



Public Financing Advisory Committee

Regular Meeting

Thursday, May 10, 2018 at 1:30 p.m.

Hall of Administration Planning Commission Room

MEETING MINUTES

- I. Call to Order/Instructions/Opening Remarks:** Meeting called to order by Vice Chair Moohr at 1:30 p.m.

Attendees: John J. Moohr (Vice Chair), Min Chai (Committee Member), Thomas Hammond (Committee Member), Michelle Aguirre (County Financial Officer), Shari Freidenrich (Treasurer-Tax Collector), Eric Woolery, (Auditor-Controller) Suzanne Luster (Public Finance Director) and Nikhil Daftary (County Counsel).

Absent: Wallace Rodecker (Chair)

- II. Approval of Minutes of April 12, 2018 Meeting:** Member Chai made a Motion to approve the meeting minutes, Member Hammond seconded. Member Hammond commented on the brevity of the minutes. Ms. Luster stated that the County is standardizing minutes for all Boards and Committees, with the focus on actions taken. Ms. Luster further stated that when voting on a financial item, staff will include Committee comments and discussion points in the minutes. Treasurer Freidenrich noted that she favors a summary of the meeting minutes with the audio of the recorded meeting on the website. Treasurer Freidenrich suggested that a committee member could state that he or she would like their comment reflected in the minutes and Member Hammond agreed. Member Chai amended her Motion to receive and file with Mr. Hammond's comment. The Motion passed unanimously.
- III. Approval of the Draft Public Financing Advisory Committee Bylaws to reflect the proposed procedure for the future election of Public Financing Advisory Committee Chair and Vice Chair:** Member Hammond made a Motion to approve the amended Bylaws, Member Chai seconded. The Committee discussed the election rotation of Chair and Vice Chair positions. At the Committee's suggestion, Mr. Daftary proposed adding a sentence to the end of Rule 8: "The Officer elected due to a vacancy under this Rule 8 shall be elected to comply with Rule 4A and 4B." The Motion passed unanimously with this amendment.
- IV. Recommend to the Board of Supervisors the selection of Wells Fargo Bank, National Association and the issuance of the Series B Notes to finance the Teeter Plan:** Member Hammond made a motion to discuss the recommended actions, Member Chai seconded. Auditor-Controller Woolery recused himself due to a conflict.

Auditor-Controller Woolery left the meeting at 1:52 p.m.

Vice Chair Moohr inquired about Attachment A – Evaluation Criteria regarding who the evaluation committee members were for the Request for Proposal (RFP) responses. Vice Chair Moohr further commented on the selection of Wells Fargo when there are recent articles

in the *L.A. Times* and *Wall Street Journal* and questioned the County doing business with Wells Fargo when they have public controversy. Ms. Luster stated that she understood his concerns and that the County's Wells Fargo representatives have been proactive in communications with the County and have outlined steps that have been taken with customers to ensure compliance and consumer protections. Treasurer Freidenrich stated that she met with Wells Fargo as they are the County's depository bank. Treasurer Freidenrich stated their issues have been ongoing and that she contacts Wells Fargo when a new issue is in the newspaper to get an understanding of the issue. Treasurer Freidenrich agreed that it was disconcerting regarding overcharging for the mortgage lock rate in their retail side that was noted in the newspaper articles. Treasurer Freidenrich reported that steps were taken to correct the situation and that an RFP will be going out for banking services. Treasurer Freidenrich stated that Wells Fargo provides information about identified issues and she provides this information to the Board of Supervisors.

Wells Fargo Representative Scott Gorzeman spoke to the Committee and noted that the mortgage lock rate overcharge was discovered during their own Wells Fargo investigations, Wells Fargo is a good service provider to the County and helped develop the mechanism for the Teeter program, and continue to be proactive with the County of Orange to be efficient and save the County money.

Vice Chair Moohr asked about the fees of getting out of the contract with Wells Fargo if there were another discovery. Phil Morgan, bond counsel with Orrick, Herrington & Sutcliffe stated there is a possibility to prepay the notes. Mr. Morgan will investigate fees for a no-purchase agreement. Ms. Luster reported the County would have a commitment for one year without a penalty. However, a new RFP would have to be issued and a new provider must be in place by the end of that one year. The County would have to pay off the notes in full and issue new notes.

Ms. Luster commented about the other bids received. Bank of America Merrill Lynch and JP Morgan provided proposals which were not as strong as Wells Fargo. Bank of America Merrill Lynch was the most expensive of the proposals. JP Morgan's proposed term sheet was unacceptable as it required a pledge of the Teeter penalties and interest, which is a significant County General Fund revenue, and would lose the benefits of the Teeter program.

Ms. Luster stated she was satisfied with the communication and service received from Wells Fargo with the Teeter Program. For instance, the County came out of compliance in the tax exempt program. Wells Fargo was responsive to and rapidly assisted the County in helping the County get back in compliance.

Treasurer Freidenrich recommended that Public Finance staff include the following categories in the evaluation criteria for the next RFP to include the financial condition of the company, the governance structure of the company, and headline risk.

Member Hammond wants to reconcile the deal point issues of breakage fee and pledging of interest fees. Ms. Luster stated that a breakage fee is a fee imposed when there is a break in the investment contract when a prepayment is not made on the first of the month. This breakage fee would likely occur based on the delinquent tax collections apportionment cycle that is completed around the tenth of the month. Mr. Gorzeman provided additional

information about breakage fees and stated that Wells Fargo does not charge the County these fees.

Member Hammond inquired about the issue the County has with pledging the penalties and interest received for the delinquent taxes as collateral for the Teeter program. Ms. Luster clarified that the penalties and interest is a significant General Fund revenue source and pledging these penalties and interest would not allow the County to use these monies.

Member Hammond asked if the authorized amount should be lowered from \$100 million to \$75 million. Ms. Luster stated that during the last economic downturn, tax delinquencies increased quickly and substantially, it was also difficult to obtain credit, and for these reasons it would be best to keep the amount at \$100 million as the tax roll continues to grow.

Member Hammond commented that he is not persuaded on the deal point issues. Member Hammond is troubled with Wells Fargo's reputation and is not comfortable using Wells Fargo. Mr. Hammond commented that in 2008, 2009 and 2010 the banks reneged to borrowers and that fact should be considered.

Treasurer Freidenrich emphasized protections and checks and balances are in place, the County has the ability to get out of the contract, and Wells Fargo will update the County regularly and PFAC will be apprised of any concerns. Treasurer Freidenrich stated risk was lower because the County is a borrower for this transaction, rather than an investor of monies.

All committee members expressed concern regarding the selection of Wells Fargo.

Vice Chair Moohr called for a vote for the recommended actions. Vice Chair Moohr, Treasurer Freidenrich, and Member Chai voted in favor of the recommended actions and Member Hammond voted no. The recommended actions passed on a 3-1 vote.

Wells Fargo has noted that they will provide regular interval reporting as requested by PFAC or as issues arise.

V. Public Comments: None

VI. Committee Comments: None

VII. Date of next meeting: June 14, 2018

VIII. Adjournment: Vice Chair Moohr adjourned the meeting at 2:49 p.m.