

SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

October 24, 2011

2.1 MEMBERS IN ATTENDANCE

Larry J. Shaw (Senior Vice President, Morgan Stanley/Smith Barney) **Chairman**
David Glasser (Finance Manager, Bay Area Air Quality Management District)
John Marty (Treasurer, City of San Bruno)
Rosalie O'Mahony (Public Member)
Denise Porterfield (Deputy Superintendent Fiscal & Operational Services Division)
Lori Snow (Treasury Finance Manager, SMC Transit District)

MEMBERS ABSENT

Margie Gustafson (Administrator, County Office of Education)
Jim Saco (Budget Director, County Manager's Office)
Anthony J. Zidich (Treasurer, City of Daly City)
Vacant (Representative of School Board Presidents)

STAFF IN ATTENDANCE

Sandie Arnott (Treasurer-Tax Collector)
Charles M. Tovstein (Assistant Treasurer)

MEMBERS OF THE PUBLIC IN ATTENDANCE

David Burruto (Chief Legislative Aide to Supervisor Dave Pine)
Nancy Jones (Investment Advisor – PFM)
Lawrence Pon (Certified Public Accountant)

The meeting was called to order at 12:03 p.m. Chairman Larry J. Shaw welcomed all in attendance. Members and guests were asked to introduce themselves.

3.1 MINUTES

Chairman Shaw asked for a motion to approve the minutes of the April 25, 2011 meeting. Lori Snow moved to approve and Rosalie O'Mahony seconded the motion. The minutes were approved unanimously.

4. ASSISTANT TREASURER'S REPORT – Charles M. Tovstein

4.1 – Investment Report

Mr. Tovstein began his investment report with a brief overview of the S&P downgrade of Treasuries and the resulting decision to not renew our contract for rating services with S&P resulting in a \$20,000 annual savings to taxpayers. In line with this decision, wording in the 2011 Investment Policy which refers to "will" have an annual contract for rating the pool annually will be changed to reflect that a contract for rating services "may" be requested annually. Board members were advised how difficult it is to get value in the current market and that the pool's maximum position placed in LAIF is currently yielding 30 cents.

Mr. Tovstein touched upon the gross earnings rate for the month ended September 30, 2011 which yielded 1.66% and 1.31% for quarter ending September 30, 2011. He stated these were exceptional ratings and are not expected to continue. It is anticipated that October's earnings will be closer to 1%. Cash Flow was briefly discussed with members being advised securities are maturing, securities are being called and we are approaching the beginning of tax season.

A discussion was held on investment practices and the review process by PFM. At this point, Nancy Jones, our PFM representative, was introduced to the attendees. Nancy provided a short overview of the relationship between PFM and the Treasurer's office and the daily investment review process followed between she and Charles. Members were advised that any investment questioned by PFM is thoroughly discussed and in cases where the Assistant Treasurer and PFM disagree or find an investment to be in a gray area, such securities are avoided or sold. Following discussion with PFM regarding the purchase of Municipal Bonds, which are not currently an authorized investment, the decision was made to add Municipal Bonds, a debt obligation of a state or local government entity, to the authorized list of investment options in the Investment Policy for 2012. Ms. Jones also briefly discussed new SEC regulations surrounding fund fiduciaries who may be viewed as financial advisors requiring the taking of a Series 65 exam.

A brief discussion took place on Yankee CD's, which are dollar denominated CD's issued by foreign banks, and Euro paper held in the pool. Mr. Tovstein affirmed that Deutsche Bank is the pool's only European Yankee owned and is a solid bank per research conducted and results provided to the Board of Supervisors.

Mr. Tovstein continued his investment report by asking if there were any questions regarding the most recent investment packet, dated October 12, 2011. As no questions were posed, he invited the committee members to follow along as he reviewed the monthly investment report.

The current asset allocation breakdown, the Pooled funds credit quality, participants and cashflow were reviewed with no questions or concerns expressed.

Mr. Tovstein reviewed pages from PFM's Compliance Overview and reported the County's Portfolio was in compliance with the Government Code §53601 and the 2011 proposed Investment Policy. The report ended with the Compliance Overview showing the breakdown of all the securities held in the County's Portfolio.

5. TREASURER'S REPORT – Sandie Arnott

5.1 Unfinished Business

Lehman Bonds:

Sandie Arnott presented an update on the Lehman Litigation advising attendees that Plan Support Agreements (PSA) have been submitted and a final decision by the court is expected soon. It is anticipated that the first distribution of funds should occur in the first quarter of 2012. Mr. Tovstein interjected that the possibility exists that such distribution may be conducted incrementally, but this has not been confirmed. Voting on the plan will take place on November 4, 2011, and confirmation will take place on December 6, 2011. Joe Demeo, the Financial Services Manager in the Treasurer's office will be responsible for distributing the funds received. The amount distributed to pool participants will be based on the daily average balance of each account in the quarter beginning 6/20/09 and ending 9/20/09.

Pertaining to the litigation against the Executive and Directors of Lehman, Ms. Arnott stated that the County was offered 1 penny on the dollar as a settlement. In discussion with the Cotchett Firm who is working with County Counsel, the feeling was strong that the settlement should and could be higher. Ms. Arnott made the decision to not settle for 1 penny on the dollar and pursue a higher settlement.

Ms. Arnott advised attendees that litigation against Ernst & Young, Accountants for Lehman, continues with no update available.

2012 Investment Policy

Ms. Arnott reiterated the two proposed changes to the 2012 Investment Policy: Section VII – Authorized Investments, will add Municipal Bonds with a 5 year maturity. PFM, our external investment advisor, is in agreement with this addition. Section XVII – Internal Controls – E. Pool Rating, will be changed as follows: Annually, a contract will be requested to Annually, a contract may be requested. PFM, our external investment advisor, is in agreement with this change.

6. ORAL COMMUNICATIONS AND PUBLIC COMMENT

None

7. OTHER BUSINESS

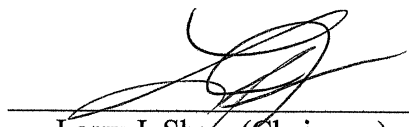
None

DATE OF NEXT MEETING

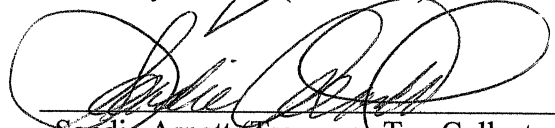
The next meeting of the Treasury Oversight Committee will be held on Monday, January 23, 2012, at 12:00 noon.

8. ADJOURNMENT

There being no additional business and no further questions, the meeting was adjourned at 1:05 p.m.



Larry J. Shaw (Chairman)



Sandie Arnott (Treasurer-Tax Collector)