

SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

October 18, 2010

MEMBERS IN ATTENDANCE

John Marty (Treasurer, City of San Bruno)
Patricia Reavey (Transportation Authority)

MEMBERS ABSENT

Reyna Farrales (Deputy County Manager- Alternate)
Marc J. Friedman (Member, Board of Trustees, Burlingame School District)
Margie Gustafson (Administrator, County Office of Education)
Jim Saco (Assistant Budget Director, County Manager's Office)
Linda Serdahl (Finance Manager, Bay Area Air Management District - Alternate)
Larry J. Shaw (Vice President UBS/PaineWebber) **Chairman**
Anthony J. Zidich (Treasurer, City of Daly City)

OTHERS IN ATTENDANCE

Charles M. Tovstein (Assistant Treasurer)
Joe Demee (Financial Services Manager)
Sandie Arnott (Deputy Treasurer-Tax Collector/Acting Assistant Tax Collector)
John Beiers (Chief Deputy County Counsel)
David Glasser (Finance Manager, Bay Area Air Quality Management District)
Nilita Meitz (Executive Assistant, Treasurer's Office)

Due to a lack of a quorum, **Mr. Tovstein** opened the meeting at 12:16 p.m. He announced the resignation of committee member Marc Friedman and welcomed David Glasser, Finance Manager from Bay Area Air Quality Management District, who will be taking the place of Jack Colbourn.

REPORT BY CHARLES TOVSTEIN

Mr. Tovstein began his report by turning the committee's attention to the earnings handout showing 12 quarters of earnings for the pool. The pools gross earnings were \$192 million; the write-off of the Lehman Securities was \$154 million leaving a positive balance of \$37 million. The market value as of that day was 22 – 23 cents on the dollar, roughly totaling \$35 million. If the Treasurer's office was to sell the securities, the gross earnings after Lehman, would be roughly \$73 million. The same handout also compared the pool's earnings rate at 2.38% vs. LAIF's 2.01%, a difference of 37 basis points. In response to Mr. Glasser, **Mr. Tovstein** briefly explained the liquidation process if the decision was made to sell the Lehman Securities.

Mr. Beiers addressed the Lehman bankruptcy by first saying it is the largest bankruptcy in the history of the United States, \$1.2 trillion, with the actual claim of roughly \$300 billion, after excluding erroneous and duplicate claims. The Lehman estate intended the bankruptcy to be voted on by the creditors with distributions as early as March 2011, but the outside lawyers are thinking the case will likely be extended well into 2011. The Lehman estate filed their re-organization plan in March 2010, followed by a proposed disclosure statement. The disclosure statement is required to project estimated recoveries for classes of creditors. The County was asked to join an Ad Hoc Creditors Group who hired a New York law firm of White and Case, at no cost to the County.

The group's primary argument is that the Lehman estate should treat all of the Lehman entities the same. It is the intent of the Ad Hoc Group to negotiate with the Lehman estate a more fair and equitable outcome for the group and if that is not successful, to take whatever steps are necessary to achieve a higher more equitable recovery. In early October, the Lehman estate provided a "state of the estate" presentation to the bankruptcy court indicating a plan to file a revised plan in November. Lehman Brothers has advised the court that the improving markets are increasing the value of their assets, thereby revising projections to higher recoveries. If the group is not satisfied with the amount, the three options would be to negotiate for a higher number, convince the Judge to not confirm bankruptcy, and the third is litigation. A discussion ensued regarding litigation. It is hopeful that the County recover somewhere in the range of 20-30 cents on the dollar. **Mr. Tovstein** and **Mr. Beiers** both mentioned the ongoing trial between the Lehman estate and Barclay's bank, which may have bearing on the ultimate recovery in the Lehman bankruptcy. **Mr. Beiers** touched upon the lawsuit against Lehman Brothers and Ernest and Young, recalling the case was filed in state court in San Francisco and then successfully moved to New York. This was done in order to consolidate the matter in the same court with several other individual cases and a major class action. The defendants have filed a motion to dismiss the class action and the Judge has heard oral arguments and taken the matter "under submission". If the Judge dismisses the case, the County's case will also be dismissed. If the Judge denies the motions to dismiss, then discovery will begin on all of the cases and trial date will be set. In closing, **Mr. Beiers** mentioned Anna Eshoo and Jackie Speiers' continued quest for ways to get Congress to make the County whole for the Lehman loss.

Mr. Tovstein reported the pool's gross earnings of 1.64% for the month of September, and 1.45% for the quarter ending September 30, 2010. With the average life of 1.2 years and considering the extreme conservative nature of the pool, he described the earnings as very good. He reported the investment pool was reaffirmed by Standard & Poor's with the highest rating of AAf/S1, and noted the pool will be rated annually. He briefly reviewed the diversification report showing General Electric as being the pool's largest position in corporate securities, 2.73%, with a strong AA rating. In response to Mr. Marty, he mentioned owning TARP securities reported under TLGP, and did point out the percentages of 2.73% for General Electric and 1.58% for Bank of America, has very limited exposure to the corporate market. A discussion ensued regarding trading. In response to Ms. Reavey's question regarding transactions being included in the monthly report, Mr. Tovstein referenced the section titled Realized Gain/Loss & Interest Received on page 2 of the monthly report. He said that since Lehman, he has tried to keep the reports easy to read and understand. Mr. Tovstein reviewed the outline of the monthly portfolio and did remind those present that all reports are on the Treasurer's website, and hard copies are available upon request. Mr. Tovstein also invited anyone wanting information to give him a call.

Mr. Tovstein called attention to his personal views on the two year delay on the County's Investment policy being approved. The proposed policy that the Treasurer's office is currently working under has been submitted twice and held back from the full Board by the Finance and Operations Committee. The two supervisors on the Finance and Operations Committee are both leaving to hold other offices on January 3rd, 2011, and it is uncertain if Mr. Buffington will return from medical leave by that time. It is Mr. Tovstein's belief that until the two new supervisors and the new treasurer take office next year; a new policy will not be submitted or approved. Until then, Mr. Tovstein will continue to adhere to the current proposed 2010 policy, which is more conservative than the 2008 policy. Mr. Tovstein compared the two candidates for the Treasurer's office and noted their difference. One candidate will review, make adjustments or perhaps rewrite a new 2011 policy. The other has talked about outsourcing the management of the pool. That is likely to cost 20 to 30 basis points for \$1 Billion; cost would be roughly \$2 -\$3 Million a year.

The question he poses to this candidate would be where is this money coming from and what will be gained? After a short discussion regarding outsourcing and CalPERS, it was noted that the committee members were not in favor of outsourcing.

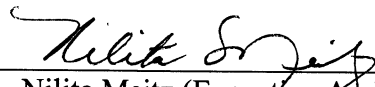
Mr. Tovstein turned the committee's attention to the interest rate outlook. He stated the economic recovery remains on track. He predicts interest rates to increase around July-November, 2011. He reviewed the cashflow chart and reported State Funding continues to be excluded to a separate line in the projected cashflow report. Mr. Tovstein made it clear that all school operational funds must be invested in the County's pool. If the school district declares the funds as surplus, that amount can be taken elsewhere. All funds deposited in the pool, must remain in the pool. He spoke on Securities Lending and said he continues to only invest in treasury repurchase agreements on the investment side. Mr. Tovstein reported depositing \$30 Million, in an Earnings Credit Plus account, with The Bank of New York to offset the custodial fees and to have available money in case of disaster. Because The Bank of New York has been the County's custodial bank for the past 18 years, the County Manager's office is requiring the treasurer's office to conduct an RFP for custodial services only. The choices would be The Bank of New York, State Street and Northern Trust.

DATE OF NEXT MEETING

The next meeting of the Treasury Oversight Committee will be held on Monday, January 24, 2011 at 12:00 noon.

ADJOURNMENT

There being no additional business and no further questions, the meeting was adjourned at 1:13 p.m.



Nilita Meitz (Executive Assistant)