

SAN MATEO COUNTY
INVESTMENT ADVISORY COMMITTEE

MINUTES

January 25, 2010

MEMBERS IN ATTENDANCE

Larry J. Shaw (Vice President UBS/PaineWebber) **Chairman**
Reyna Farrales (Deputy County Manager- Alternate)
Margie Gustafson (Administrator, County Office of Education)
John Marty (Treasurer, City of San Bruno)
Patricia Reavey (Transportation Authority)
Jim Saco (Assistant Budget Director, County Manager's Office)
Anthony J. Zidich (Treasurer, City of Daly City)

MEMBERS ABSENT

Marc J. Friedman (Member, Board of Trustees, Burlingame School District)
Linda Serdahl (Finance Manager, Bay Area Air Management District - Alternate)

OTHERS IN ATTENDANCE

John Beiers (Chief Deputy County Counsel)
Lee Buffington (Tax Collector-Treasurer-Revenue Services)
Charles M. Tovstein (Assistant Treasurer)
Joe Demee (Financial Services Manager)
Joe Galligan (Certified Public Accountant)
Nilita Meitz (Executive Assistant, Treasurer's Office)

Mr. Shaw opened the meeting at 12:00 p.m. and welcomed newly sworn-in members Margie Gustafson and John Marty to the Treasury Oversight Committee.

MINUTES

Minutes of the July 27th, 2009 meeting were approved as submitted.

REPORT BY CHARLES TOVSTEIN

Mr. Tovstein began his report with the pool's gross earnings of 1.18% for the month of December, and 1.11% for the quarter ended December 31, 2009. He noted outperforming LAIF (Local Agency Investment Fund) by approximately 40 to 50 basis points for the quarter. In comparison, he believes the County's pool is more transparent and generally considered higher quality than LAIF. The pool continues to have no funds in LAIF and noted all relevant pool information is available on the Treasurer's website. He turned the committee's attention to the diversification report that shows the pool's non-governmental holdings. This report also shows each of the pool's total positions, which operates under the 5% maximum rule, of the proposed investment policy. He explained that although he monitors the commercial paper market daily, he hasn't been actively purchasing commercial paper mainly because the spread pickup is not worth the credit risk. He said he has restricted the security lending program to purchase repurchase agreements only, resulting in less income, but less credit risk as well. At this time, spreads are simply not there. Mr. Tovstein went on to say he recently reduced the pool's position in Suntrust Bank to \$15 million. While he stated he is not overly concerned about them, they are, however, an

A- rated financial institution. He is not concerned about the bank going out of business, but is concerned that most banks have all paid off their Tarp money, and who is to know if a new financial crisis or double dip recession will not occur in the future, adversely affecting the financial sector once again. The SunTrust floaters mature in 2012, and are well within the Suntrust TLGP paper maturities which are guaranteed by the US Government. He predicts by summer that position will more than likely be smaller as he will liquidate additional notes when appropriate vs. profits. Mr. Tovstein then handed out the Standard & Poor's Fund Profile for the County's Investment Portfolio showing the fund earning their highest rating of AAAf/S1. He then invited the committee to read two articles he found to be very interesting entitled, "The Great American Bubble Machine and Wall Street's Naked Swindle." Mr. Tovstein went on to report that although the State funds continues to come in, he anticipates new and more severe budget problems arising soon and will continue to exclude State money to a separate line in the pool's projected cash flow. He believes that Federal bailouts are rapidly coming to an end and mentioned President Obama's speech that crushed the credit markets the week before. Mr. Tovstein predicts no rate increase by the Fed when they meet on the 26th of January, and not much change, if any in the statement itself. He foresees higher rates later this year possibly August or September so he will invest accordingly, mainly filling the gaps on the cash flow and extending out, should credit or the curve become more attractive. Mr. Tovstein explained the difficulty in investing overnight, mainly in repurchase agreements which can be as low as .05-flat overnight. A short discussion followed regarding the projected pool's cash flow chart. Mr. Tovstein concluded his report by announcing that to date; the value of the Lehman securities is \$30-\$31 million and rising. Mr. Buffington added that within the last ten months, and including the Lehman loss, the pool has earned \$662 million. If you include the potential Lehman Brother's revenue of \$30 million, that comes very close to \$700 million.

SAN MATEO COUNTY INVESTMENT POLICY

Mr. Buffington began his report by first explaining the history of the Treasury Oversight Committee. When Orange County went bankrupt, the biggest complaint from their pool participants was that they were not aware. Shortly there after, the Treasurer's office instituted the Investment Advisory Committee, now known as Treasury Oversight, as a communication device for the benefit of the pool participants. With the help of Quentin Kopp, Government Code §27130 was put into law. **Mr. Buffington** explained that the soliciting of comments from PFM and Biller was to see what their findings would be. The law is very clear, Government Code §53646 states that the investment policy is written by the Treasurer, reviewed by the Treasury Oversight Committee and approved by the Board of Supervisors. He went on to report submitting the revised 2009 Investment Policy to the Board only to have it held back by Ms. Farrales. He has been working with Counsel to describe the differences between Biller's recommendations and the new proposed 2010 policy. The result was a 28 page document available to anyone interested in reviewing it. **Mr. Buffington** spoke in detail the changes that were made and recommendations that were not included in the proposed 2010 Investment Policy. He plans on resubmitting the proposed 2010 policy for approval by the Board of Supervisors on February 9th. **Mr. John Beiers** explained the difficulties in reading the redlines on the 28 page document which represents all changes made from the current 2008 policy. **Mr. Buffington** did remind the committee that because a new policy has not been approved, the Treasurer has been operating under the authority of the 2008 policy in which Lehman took place. Operationally, the Treasurer has been operating within the confines of the proposed 2010 policy and mentioned the authority is still there.

Mr. Tovstein then handed out a very clean Independent Accountant's Report for fiscal year ended June 30, 2009, for the committee's review. **Ms. Reavey** mentioned she was hoping to see what was and was not adopted from Biller's suggestions and why. To that, **Mr. Buffington** said he did not think there were a lot of differences and that he along with counsel evaluated each and every suggestion from the Biller Report and found that 80% to 90% were changes in the verbiage, terminology and process descriptions. He mentioned Biller recommending that the Treasurer run a mutual fund with a dollar weighted average, Mr. Buffington explained the Treasurer's office only runs an income fund. **Mr. Beiers** and **Mr. Buffington** both recalled Biller's recommendations and the different stages changes were made and they would look into Ms. Reavey's request. In response to **Mr. Jim Saco**, **Mr. Tovstein** reported the limitation percentage per issuer was changed from 10% to 5% max. In response to **Mr. Shaw's** question, **Ms. Farrales** said Alan Biller's cost for their analysis and review of the County's Investment function was \$95,000.00. **Mr. Shaw** understands Ms. Reavey's request for detailed information and voiced his opinion that the committee has a fiduciary responsibility to know why that amount of money was spent for the analysis; no one really knows what was or was not adopted. **Mr. Tovstein** agreed but stated that in his opinion, and as the Assistant Treasurer, the most important thing is the investment policy and what the Treasurer's office is adhering to. **Mr. Tovstein** stated that the proposed 2010 policy is scheduled to go before the Board of Supervisors on February 9th. For clarification purposes, **Mr. Shaw** asked how the Oversight Committee Members are chosen. **Mr. Buffington** explained that San Mateo County's Treasury Oversight Committee, pursuant to the Government Code, consists of members appointed by pool participants, nominated by the Treasurer and confirmed by the Board of Supervisors. **Mr. Beiers** also quoted the law regarding committee membership. Mr. Buffington noted that the State law has changed and having an oversight committee is now optional. **Mr. Tovstein** said he would look for copies of changes that he and Mr. Beiers worked on for Ms. Reavey. **Ms. Farrales** addressed the committee to comment on why the proposed policy was held back and not allowed to go to the full Board. She told the committee that a response to the Biller recommendation was not submitted to the Board's Finance and Operations Committee. **Mr. Buffington** again referenced Government Code §53646. **Ms. Farrales** said that the expectation, when entering into the agreement with Biller, was that there would be a formal response to the recommendations of what was or was not incorporated and for whatever good reason. She stated good reason since it was reported the Treasurer is already practicing those changes. **Ms. Farrales** shared her views and that of the Board's Finance and Operations committee by saying the expectation was that the Board was going to have a response from the Treasurer and instead they were bypassed and the policy was scheduled to go directly to the full Board. In conclusion, **Ms. Farrales** questioned her purpose, as a committee member, if she and the other members have no voice in the process. She feels these changes should be shared with all the pool participants, this committee and the Board's Finance and Operations Committee before going to the Board of Supervisors.

PUBLIC COMMENT

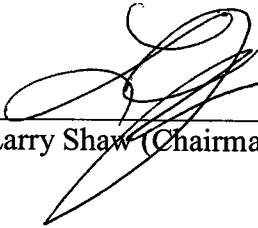
Mr. Joe Galligan introduced himself as the Treasurer of HEART (Housing Endowment And Regional Trust) and requested, on behalf of HEART's Board members, a biography on all the members sitting on the Treasury Oversight Committee. A discussion ensued and it was decided that Mr. Galligan will be given a copy of the committee's contact information and he can then contact each member directly.

DATE OF NEXT MEETING

The next meeting of the Treasury Oversight Committee will be held on Monday, April 19, 2010 at 12:00 noon.

ADJOURNMENT

There being no additional business and no further questions, the meeting was adjourned at 12:35 p.m.



Larry Shaw (Chairman)



Nilita Meitz (Executive Assistant)