



**SUMMARIZED MINUTES OF THE
PUBLIC FINANCING ADVISORY COMMITTEE
Thursday, March 28, 2013 at 1:30 P.M.
Hall of Administration
Planning Commission Room**

Committee Members: Chairman, Thomas Hammond, Vice Chairman, Carl Groner, Committee Member; John J. Moohr, Committee Member Lisa Hughes, Committee Member; Wallace Rodecker, Committee Member, Shari Freidenrich, Treasurer Tax-Collector; Frank Kim, Interim Chief Financial Officer; Jan Grimes, Chief Deputy Auditor-Controller

County Representatives Present: Angie Daftary, County Counsel, CEO/Public Finance; Suzanne Luster, Public Finance Manager; Richard Mendoza, Anil Kukreja, Diane Wittenberg

- 1. Call to Order:** The meeting was called to order at 1:30 P.M by Chairman, Thomas Hammond.
- 2. Approval of Minutes of February 21, 2013:** Committee Member Rodecker moved to approve the minutes. The minutes were approved unanimously.
- 3. Approval of qualified panel of underwriter firms for the County of Orange financings:** Richard Mendoza presented item #3.

Committee Member Hughes inquired if the RFQs for underwriters were to be done every two years, the law firms four years and the financial advisors three years. Mr. Mendoza stated that was correct.

Mr. Mendoza stated that, relative to the underwriter firms, they found that the principal in the attorney firms was likely to remain within those same firms. They did not want to have individuals that had been assigned to the County, as part of either the Request for Qualification (RFQ) process or the RFP process, to be new folks that were not originally part of the qualified panel.

Mr. Mendoza stated that many of the players of Merrill Lynch at the time of the bankruptcy were no longer with Merrill Lynch by the time the RFQs were done.

Committee Member Hughes stated that she was not real sure that the financial advisors and the law firms haven't had some similar movement in the last few years and that we could be a little more together, instead of two, three, and four years, whether or not that is still appropriate considering the environment.

Committee Member Moohr stated that he felt very positive at the meeting with the evaluation process we went through. Committee Member Moohr added that they eliminated four firms, and it seemed obvious then that they weren't in the same league as the other 15 firms.

Mr. Mendoza stated that one of the things that the Request for Qualifications and Proposals actually mentioned is that any changes in staffing should be cleared with the County prior to that. But if somebody leaves the firm in fact, our experience is that they typically do not inform us. So that would certainly be an alternative for us for your consideration.

Committee Member Hughes stated she would be interested in a quick and dirty analysis and a couple of samplings as to what the consistency if the staffing was (i.e., the percent on the billings).

Ms. Suzanne Luster responded that we can provide that detail, that analysis, at the next meeting. In addition, she added that the two bond counsel firms that we currently have five-year contracts with, and that have been the bond counsel in most of our financings, have remained the same key principals. The same staff has worked on our financings in the last five years.

Ms. Grimes mentioned in the write-up that the firms have noted outstanding and settled litigation. She inquired how that influenced the "yes" or "no" decisions.

Mr. Mendoza explained that all of the firms, with the exception of two, had some level of pending or settled litigation or investigation and he called County Counsel and asked to consult with them about the materiality of those pending or settled litigations or investigations.

Mr. Mendoza added that there were two considerations that resulted from that exercise: First, what happens if somebody is cleared today, during this establishment of the pool, but by the time that we get to do an actual financing, they're in the RFP process? The second consideration was that if in the interim they have something that would be questionable, and we concluded that may be, that's really the time when we should look much more carefully as to whether they're still cleared legally or not. But County Counsel is here to address some of those issues as well.

Ms. Angie Daftary stated that when she took a look at some of the things they had cited in terms of investigation, it seemed that they were practices that had happened industry wide. She also added that if the FCC came down for some of the way they were marketing some of the adjustable rate securities; well a lot of firms got dinged across the board. So a lot of it seemed to be an industry type of practice.

Public Comment: Christopher Vinck, Great Pacific Securities, stated they have been around for 23 years, here in Orange County, and from looking at the County's list he believed the they were the only firm headquartered in Orange County, and that they participated in approximately \$25 billion in underwritings, and in the

secondary markets, and traded about \$2-\$3 billion a month in securities. He stated that they have no litigation whatsoever and they have no threatened or pending litigation currently in the last 23 years. Mr. Vinck also commented that he noticed that the County selected firms based on their experience as a lead underwriter or primary underwriter, mostly. That was the only negative about our firm.

Mr. Vinck reiterated that they are the only local firm that's headquartered here in Orange County that applied to be one of the folks in one of your panel of firms that could possibly be selected. He also stated that 90% of their employees also live in Orange County, from San Clemente all the way down to Huntington Beach, and that joining him today is, Dave Swish their CEO, who lives in the City of Orange.

Mr. Vinck stated that, as a matter of fact, yesterday they were just asked to be a co-manager for the State of California public works deal. Earlier this month, they helped underwrite over \$2 billion for the State of California as well. And they were one of the only three firms that was selected to be in all portions of the deal, both the taxable and the tax exempt and the depths.

He added that there were three portions to that deal. They were the only firm selected for all three portions. He also thanked the PFAC Committee Members for their time and again asked that they reconsider putting Great Pacific, a local firm, on the panel.

Ms. Luster stated that when the County is issuing an RFP, it's looking for a lead underwriter and the underwriter, as part of the team, is a key financing team member in developing the financing, assisting the County in the rating agency presentation. Ms. Luster added that since she's been in Public Finance, the last seven years, she was not aware of us issuing a financing that required more than just one lead underwriter. Richard stated, "that's correct."

Ms. Luster added that the staff perspective is that we agree with the evaluation committee's recommendation. She stated that she appreciated Mr. Vinck coming here today and describing their experiences. But that we don't believe that the County of Orange fits in that criteria.

Mr. Vinck stated the net unencumbered capital was \$2.5 million, which in an underwriting perspective reaches up to approximately being able to take down \$50 million. But often times the one here won't distribute the whole thing all by themselves. Or if they do, you certainly would benefit if you had competition in there to make sure they're finding all the buyers for you and get the best rate for you, if they're not just sending to all – just the customers at a good rate. Mr. Vinck reminded the Committee that they have to balance between what's good for the underwriter's current customers and what's good for you; and if you only have one fox, so to speak, guarding the hen house, that's a tough balance for them. Whereas, if you had more than one person in your deal who are going to be competing against each other, and as you know competition always drives down costs, which would only benefit the County.

Chairman Hammond stated that Mr. Mendoza, Mr. Moohr and Ms. Luster seemed to think that we did an appropriate job. He recommended that Mr. Vinck can try again next year or two years from now, when we do this process again and to keep working on it.

Committee Member Freidenrich inquired if there was a deal that would come up in the next two years that would allow us, or that would be appropriate for a co-manager, and if we don't have someone on the list that does that appears to do a good job for co-manager we would be excluded from that capability. She also inquired what if the next stage would be to actually go through the RFP.

Mr. Mendoza stated that the RFP is going to ask very similar questions to what we had in the RFQ. So we're going to ask the amount of senior management experience in the past three years, the par amount of the total bonds that they've issued in the past three years as senior managers and in addition to that local presence, which was true in this case, and then finally the compensation package. So the compensation would be one of pieces that would be included in the RFP that was not included in the RFQ process.

Mr. Mendoza stated that there was actually one firm that was included in the qualified panel last time around that was excluded this time because they had no senior experience. Chairman Hammond moved to approve the item. The motion was seconded by Committee Member Hughes.

4. Adjournment: The meeting was adjourned at 2:15 p.m.