



**SUMMARIZED MINUTES OF THE
PUBLIC FINANCING ADVISORY COMMITTEE
Thursday, October 16, 2014 at 1:30 P.M.
Hall of Administration
Planning Commission Room**

Committee Members Present: Chair, Lisa Hughes; Committee Member, Wallace Rodecker; Committee Member, John Moohr; Committee Member, Tom Hammond; Shari Freidenrich, Treasurer-Tax Collector; Jan Grimes, Auditor-Controller; Frank Kim, Chief Financial Officer

Committee Members Absent: Committee Member, Carl Groner

County Representatives Present: Angie Daftary, County Counsel; CEO/Public Finance: Suzanne Luster, Public Finance Manager; Louis McClure, Changsu Lee

- 1. Call to Order:** The meeting was called to order at 1:30 P.M by PFAC Chair Lisa Hughes.
- 2. Approval of the Minutes of September 11, 2014 Meeting:** PFAC Chair Hughes asked for a motion to approve the minutes of the September 11, 2014 meeting. Committee Member Rodecker moved to approve, Committee Member Grimes seconded. The minutes were approved with Committee Members Moohr and Hammond abstaining due to their absence at the September 11, 2014 Meeting.
- 3. Approval in concept of the issuance of short-term Taxable Pension Obligation Bonds to prepay the County's Fiscal Year 2015-16 pension obligation and selection of financing team:** Chair Hughes asked for a staff summary of the action item. Ms. Luster, Public Finance Manager, asked Mr. Louis McClure of the Public Finance unit to present the item. Mr. McClure asked for a correction of the Agenda Item Form (AIF) to reflect: "Approval in concept of the issuance of short-term Taxable Pension Obligation Bonds to prepay the County's Fiscal Year 2015-16 pension obligation and selection of financing team" and not: "Approval in concept of the issuance of short-term Taxable Pension Obligation Bonds to prepay the County's Fiscal Year 2014-15 pension obligation and selection of financing team". Ms. Hughes asked PFAC Counsel if the requested correction is acceptable and commensurate with existing policies. Angie Daftary, PFAC Counsel confirmed that the correction is acceptable.

Mr. McClure proceeded to provide a background overview of the recommended approval in concept of the 2015-16 Taxable Pension Obligation Bonds (POB's) and of the proposed selection of the financing team. Mr. McClure informed the Committee that whereas the County has the option of paying its pension obligation monthly, it also has the option of prepaying its pension obligation in a one-time lump sum payment at a 5.8% discount. The County completes the funding for the prepayment option by issuing short-term pension obligation bonds. Mr. McClure stated that the gross savings to the County from the proposed prepayment option is \$22 million.

Mr. McClure explained the process for selection of the financing team (specifically financial advisor and bond counsel) which was completed via a Request for Proposals for general services (including POB's) in 2013. Mr. McClure advised that based on the results of the 2013 RFP, CEO staff is recommending KNN Public Finance (KNN) as financial advisor and Orrick, Herrington & Sutcliffe (Orrick) as bond and disclosure counsel. Mr. McClure explained that both KNN and Orrick have extensive experience with the County's prior POBs; including working on the 2006, 2007 and 2011 through 2014 POB's. In addition, Orrick completed the validation process under which all prior POB bonds have been issued. Mr. McClure informed the Committee that KNN and Orrick fees for the proposed transaction are \$50,000 and \$112,000, respectively. Mr. McClure described the procurement (RFP) process for underwriters and advised that due to the proposed size of the transaction (approximately \$360.8 million) CEO staff is recommending two underwriter firms; J.P. Morgan Securities (J.P. Morgan) and Stifel, Nicolaus & Company (Stifel). Mr. McClure informed the Committee that both J.P. Morgan and Stifel were identified by the RFP evaluation panel as their first choice. Additionally, both firms have extensive experience in working on pension obligation bonds and J.P. Morgan served as underwriter for the County's 2013 POB's. Mr. McClure stated that both J.P. Morgan and Stifel proposed a compensation amount of \$0.25 per \$1,000 bond (which translates to approximately \$95,750 to be split among the two firms) for the proposed \$383 million financing.

Member Moohr asked for clarification regarding the range in proposed fees that were included in the AIF. Mr. McClure clarified that the range represents bids from underwriter firms proposing a compensation (takedown) of \$0.25 per \$1,000 bond at the low end of the spectrum (specifically J.P. Morgan and Stifel) and, at the other high end of the spectrum, underwriter firms proposing fees of \$0.80 per \$1,000 bond (specifically, Siebert Brandford Shank and Company). Member Moohr asked that this clarification be included in future AIF's.

A discussion ensued regarding the use of takedown fees versus total fees. Ms. Luster explained that the use of takedown fees is the preferred metric because it is the largest portion of the proposed fees (comprising perhaps as much as 85% of the pricing component). Moreover, non-takedown fees typically include expenses from "third-party vendors" such as underwriter's counsel that are not directly determined by the underwriter, in effect, these are like pass-through fees.

Member Hammond asked if the County had a good experience with J.P. Morgan on the prior 2013 POB's. Mr. McClure concurred that the County was satisfied with J.P. Morgan's service as underwriter. Ms. Luster added that with J.P. Morgan as underwriter, the County had over two-times subscription for the bonds (in effect, far more orders than bonds available). This resulted in an adjustment in the price of the bonds during the pricing phase, due to the competitiveness caused by the oversubscription.

Member Freidenrich asked for an estimate of prior fees. Mr. McClure, informed the Committee that Orrick agreed to offer a reduced price from \$128,000 for their service in the 2013 POB's to \$112,000 for the current proposed 2015-16 POB's.

Member Freidenrich asked for clarification regarding costs if two underwriters are

used instead of one. Shawn Dralle from J.P. Morgan clarified that expenses are the same, irrespective of whether one or two underwriter firms are used. Member Freidenrich asked for an update regarding investigations involving E.J. De La Rosa (now Stifel, Nicolaus & Company). Ms. Holly Vocal of Stifel explained that the investigation by the Fair Political Practices Commission (FPPC) were on the issuers (school districts, cities and counties) not the underwriting firms. The investigations involved the non-completion of the Form 700 (conflict of interest requirements) by some officials from the issuers in question. Ms. Vocal explained that the FPPC contacted Stifel and asked for copies of their records regarding any gratuities offered to the officials from the municipalities. Chair Hughes asked for comment from PFAC Counsel regarding reporting requirements with respect to gifts and gratuities by vendors. Ms. Angie Daftary, Deputy County Counsel, advised that there are no legal requirements for vendors to provide issuers with receipts or certification of costs for gratuities or gifts. The onus is on officials and employees of the municipalities to determine the value of the gifts and disclose receipt of such gifts. Ms. Daftary added that it is not illegal for vendors to provide gifts, but that it is the responsibility of municipal officials and employees to report receipt of such gifts. Ms. Daftary explained that in the County of Orange the Gift Ban Ordinance forbids officials and employees of the County to accept gifts in excess of \$5.00. Ms. Daftary explained that in the case under investigation, the municipalities involved most likely do not have Gift Ban Ordinances. Chair Hughes explained that irrespective of the law, the appearance of impropriety should keep firms from offering gifts or gratuities. Chair Hughes asked for Member Hammond's perspective on the issue. Member Hammond volunteered that he is satisfied with County staff and Stifel's explanation of the alleged FPPC investigation.

Member Hammond asked that in the future, members of PFAC be included in RFQ and RFP panels.

Chair Hughes asked for a motion to approve in concept the issuance of the short-term Taxable Pension Obligation Bonds to prepay the County's Fiscal Year 2015-16 pension obligation and selection of the financing team. The item was approved unanimously.

Chair Hughes asked that in the future, status reports on all actions taken by PFAC be provided. Chair Hughes asked that PFAC also be apprised of follow-up actions taken by the Board of Supervisors on items brought before PFAC. Ms. Luster agreed.

4. Adjournment: The meeting was adjourned at 2:40 p.m.