



Public Financing Advisory Committee

Thursday, December 8, 2016 at 1:30 pm

Hall of Administration Planning Commission Room

MEETING MINUTES

Attendees: Lisa Hughes (Chair), Wallace Rodecker (Vice Chair), Thomas Hammond (Committee Member), John J. Moohr (Committee Member), Carl Groner (Committee Member), Eric Woolery (Auditor-Controller), Shari Freidenrich (Treasurer-Tax Collector), Angie Daftary (County Counsel), Michelle Aguirre (Chief Financial Officer), Suzanne Luster (CEO/Public Finance Director)

- I. **Call to Order/Introductions/Opening Remarks:** Meeting called to order by Chairwoman Lisa Hughes at 1:35 pm. Member Moohr recommended a moment of silence in honor of John Glenn who passed away.
- II. **Review and Approval of Minutes:** Meeting Minutes of October 6, 2016 were approved with an amendment. Member Hammond moved the minutes, Member Moohr seconded. All in favor of the amended minute, except Chairwoman Hughes and Vice Chair Rodecker who abstained as they were not present for the October 6, 2016 meeting.
- III. **Approval of Public Financing Advisory Committee 2017 Calendar of Meetings:** Ms. Luster requested the approval of the 2017 PFAC meeting calendar. This calendar follows the current schedule of the second Thursday of each month, with the exception of December 7, 2017 to coincide with the Board of Supervisors meeting schedule. Member Moohr moved, Member Hammond seconded, approved unanimously.
- IV. **Receive and File Public Finance Status Report:** Louis McClure, CEO Public Finance, delivered the status report to the committee. On October 26, the County priced the CFD 2016-1 bonds in the amount of \$93.1 million, bonds were sold in a public sale by Piper Jaffray, Raymond James, and Alamo Capital. The principal amount and premium generated \$94.4 million in project funds and will be used for street improvements, storm drain improvements, school facilities, water facilities, and the extension of Avenida La Pata. Mr. McClure explained that premium on the bonds is why there is an average of 4% yield. Vice Chair Rodecker motioned to receive and file the report, Member Hammond seconded, approved unanimously.
- V. **Approve Underwriter qualified panel for future County of Orange financings:** Ms. Luster, requested approval of the recommended panel of underwriters. The last panel was approved by PFAC on April 9, 2013. Ms. Luster explained that the goal is to requalify the panel every two years, Municipal Advisors every three years, and Bond/Disclosure Counsel every 4 years. Requests for Qualification packets were sent out through BidSync and 22 underwriter firms responded. The evaluation panel reviewed each proposal for minimum qualifications. Public Finance performed a reference check as suggest by PFAC in the previous meeting. Only one firm was not recommended due to lack of experience. If approved by PFAC these firms will go to the Board of Supervisors for approval on December 13. Member Groner moved, Vice Chair Rodecker seconded.

The committee asked questions regarding the review process of each firm. Ms. Luster explained that Public Finance develops a questionnaire and sends that out to references via email and telephone follow ups. Additional references were not requested. Ms. Aguirre, CFO, explained that the County's Procurement Office is looking into getting a contract for litigation review services. Ms. Luster explained that during the RFP process, Public Finance asks about capacity to underwrite bonds and can require financial statements from small firms. Also, all firms must be legally permitted to do business in the state of California. Ms. Luster stated that a question is asked about disciplinary actions, but the State Bar is not checked. This is something to look into for the future.

Member Freidenrich suggested in the future to add the firm's headquarters location, adding a column noting firms who have previously done business with the County. Member Groner suggested to complete reference checks from the firm's reference list and Public Finance choose one randomly from their client list. Ms. Luster followed up by stating that Public Finance asks for an appendix of transactions within the last three years.

Member Woolery recused himself due to conflict.

Approved unanimously with Member Woolery recused. Ms. Luster assured Member Hammond that she would provide input to the Procurement Office as to what kind of checking services are needed. Chairwoman Hughes would like to agendize this and Ms. Aguirre stated she would present new, available information to PFAC at a future meeting.

- VI. Approve the Issuance of Taxable Pension Obligation Bonds, Series 2017 A in an amount not to exceed \$400 million:** Angie Daftary is representing the Treasurer-Tax Collector, therefore, Ronnie Magsaysay from the County Counsel's Office will represent Public Finance. Member Freidenrich will abstain from voting and also left the dais so that she would not be involved in the discussion.

Public Finance requested approval to issue Pension Obligation Bonds (POBs) to pre-pay the County's Fiscal Year 2017-2018 employer contribution. The 2017 POB's would be issued in an amount not to exceed \$400 million, the expected issuance amount is \$375 million. The County Treasurer agreed to purchase the bonds with five fixed rate maturities, money would be deposited to OCERS by January 17, 2017. OCERS invests the moneys, and the County starts paying the debt back in August 1, 2017 through bi-weekly payroll collected by County departments with an approximate 1.2% interest cost. The estimated net-savings is \$13 million. If we do not issue the POBs, County departments would be expected to absorb higher pension contribution amounts in their 2017-2018 budget.

Ms. Luster updated the committee on OCERS actual rate of return as of October 31 is at 6.91% as well as discussing the differences between the proposed 18-month program and long-term bonds. The next step in the process is to get Board of Supervisors approval at the December 13 meeting.

Member Moohr stated that at the last meeting they discussed that if the portfolio underperforms then the short fall is added back into the unfunded liability. Ms. Luster stated that in the past it has been beneficial as OCERS has six extra months to invest the funds. Member Moohr added that there could be more liability if the market underperforms. Member Hammond asked Member Woolery if the financing was illegal according to the advisory notice

he sent out regarding long-term bonds. Ms. Luster clarified that these are taxable and municipalities have issued them. Phil Morgan from Orrick Herrington & Sutcliffe LLP explained that they are replacing an obligation mandated by law and the proposed Bonds substitute a bond for the statutory obligation and the proceeds from the bonds extinguish the statutory obligation. Mr. Morgan stated that these bonds are legal.

Member Woolery clarified that the assumption that the advisory notice distributed is only applicable to long-term bonds is incorrect.

Member Hammond asked Member Woolery why he was against this financing. Member Woolery stated that if you look back at the last 5-10 years, OCERS has not made their rate of return estimates. Member Woolery stated that until the pension system is fully funded it is not a good time to issue POBs. Ms. Aguirre explained that you do not need to be 100% funded and the County Executive Office (CEO) had that same concern about not meeting the rate of return. OCERS was comfortable the 4.5% would be met and with the savings the CEO decided to move forward. Member Hammond stated that he is confused as to why Member Woolery thinks that OCERS under performed. Member Woolery clarified that the actual rate of return is 6.26% after taking out OCERS expenses and the assumed rate was 7.57% so there is a rather large disparity between where it actually performed and what is being assumed.

Ms. Luster clarified that the \$18 million projected savings is the gross savings and the \$13 million is the net savings. Member Rodecker wanted to know how much of a swing in the performance would be needed to lose money. Ms. Luster explained that a maximum of 2% is written into the legal documents, but they do not expect it to be that and would not know until January. The CEO gets a portfolio report for each month and then compares it to the discount. For the past five years only last year's POB lost money.

Chairwoman Hughes asked Member Woolery to summarize the five reasons why he is against this financing. Member Woolery stated, (1) we are not fully funded at 80%+, (2) we've seen a huge correction in the market, we are trying to do market timing when we have a real significant change, (3) looking at the past OCERS has not hit the number and the savings is just one dimensional, (4) the current state of the liability is going up, and (5) percentage of payroll of the contribution rates is going up.

Member Groner stated that he had another meeting to attend and he was supportive of this item, but he had to excuse himself from the meeting. Therefore, Member Groner abstained himself from voting.

Member Woolery stated that he recommends not doing the bond issuance and putting additional moneys into the pension. Ms. Aguirre has great concerns with doing that because the County would not benefit from the savings and County departments would need to include a higher pension cost in their 2017-2018 budgets. Additionally, looking long-term issuing this bond makes more sense.

Chairwoman Hughes wanted to know the cost of issuing this bond and Ms. Luster stated the cost is about \$60,000 and an interest cost of \$5 million.

Ms. Luster added the County is balancing providing services to its residents and being fiscally responsible. This is a real savings to the County to use towards providing services to its residents and Public Finance has done their due diligence in this matter.

A roll call vote on this motion was as follows: Member Moohr- yes, Vice Chair Rodecker- no, Member Groner- abstained, Member Treasurer- recused, Member Woolery- no, Member Hammond- yes, Chairwoman Hughes- no. Motion failed.

VI. Public Comments: None

VII. Committee Comments: None

VIII. Date of next meeting: January 12, 2017 at 1:30 pm

IX. Adjournment: This meeting was adjourned at 2:51 pm