SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

June 4, 2012

1. CALL TO ORDER

The meeting was called to order at 12:03 p.m. Sandie Arnott welcomed all in attendance.

2. MEMBERS IN ATTENDANCE

John Marty (Treasurer, City of San Bruno) **Chairman**
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)
Denise Porterfield (Deputy Superintendent Fiscal & Operational Services Division)

MEMBERS ABSENT

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

Nancy Jones (Public Financial Management)

3. REVIEW, DISCUSS, & APPROVAL 2012 INVESTMENT POLICY

Sandie Arnott removed the draft 2012 Investment Policy from the previous Board of Supervisors meeting and rescheduled it for the June 6, 2012 BOS meeting. Our draft policy is currently indicating a AAA rating requirement.

Ms. Arnott stated that the purpose of the special Treasury Oversight Committee meeting is to review the policy with Nancy Jones from Public Financial Management (PFM), Charles Tovstein, and members of the committee. Ms. Arnott said that if anyone had questions or concerns that they would be addressed during the meeting so the policy could go to the next Board of Supervisors meeting on June 26th. There is an agenda review scheduled for June 14.

Ms. Jones said the U.S. Government was downgraded to a AA Rating and the current draft policy still requires a AAA Rating. Although the downgrade was made by one rating, Ms. Jones said that it creates a split rating. AA treasuries should be in the portfolio, and she recommended that this should be clear in the policy.

While reviewing the 2012 Investment Policy, Mr. Tovstein suggested in Section VII. Authorized Investments, the following statement, "Long-term credit ratings, where shown, specify the minimum credit rating category required at time of purchase without regard to modifiers (e.g. +/- or 1, 2, 3) if any" should be revised by removing the following: "without regard to modifiers (e.g. +/- or 1, 2, 3) if any." However, PFM advised keeping that statement intact. A few PFM clients have said that their auditors have told them that if they own A- then they own securities that are lower. It was agreed to leave the sentence as is to keep the intent.

Under section A. U.S. Treasury Securities John Marty suggested that the following statement, "U.S. Treasury Securities must be rated AA, long-term, or A1, short-term, or better by at least two of the three nationally recognized rating services (S&P, Moody's, and Fitch)," state "The U.S. Treasury, or the explicit guarantee of the federal government," for additional coverage. Agencies should maintain the AA rating according to Mr. Tovstein.

Mr. Tovstein next addressed the changes to section I. Repurchase Agreements, "The Counter Party in Repurchase Agreements must be rated A1, P1, or F1, short-term, or better by one of the three nationally recognized rating services (S&P, Moody's, and Fitch)." He said that while there is a counter party risk the securities are under our control at a custodial bank. Mr. Tovstein went on to note that we use credit worthy institutions and questioned whether there should be a minimum rating on our counter party on a repo. He said we are receiving as collateral five year and under Treasury securities, 102% collateralized held at our custodial bank. Also, Mr. Tovstein added that we control the securities regardless of their rating. If an institution loses their A rating then we would have to make changes to the policy to avoid being in violation. All agreed.

Under M. Municipal Debt section of the policy, Mr. Tovstein said he supports the decision to buy municipal debt and it does not increase risk to the pool. Ms. Arnott clarified that only taxable municipal debt would be purchased which was discussed at the last Treasury Oversight Committee meeting. Mr. Tovstein suggested removing the word "taxable" from the Municipal Debt section, and Nancy Jones from PFM also recommended that it be removed. All agreed.

The next section that was discussed was section X. Diversification and Maturity Restrictions. Mr. Tovstein said the agencies will be maintained at AA, A1, or better. Ms. Jones suggested adding a hyphen between AA and A1 to clarify the rating system. Ms. Jones suggested removing "short-term rating" from the policy.

Also under section X. Diversification and Maturity Restrictions it was decided to edit "Municipal Debt – Taxable only," to state, "Municipal Debt" and remove "taxable only." Mr. Tovstein said that Muni's would still be a maximum 5% of any one name. Ms. Jones suggested that you could state that you can't have more than 30% in a combination of muni and corporate debt because it would be difficult to track. All agreed to separate muni to 10% of fund and 5% aggregate in 5 years, and taxable will be removed.

Ms. Arnott concluded by stating that the purpose of the meeting was to have an overall agreement from the Treasury Oversight Committee to recommend the revised 2012 Investment Policy to the Board of Supervisors to approve.

4. ADJOURNMENT

The meeting was adjourned at 12:26 p.m.

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(Chairman)

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Sandie Arnott (Treasurer-Tax Collector