

SAN MATEO COUNTY
TREASURY OVERSIGHT COMMITTEE

MINUTES

October 20, 2014

1. CALL TO ORDER

The meeting was called to order at 12:15 p.m. by Chairman John Marty.

2. ROLL CALL/INTRODUCTION OF NEW MEMBERS:

Helen Fiscaro – Town of Colma

Daneca Halvorson – Treasurer of Daly City

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

MEMBERS IN ATTENDANCE

John Marty (Treasurer, City of San Bruno) **Chairman**

Jim Saco (Budget Director, County Manager's Office)

Margie Gustafson (Administrator, County Office of Education)

Denise Porterfield (Deputy Superintendent Fiscal & Operational Services Division)

Daneca Halvorson (Treasurer, City of Daly City)

Helen Fiscaro (Town of Colma)

Sandie Arnott (Treasurer-Tax Collector)

MEMBERS ABSENT

Stephanie Osaze (Finance Manager, Bay Area Air Quality Management District)

Stephen Rogers (Schools & Community College District Representative)

STAFF IN ATTENDANCE

Charles Tovstein (Assistant Treasurer)

Joe Demee (Financial Services Manager)

Gina M. Luiz (Executive Assistant)

MEMBERS OF THE PUBLIC IN ATTENDANCE

Carlos Obilites (PFM)

3. APPROVAL OF MINUTES – April 21, 2014

Denise Porterfield made a motion to approve minutes from the April 21, 2014 meeting, seconded by Jim Saco. Meeting minutes were approved unanimously.

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

4.1 Investment Report

Charles Tovstein reported the gross earnings were .82% for the month and .76% for the quarter.

Mr. Tovstein said San Mateo County currently has 25.1% voluntary participants in the pool. He stated that to the best of his knowledge "San Mateo is the only pool he knows of that accepts voluntaries, certainly the only one with such a high percentage of voluntary participants". He explained it put us at a distinct competitive disadvantage because the pool requires extremely high levels of liquidity. He said this disadvantage is compounded by the fact that the pool does not use

supranational agencies such as World Bank/African Development Bank, taxable municipal bonds, 144A paper or 42A paper. As a result it is becoming increasingly difficult to invest the funds to maintain high levels of liquidity needed due to the allowance of voluntary participants in the pool. Mr. Tovstein said the repurchase agreement market is dwindling and Deutsche Bank is the only bank currently offering repurchase agreements. Lately, Deutsche has been unwilling to offer Repurchase Agreements over quarter/month end. He is hopeful to begin doing Repurchase Agreements with Wells Fargo in the near future and is considering opening a Treasury Money Market Fund with Morgan Stanley or perhaps Fidelity through our custodial bank, Bank of New York.

John Marty asked if high levels of voluntary participants in the pool are causing issues. Mr. Tovstein stated that he was considering lowering the withdrawal rate for voluntary participants resulting in his having to maintain lower levels of pool liquidity.

Mr. Tovstein reported that on October 1, 2014, Moody's put Union Bank on credit review for a possible downgrade. He mentions that one of the pool's participant voiced concern over this possible downgrade. The concern was over both holdings and our banking relationship. In addition he mentioned some individuals thought we should liquidate our Union Bank positions. He then stated a credit review is not a downgrade. Mr. Tovstein further explained that Union Bank was put under credit review for low profit margins due to conservative lending. Carlos Obilites of PFM noted that supply is smaller and as a result banks have to hold more capital reserves.

5. Treasurer's Report – Sandie Arnott

5.1 Suggested Changes to Investment Policy

Sandie Arnott discussed the proposed changes to the Investment Policy.

ORIGINAL STATEMENT:

H. Corporate Securities

The maximum maturity for corporate securities is five years. Eligible securities shall be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. At the time of purchase, corporate securities must be rated A or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Securities in this classification must be dollar denominated and registered with the Securities and Exchange Commission and be publicly traded or at least have undergone shelf registration. If a security is owned and downgraded below the pool's investment standards, the Treasury Oversight Committee will be notified within 10 days of any security downgrades that fall below the pool's investment standards and the course of action to be taken if any. In addition, the information will be posted on the Treasurer's website within the same time frame.

Purchases of Corporate Securities shall not exceed 30% of the pool. At the time of purchase, a maximum of 25% of the entire core position of 30% can be rated single A. The remaining 75% must be AA rated or higher. There is a 5% limitation of the fund in any single issuer of Corporate Securities, however, the Pool has a target of holding no more than 3%. The 3% target may be exceeded under exceptional circumstances. (i.e.: peak tax collection periods, G.O. Bond issuances, etc.) when there is a large influx of cash.

PROPOSED CHANGE:

H. Corporate Securities

The maximum maturity for corporate securities is five years. Eligible securities shall be issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. At the time of purchase, corporate securities must be rated A or better by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). Securities in this classification must be dollar denominated and registered with the Securities and Exchange Commission and be publicly traded or at least have undergone shelf registration. If a security is owned and downgraded below the pool's investment standards, the Treasury Oversight Committee will be notified within 10 days of any security downgrades that fall below the pool's investment standards and the course of action to be taken if any. In addition, the information will be posted on the Treasurer's website within the same time frame.

Purchases of Corporate Securities shall not exceed 30% of the pool. At the time of purchase a maximum of 25% of the entire core position of 30% can be rated single A by at least two of the three nationally recognized rating services (S&P, Moody's and Fitch). The remaining 75% must be AA rated or higher. For purposes of determining compliance with this requirement, a security's rating will be determined by its highest rating by either S&P, Moody's, or Fitch. There is a 5% limitation of the fund in any single issuer of Money Market/Corporate Securities, however, the Pool has a target of holding no more than 3%. The 3% target may be exceeded under exceptional circumstances. (i.e.: peak tax collection periods, G.O. Bond issuances, etc.) when there is a large influx of cash.

ORIGINAL STATEMENTS:

Bankers Acceptances

*Domestic: (\$5 billion minimum assets)

*Foreign: (\$5 billion minimum assets)

Negotiable Certificates of Deposit

(\$5 billion minimum assets)

Corporate bonds, Medium Term Notes & Covered Bonds

PROPOSED CHANGE:

Bankers Acceptances

*Domestic: (\$5 billion minimum assets)

*Foreign: (\$5 billion minimum assets)

(two agencies)

Negotiable Certificates of Deposit

(\$5 billion minimum assets)

(two agencies)

Corporate bonds, Medium Term Notes & Covered Bonds

(two agencies)

The proposed changes will be presented to the San Mateo County Board of Supervisors at one of their meetings in early 2015.

5.2 Audit Report

Ms. Arnott provided copies of the report and noted there were no exceptions to the audit. She said if the group had any questions they may contact her or Joe Demee.

6. PFM Report

6.1 Compliance & Investment Update

Mr. Obilites reviewed the PFM compliance report and in the overview stated the portfolio complies with San Mateo County's Investment Policy.

6.2 Economic Review

Mr. Obilites provided an economic update. He stated there is a lot of volatility in the market. He said this is a result of what is occurring in the stock markets and a concern that the rest of the world economy is not keeping up with where it should be. He said the volatility is also driven by external events such as Ebola and ISIS as the US economy is experiencing growth.

Mr. Obilites said China is exhibiting a slowdown, but there is still a 7.5% annual growth rate. The biggest driver of their economy is industrial production and export trade which is trending down. As a result, he said there is a drop in oil prices.

7. ORAL COMMUNICATIONS AND PUBLIC COMMENT

None

8. NEXT MEETING DATE

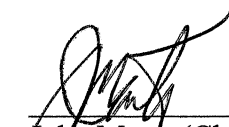
8.1 Next meeting – Monday, January 12, 2015 – noon

9. OTHER BUSINESS

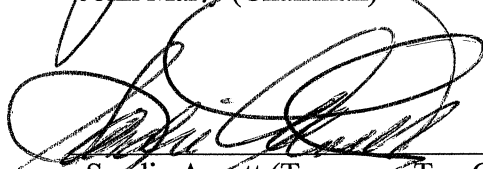
None

10. ADJOURNMENT

The meeting was adjourned at 1:00 p.m.



John Marty (Chairman)



Sandie Arnott (Treasurer-Tax Collector)