mr. Sundstrom stated that he is very concerned that there wasn't any reference checking done. At the very least that would have to be done before going to the board. He asked what the timeline is.
 - Mr. Gorman answered that the Treasurer's Office can defer & push back the move by BONY to change platforms. We are paying \$185,000 to BONY currently.
 - Mr. Mauk stated he believes the RFP committee should defer it and get recommendations and reference checks.
 - Mr. Jeffries stated he was disappointed that if things were not going well with our current custody provider that the Treasurer-Tax Collector didn't get on the phone & raise the issue with the vendor. He also stated that he didn't receive any back-up materials for this agenda item. He questioned whether there was any inquiry made about who is the biggest Northern Trust provider that would be comparable both in size & complexity in a public entity to Orange County. He expressed his discontent in the lack of information provided.
 - Mr. Cocking stated that the RFP committee did call other counties that would be considered in its peer group and solicited them at the very beginning for the names of their current custody banks. Northern Trust wasn't one of them, but we did get feedback on the other ones. A majority of them used BONY & were being moved to the new platform as well.

- Mr. Franz responded that we should bring this back to TOC after we get some reference check information & comparable size organizations that use Northern Trust. We will also look at the other two finalists.
- Mr. Sundstrom requested to see BONY's figures as well.
- Mr. Mauk requested to see who Northern Trust served in the public arena.
- Ms. Echebiri added that we can also provide the price that the other banks submitted.
- Dr. Mathur requested to know how long we've had the contract with BONY & when it ends.
- Mr. Gorman responded that it is an open-ended agreement & we've been with them for at least 14 years.
- Dr. Mathur stated that he only received a one page attachment as well to the agenda & requested more comprehensive information for the next meeting.
- Committee members stated that they would like to see the RFP responses.
- Mr. Sundstrom suggested that the RFP committee try to find someone that has switched from BONY to Northern Trust.
- Mr. Gorman stated each of the banks we talked to are doing an implementation for BONY customers.
- Mr. Franz stated that he would meet with staff & schedule another TOC meeting to address the discussed issues & gather the requested information on this agenda item.

5) Public Comments

None

6) Schedule Next Meeting

- The next meeting was scheduled for July 28, 2010 at 3:00 pm at the Auditor-Controller's Conference Room 300, 12 Civic Center Plaza, Santa Ana, CA 92701.

7) Adjournment

- Mr. Sundstrom adjourned the meeting at 10:55 am.