

**COUNTY OF SACRAMENTO
CALIFORNIA**

February 13, 1996

For Agenda of February 27, 1996

To: Board of Supervisors

From: John Dark
Treasurer-Tax Collector/County Clerk-Recorder

Subject: Sacramento County Treasury Oversight Committee

Recommendations: I recommend that your Board approve the attached Resolution establishing the Sacramento County Treasury Oversight Committee as required by Government Code section 27131. I further recommend that your Board select the members of the committee which are designated by GC §27132(g) as, "Up to five other members of the public."

Background: 1995 was a breathtaking year for those of us involved in public finance. Orange County events served as a "wake-up call" for public officials, whether legislative or administrative, who had fiduciary responsibility for the investment of public funds. As I mentioned in an earlier report to your Board, there was a natural over-reaction to Orange County's bankruptcy and horrendous loss of funds. This, understandably, resulted in a plethora of bills introduced in the State Legislature designed to correct the abuses which led to Orange's collapse. Frankly, many of the proposed solutions were simplistic, while a few bordered on the absurd. Fortunately a consensus was built around Senate Bill 866 which addressed the major deficiencies and abuses which contributed to Orange County's portfolio losses. This bill was chaptered into law in late October 1995 and became effective January 1, 1996.

One of the key provisions of SB 866 requires the Board of Supervisors to establish a county treasury oversight committee if the county invests surplus funds. The supervisors, in consultation with the county treasurer, shall determine the size of the committee. The committee can range from three to eleven members nominated by the treasurer and confirmed by the board. Membership should be drawn from the following categories:

- (a) The county treasurer.
- (b) The county auditor-controller.
- (c) A representative appointed by the board of supervisors.
- (d) The county superintendent of schools (or his/her designee).
- (e) A representative selected by a majority of the presiding officers of the governing bodies of the school districts and community college districts.
- (f) A representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury.

- (g) Up to five other members of the public.
 - (1) A majority of the public members shall have expertise or academic background in public finance.
 - (2) The other public members shall be economically diverse and bipartisan in political registration.

Oversight committee members are subject to the following limitations and restrictions:

- (a) A member may not be employed by any entity that has contributed to a reelection campaign of the treasurer or board member in the previous three years.
- (b) A member may not raise money, either directly or indirectly, for the treasurer or board member while a member of the committee.
- (c) A member may not secure employment with a bond underwriter, bond counsel, security broker or dealer, or with a financial services firm for three years after leaving the committee.

The oversight committee is very limited in its responsibilities and authority. The committee will review and monitor the treasurer's annual investment policy and cause an annual audit of the portfolio. However, the committee cannot direct individual investment decisions, select individual investment advisors, brokers or dealers, or impinge on the day-to-day operations of the county treasury. Finally, all costs associated with the staffing, organization and operation of the oversight committee shall be a legitimate charge against interest earned from the investment of surplus funds.

Discussion: Since the County does invest surplus funds through the Pooled Investment Fund (Pool), your Board must establish a Sacramento County Treasury Oversight Committee. You have the option of restricting participation to as few as three members chosen from the categories listed above, a course I would not recommend. Rather, I urge your Board to set the committee membership at the maximum of eleven to insure all parties who have an interest in the safety and integrity of the County Treasury are represented. Having said this, it still leaves the unresolved issues of: (1) Membership; (2) Terms; and, (3) Qualifications.

MEMBERSHIP

The nominations to fill categories (a), (b) and (d) are rather straightforward. I nominate myself to fill (a) the County Treasurer position; (b) Nancy E. Wolford for the County Auditor-Controller; and (c) Lyle Eckert, the Assistant Superintendent for Business Services as the County Superintendent of Schools designee. I also nominate Geoffrey B. Davey, the Executive Director of Debt Management and Utilization, to fill category (c) as the representative appointed by the Board of Supervisors. Other than myself and my investment officers, Geoff is certainly one of the most knowledgeable members of County staff in the areas of public finance and portfolio management. I make this nomination under the assumption that your Board prefers a member of the County Executive's staff to represent your interests on the Committee. However, if your Board believes that your fiduciary responsibility is best discharged by having a Board member or another representative sit on the Sacramento County Treasury Oversight Committee, I and the other committee members could only be honored to serve with your nominee.

Filling categories (e) and (f) will present some mechanical difficulties for school/community college districts and special districts within the County. The requirement that the representative be selected by a majority of the presiding officers of the school and special districts virtually requires some forum to aid in organizing that selection. Consequently, if your Board approves the membership as recommended, I will contact both the Sacramento County School Board Association and Sacramento County Special District Association to enlist their help. Of course, I will also send letters to all school districts and special districts informing them of your decision and outlining the selection process, qualifications, term and special restrictions surrounding the appointment.

Category (g), the public members, presents its own special challenges. Frankly, I am recommending that your Board set public membership at five because of the qualifications and restrictions associated with these positions. These are: (1) a majority must have actual or academic experience in public finance; (2) others must be economically and politically diverse; (3) they or their employer cannot have contributed to a reelection campaign of a member of your Board; (4) they cannot raise money for a member of your Board while a member of the committee; and, (5) they cannot be employed by a bond underwriter, bond counsel, security broker or dealer, or a financial services firm for three years after leaving the committee. Because of these restrictions I am recommending that each member of your Board select a constituent to serve on the Committee. The mechanics of the process would require that each of you provide me with one, or hopefully two, nomination(s) that meet the qualifications and are willing to suffer the restrictions associated with serving on the committee. I, in turn, will form a list of potential committee members that will achieve the balance required by statute and nominate this slate of candidates to you for confirmation. An additional advantage to this process is that it will insure that I have not packed the committee with my selections -- after all the purpose of the committee is to watch me and insure that the history of Orange County does not repeat itself in Sacramento!

TERMS

I recommend that your Board set the term for appointed committee members in categories (a) through (d) to match that of the period of time that they hold their office. In the case of the Treasurer, Auditor-Controller and the Superintendent of Schools, this certainly appears to be the intent of the statute. And, for the Executive Director of Debt Management and Utilization, it would logically follow based on the assumption that your Board approves my suggestion of him as your committee representative. For categories (e) through (g) [schools, special districts and public members], I recommend your Board establish the term of office at three years from the date of appointment. A reasonable argument can be made for staggering the terms; however, I believe the sheer difficulty in filling some of the positions will insure that the terms are staggered naturally. Additionally, after three years, it is quite likely that a number of these members may be reappointed.

QUALIFICATIONS

Government Code §27132(g)(1) requires that a majority of the public members meet the standard of some practical or academic experience in public finance. This is a reasonable standard since the oversight committee would be required to review the policies that guide the investment of over \$1 billion in public funds. Consequently, I am recommending that your Board apply the same standard to those members who represent the school and special districts. I feel sure that these districts will have little trouble identifying a board or staff member with experience in public finance.

Conclusion: The State Legislature, through SB 866, has taken a very reasoned approach to correcting the abuses that brought about the largest municipal bankruptcy in history. An integral part of this bill is the establishment of an oversight committee in each county. These committees are vital in the promotion of the public interest by involving depositors and members of the community in the review of the policies that guide the investment of their funds. While your Board has no choice in the establishment of an oversight committee, I believe that my recommendations for the structure of the Sacramento County Treasury Oversight Committee meet, not only the letter, but also the spirit of the law. Accordingly, I respectfully request that your Board approve the attached Resolution.

Respectfully submitted,



John Dark
Treasurer-Tax Collector/County Clerk-Recorder

Approval Recommended:

Concur:

Gary Cassady
Chief Deputy County Executive

Robert P. Thomas
County Executive

JD:wkm

Attachment

cc: Auditor-Controller
County Counsel
Executive Director, Debt Management & Utilization
County Superintendent of Schools
Treasurer-Tax Collector/County Clerk-Recorder

RESOLUTION NO. 96-0163

RESOLUTION OF THE BOARD OF SUPERVISORS
OF THE COUNTY OF SACRAMENTO ESTABLISHING
THE COUNTY TREASURY OVERSIGHT COMMITTEE AND
APPOINTING FOUR MEMBERS THEREOF

WHEREAS, the Board of Supervisors has authorized the County Treasurer to invest surplus funds in accordance with Government Code section 27000.1; and

WHEREAS, Government Code section 27131 provides that, if the County Treasurer has been authorized to invest surplus funds, the Board of Supervisors shall establish a County Treasury Oversight Committee, that the Board of Supervisors, in consultation with the Treasurer, shall determine the size of the committee, which shall consist of 3 to 11 members from categories specified in Government Code section 27132, and that the members shall be nominated by the Treasurer and confirmed by the Board of Supervisors; and

WHEREAS, Government Code section 27132 provides that the categories from which members of the County Treasury Oversight Committee may be appointed are (a) the county treasurer, (b) the county auditor, (c) a representative appointed by the Board of Supervisors, (d) the county superintendent of schools or his or her designee, (e) a representative selected by a majority of the presiding officers of the governing bodies of school districts and community college districts, (f) a representative selected by a majority of the presiding officers of the legislative bodies of the special districts in the county that are required or authorized to deposit funds in the county treasury, and (g) up to five other members of the public; and

WHEREAS, the County Treasurer has recommended that the Board of Supervisors establish a County Treasury Oversight Committee of eleven members from categories (a) through (g) and the Board finds that recommendation to be reasonable; and

WHEREAS, after consulting with the County Auditor, the Board of Supervisors, and the County Superintendent, the County Treasurer has nominated the following four persons for membership on the County Treasury Oversight Committee for categories (a) through (d): (a) John Dark, (b) Nancy E. Wolford, (c) Geoffrey B Davey, and (d) Lyle Eckert; and

WHEREAS, the member to be nominated from categories (e) and (f) must first be selected by procedures yet to be developed by the presiding officers of the school districts and community colleges and the presiding officers of the special districts with funds in the County Treasury; and

WHEREAS, before the Treasurer makes any further nominations he intends to consider recommendations from the Board of Supervisors [and the general public] regarding persons to be nominated for the five committee seats allocated to the public

WHEREAS, the Board of Supervisors finds the Treasurer's recommendation to be reasonable that the terms of the members from categories (e), (f), and (g) be limited to three years, that the terms of the members from categories (a), (b), (c) and (d) be limited to the terms the county treasurer, county auditor, executive director of debt management and utilization and county superintendent, respectively, continue to hold their offices.

NOW, THEREFORE, BE IT RESOLVED that the Board of Supervisors hereby establishes the County Treasury Oversight Committee, which

shall operate pursuant to and within the limitations of the authority granted under Article 6, Chapter 5 of Division 2 of Title 3 of the Government Code, commencing with section 27130, and that the County Treasury Oversight Committee shall consist of eleven members, one each appointed from the categories (a) through (f), and five members appointed from category (g), in Government Code section 27132.

BE IT FURTHER RESOLVED that the Board of Supervisors hereby accepts and approves the nomination of the following persons to the County Treasury Oversight Committee for categories (a) through (d), respectively: (a) John Dark, (b) Nancy E. Wolford, (c) Geoffrey B. Davey, and (d) Lyle Eckert.

BE IT FURTHER RESOLVED that the Board of Supervisors hereby authorizes and directs the County Treasurer to notify and inform the presiding officers of the school districts and community colleges that they may select by majority vote of such officers a person to be nominated by the Treasurer for appointment to County Treasury Oversight Committee.

BE IT FURTHER RESOLVED that the Board of Supervisors hereby authorizes and directs the County Treasurer to notify and inform the presiding officers of special districts with funds in the County Treasury that they may select by majority vote of such officers a person to be nominated by the Treasurer for appointment to the County Treasury Oversight Committee

BE IT FURTHER RESOLVED that the County Treasurer may decline to nominate a person selected by the presiding officers of school districts and community colleges or by the presiding officers of the special districts if in the County Treasurer's

sole judgment the person selected does not have expertise in, or an academic background in, public finance.

BE IT FURTHER RESOLVED that the County Treasurer may decline to nominate a person recommended for the five committee seats allocated to the public if in the County Treasurer's sole judgment the person selected does not have expertise in, or an academic background in, public finance

BE IT FURTHER RESOLVED that the terms of the members from categories (e), (f), and (g) be limited to three years, that the terms of the members from categories (a), (b), (c) and (d) be limited to the terms the county treasurer, county auditor executive director of debt management and utilization and county superintendent or his or her designee, respectively, continue to hold their offices.

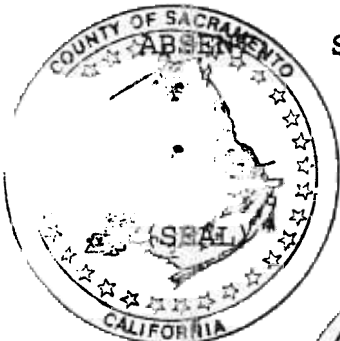
On a motion by Supervisor Cox, seconded by Supervisor Collin the foregoing Resolution was passed and adopted by the Board of Supervisors of the County of Sacramento this 27th day of February, 1996, by the following vote, to wit:

AYES: Supervisors, Collin, Cox, Johnson, Nottoli, Dickinson

NOES: Supervisors, None

Supervisors, None

Chairperson of the Board of Supervisors of Sacramento County, California



ATTEST: Cindy H. Turner
Clerk of the Board of Supervisors

In accordance with Section 25103 of the Government Code of the State of California a copy of this document has been delivered to the Chairman of the Board of Supervisors, County of Sacramento on

FEB 27 1996

FILED

FEB 27 1996

By Cathy Rogers
Deputy Clerk, Board of Supervisors

Cindy H. Turner
CLERK OF THE BOARD