

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE  
ORANGE COUNTY, CALIFORNIA

REGULAR MEETING

**November 4, 2010**



The Special Meeting of the Treasury Oversight Committee (TOC) held on November 4, 2010 at the Orange County Auditor/Controller's Office, 12 Civic Center Plaza, Conference Room #300, Santa Ana, CA 92701, and called to order by David Sundstrom, Chair, at 3:03 PM

**Committee Members:**

**Present:**

David Sundstrom, Auditor-Controller (Chair)  
Mr. Bill Habermehl, Superintendent, O.C. Dept of Education  
Mr. George Jeffries, Treasurer, City of Tustin

Also present were:

**Bob Franz, CFO** from the CEO's office, **Paul Gorman, Paul Cocking, Leslie Morales, Fahad Haider, William Chau** and **Yvette Clark** from the Treasurer's Office; **Christine Young** from Auditor-Controller's Office, and **Wendy Benkert** from Orange County Department of Education,.

**1) Meeting Called to Order**

Mr. Sundstrom called the meeting to order.

**2) Welcome and Self-introductions**

Introductions were made.

**3) Public Comments**

- No Comments

**4) Approval of the July 28th, 2010 Meeting Minutes**

- Ms. Benkert moved to approve the minutes with the following revisions: add her name to the attendance list and change 'monthly' to 'quarterly' as the frequency for her meetings with vice-chancellors listed at the top of page 2 of the minutes. Mr. Jeffries seconded the motion. **All approved 3-0.**

## 5) Chairman's Report

- Ms. Benkert suggested the committee consider Gary Poertner to fill the vacant TOC member position. Ms. Benkert explained that Mr. Poertner is the new Chancellor of South Orange County Community College District (SOCCCD) and has a wonderful business background. Ms. Benkert stated that Mr. Poertner starts as Chancellor on December 1<sup>st</sup>, but she had a preliminary conversation with him & he would be interested in becoming a TOC member.
- Mr. Sundstrom stated the Treasurer typically chooses the new member.
- Mr. Sundstrom discussed the transition of investment duties from Mr. Franz to the new Treasurer Shari Freidenrich.
- Mr. Franz explained that the investment authority would be delegated to the new Treasurer.

## 6) CFO Report

- **Sale of Serpentine:** Mr. Gorman discussed the sale of Serpentine. It traded on August 19<sup>th</sup>. It didn't settle until October because of legal documents, legal opinion, required stamps and more. It closed in two different transactions on October 22<sup>nd</sup> & 27<sup>th</sup>. The overall loss was about \$7.6 Million. Schools incurred about \$3.5 Million of that loss and County incurred about \$4.1 Million. The Treasurer's Office is working on the allocation now. When the preliminary numbers are complete, they will be sent out to the TOC. Mr. Franz has recommended that there be a distribution independent of the report. It will also be included in the Treasurer's Monthly Management Report.
- Mr. Gorman continued to explain that Serpentine will be allocated as a loss. He anticipates it will happen this month in November. The yield will be impacted as reported for October and it may even cause a negative yield for the month. As far as pool participants are concerned, Yorba Linda Water District is the only voluntary participant that has a zeroed account. Their allocation of the loss is about \$175 and they will be invoiced for that amount.
- **Northern Trust Update:** Mr. Gorman stated that the Board of Supervisors approved Northern Trust as the custody bank. The contract is finalized. The first implementation with them was on Tuesday. The transfer will take place on January 3<sup>rd</sup>. The transition team has been helpful.
- **Compliance Audit:** Mr. Gorman stated that there is a draft report for the Internal Audit - Compliance 866 Audit. He didn't have a list of the findings yet, but hoped to have a copy of it shortly so that it can be added to the agenda for the next TOC meeting. He doesn't believe there's anything alarming. He has heard that some are specific to the operation of the Committee & some to the operations of the office.
- Mr. Sundstrom questioned whether someone from TOC met with Internal Audit to discuss the TOC point of views. If not, Mr. Sundstrom suggested that he could meet with them in case there are issues that need clarification.

- Mr. Sundstrom asked if anyone analyzed what the total rate of return is on all the SIVs.
- Mr. Gorman responded no except at a dollar amount of earnings.
- Mr. Cocking stated that the Investment Team looked at the peak point right after the crisis. Most of the securities they invested in didn't give much more return than a comparable agency. It seemed to be about 6-9 basis points on average. He explained they only had a dollar figure showing where they started out including all losses and where they ended up.
- Mr. Sundstrom stated that investing involves risk. If there is no risk, there is no return. That's part of what the SIVs were. He believes overall it wasn't a horrendous loss when all things were considered.
- Mr. Jeffries suggested that a report be compiled by staff prior to the new Treasurer taking office to "clear the air". The report should provide the Treasurer with the background and rationale of the SIV purchases, including the expectations, expected risk at the time of purchase, and results. Persons tend to look at individual losses with a gasp response. He explained that there is risk in every investment at one time or another. A paper should be composed detailing the "tragic journey" that Whistlejacket took from its beginning, to the sponsorship, to the quality, to the change of ownership, to the change of sovereignty, and the lessons learned from it. The Treasurer's Office didn't win big, but didn't lose big either. He believes the office is only going to hear about the loss of Whistlejacket & a response will be required.
- Mr. Habermehl agreed with Mr. Jeffries. He believes bringing closure in the right way is appropriate in the transition.
- Mr. Sundstrom added that this report would also include the loss with Sigma as well.
- Mr. Franz stated the difficulty is how to keep the report strictly based on a factual review.
- Mr. Habermehl expressed that it should be short and more of a white paper to bring closure to the process. It should be a simple explanation to any school board members, Superintendents or others that have a question about the loss. Too much detail would just create more questions.
- Mr. Sundstrom stated the report is a little more credible coming from the TOC rather than the Treasurer.

**7) Receive & File Treasurer's Monthly Management Reports for July 2010 through September 2010.**

- Mr. Habermehl moved to receive & file. Mr. Jeffries seconded the motion. **All approved 3-0.**

**8) Annual Approval of Investment Policy Statement (IPS) – Unchanged from 2010  
IPS Approved on 12/15/09**

- **Recommended Action:** Approve Investment Policy Statement and direct staff to submit an agenda item for Board of Supervisor approval on or before December 21, 2010 meeting
- Mr. Jeffries moved to approve the recommended action. Mr. Habermehl seconded the motion. **All approved 3-0.**

**9) Public Comments**

None

**10) Schedule Next Meeting**

- The next meeting was scheduled for January 26, 2011 at 3:00 pm at the Auditor-Controller's Conference Room 300, 12 Civic Center Plaza, Santa Ana, CA 92701.

**11) Adjournment**

- Mr. Sundstrom adjourned the meeting at 3:40 pm.