

SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

April 23, 2012

1. CALL TO ORDER

The meeting was called to order at 12:03 p.m. Interim Chairman John Marty welcomed all in attendance.

Members and guests were asked to introduce themselves during roll call.

2. MEMBERS IN ATTENDANCE

John Marty (Treasurer, City of San Bruno) **Chairman (Interim)**
Margie Gustafson (Administrator, County Office of Education)
David Glasser (Finance Manager, Bay Area Air Quality Management District)
Rosalie O'Mahony (Public Member)
Lori Snow (Treasury Finance Manager, SMC Transit District)
Jim Saco (Budget Director, County Manager's Office)
Anthony J. Zidich (Treasurer, City of Daly City)

MEMBERS ABSENT

Denise Porterfield (Deputy Superintendent Fiscal & Operational Services Division)
Vacant (Representative of School Board Presidents)

STAFF IN ATTENDANCE

Sandie Arnott (Treasurer-Tax Collector)
Charles M. Tovstein (Assistant Treasurer)
Joe Demee (Financial Services Manager)

MEMBERS OF THE PUBLIC IN ATTENDANCE

Lawrence Pon (Certified Public Accountant)
Steven Koury (Governing Board Member – Hillsborough City School District)
Michael Barber (Legislative Aide – District One, Board of Supervisors)

3. SELECTION OF COMMITTEE CHAIRMAN

It was announced by Ms. Arnott that Larry J. Shaw resigned as Chairman to avoid a conflict of interest. Ms. Arnott opened nomination for a replacement Chairman to the committee. A motion to approve John Marty as Chairman was made by Rosalie O'Mahony and Tony Zidich seconded the motion, all members present approved the motion.

4. MINUTES

John Marty made a motion to approve the minutes of the January 23, 2012 meeting, seconded by Jim Saco. The minutes were approved unanimously.

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

5.1 – Investment Report

Mr. Tovstein announced we had a good quarter with gross earnings of 1.04% for the month of March and 1.02% for the quarter. He expects the month of April to have a net earnings rate of approximately 1%. The diversification page in the March investment report reflects the largest position we have is Toronto Dominion Bank at 2.94%. Per the policy 5% is the max. The average daily balance is high because tax collection season has just ended. Despite the fair amount of volatility, Mr. Tovstein stated we've had a good month.

Mr. Tovstein noted that for the past several months he and Rachel Ridon have worked together, and she has done an admirable job. For over two months Rachel has diligently worked both desks without taking a vacation day or sick day. In addition, she deserves credit for monitoring the Lehman situation, corresponding with Bank of New York, DTC, and keeping the department informed. He believes no one in the department has done more than her to stay on top of the bankruptcy proceedings and payout schedule. The responsibility now goes to Joe Demee in regards to the Lehman proceeds and payouts.

Regarding Lehman, we received a total of approximately \$9.3 million. We initially received \$8 million and the remaining funds were received the following day. The net amount is approximately 6 cents and accounts will be credited to 4/18/12 when funds were received.

The Lehman credit will appear on the participants April statement with credit based upon the average daily balance for the quarter 7/1/08-9/30/08. It will be a separate line item in September of this year and the same situation will occur but we are unsure of the payment amount.

Mr. Tovstein said Lehman bonds were trading at 30 cents on the dollar prior to the payout, and are now trading at roughly 24 cents on the dollar. We own 9 securities and each one came in slightly different values (i.e., one may be worth .603 cents, or .601 cents) and the average was .602 cents. The original expectation was 5 cents.

Mr. Tovstein indicated that the US labor market is improving and that it should continue to improve. He also indicated that Europe's market is coming back as well. Either a strong recovery or negative news from Europe will continue to drive the US market. Rates may have the tendency to go higher in the next 12-18 months and we may experience spikes.

According to the PFM compliance report we are compliant. Overall, we are in compliance with state code and our internal policy. We have more cash compared to other counties and we are probably more transparent based upon our website versus other counties.

6. REVIEW OF INTERNAL AUDIT REPORT

The committee reviewed the internal audit report conducted by the Controller's office.

Mr. Tovstein did note a few of the numbers were incorrect. He disagreed with the comparison to other county pools using yield to maturity to compare the pools. Mr. Tovstein said yield to maturity does not correctly reflect the true earnings rate or total return value of our pool which is actively managed.

Mr. Tovstein handed out the pool's Total Return Report. He said the total return numbers are extremely good and compare favorably to, and, actually outperform Merrill Lynch's synthetic index. He pointed out that the average life of our pool is 1.9 years and shorter than the index's average life of 2.25 years. He noted the pool owns callable securities, many of them cushion bonds bought at a premium, which will be called on the first call date. The index doesn't carry large amounts of cash, doesn't have callable securities, and does not have repo and money coming in and out. Overall, Mr. Tovstein stated that we continue to perform at an extremely competitive level and actually outperformed the index over the last one, three, and six month period.

No exceptions were noted in the audit.

7. TREASURER'S REPORT – Sandie Arnott

7.1 Update on 2012 Investment Policy

Sandie Arnott acknowledged Mr. Tovstein and his team for doing an excellent job.

Ms. Arnott provided an update on the 2012 investment policy and stated that it was pulled from the agenda at the agenda review by Supervisor Pine. She met with Supervisor Pine and Michael Barber (Aide to Supervisor Pine) to review the policy briefly and they questioned the possibility of setting up a fund to mirror LAIF, specifically for the schools should they choose to invest. Discussions were also held with Charles Tovstein.

Ms. Arnott followed up with an e-mail to Supervisor Pine to ensure all questions have been answered so that the policy can be placed on the Board of Supervisors agenda again, but has yet to receive a response. She would like to place the policy on the May 15, 2012 agenda for approval, and she will have PFM on-site at the meeting to answer questions from the Board of Supervisors in regards to the policy. Michael Barber stated that Supervisor Pine will be in contact.

Ms. Arnott introduced Steven Koury, Governing Board Member of the Hillsborough School District, who has been selected to serve on the Treasury Oversight Committee representing the School Board Presidents. The resolution proposing the nomination will go to the board for approval on May 15, 2012. Mr. Koury will be on board for the next meeting.

7.2 Unfinished Business

According to Ms. Arnott, there were no additional changes to be made to the policy. It will be resubmitted in its original format.

There were two changes made from the 2011 policy. One was changing the fund will be rated to may be rated.

Mr. Tovstein added that we can be rated by PFM. They have the ability to look through our portfolio and assign a rating. Ms. Arnott noted that in January S&P submitted a new format as to how they will rate pools moving forward. In March, Moody's submitted a similar presentation. Should Fitch submit the same, she will consider an RFP for rating services if she feels it will be a benefit to the pool and the tax payers.

The other change to the policy is the addition of municipal debt which has been questioned. It should not be assumed that we will invest in municipal debt immediately or to the max. This is being added for diversification purposes, providing another investment option.

Mr. Tovstein stated we plan to buy taxable municipal debt, and he doesn't believe it will add risk, but that it will add diversification.

8. ORAL COMMUNICATIONS AND PUBLIC COMMENT

Steven Koury made a statement when the committee opened the forum to public comment. He stated that the schools would not support putting a five year municipal debt in the portfolio because the downgrade in municipal debt would cause the market value to decrease. He said if it was a longer term portfolio it would be different. Mr. Koury asked Mr. Tovstein if the department had a full time municipal analyst on staff. Mr. Tovstein stated that the department did not have a full time municipal analyst and he would do the analysis himself.

Mr. Tovstein responded to Mr. Koury by clarifying that it would be a taxable municipal debt only. He stated that the safety and preservation of principal are always number one before yield. Mr. Tovstein said that there is a significant difference between a taxable muni and a tax exempt muni piece of paper. He reiterated that taxable municipal debt was added to the policy as an option. He indicated what he thought was a perfect taxable muni security for the fund to own. It is a Regents of the University of California general revenue bond. Its structure is a floating rate note with a one year final, one month libor + 55bps. Mr. Koury then asked, "So you want to increase the pool's risk by buying muni's?" Mr. Tovstein responded, "No, that is not the case. The pool's risk is limited by State Code 53601 and our own Investment Policy. The risk parameters for the pool remain the same whether we add muni's to the pool or not." David Glasser said that he has seen comparative studies from the Fitch rating agency comparing muni defaults versus corporate defaults and the likelihood of any default is 99% less than all corporate rated debt. Mr. Glasser went on to say that in order of magnitude it's important to note that muni defaults get a lot of press because they are so rare, and muni's are safer investments, taxable or tax exempt, than any corporate debt.

9. OTHER BUSINESS

None

10. DATE OF NEXT MEETING

The next meeting of the Treasury Oversight Committee will be held on Monday, August 20 at 12:00 p.m

11. ADJOURNMENT

There being no additional business and no further questions, motion to adjourn was made by Lori Snow and seconded by Rosalie O'Mahony. The meeting was adjourned at 1:00 p.m.

(Chairman)

Sandie Arnott (Treasurer-Tax Collector)