

MINUTES OF THE ADJOURNED REGULAR MEETING
OF THE BOARD OF DIRECTORS OF
EAST ORANGE COUNTY WATER DISTRICT

January 26, 2012

1. **Call to Order.** An Adjourned Regular Meeting of the Board of Directors of the East Orange County Water District was called to order by WILLIAM VANDERWERFF, President of the Board of Directors, at 5:00 p.m. on Thursday, January 26, 2012, in the offices of the East Orange County Water District, 185 N. McPherson Road, Orange, California. JOAN ARNESON, Secretary, recorded the minutes of the meeting.

The following Directors were present: RICHARD BARRETT, RICHARD BELL, DOUGLAS CHAPMAN, JOHN DULEBOHN and WILLIAM VANDERWERFF.

Also present were:

LISA OHLUND	General Manager
JOAN ARNESON	District Secretary and Legal Counsel
CARL SCHOONOVER	District Treasurer
AL DOMASIN	Great Pacific Securities, Inc.
JAMES WEBB	Great Pacific Securities, Inc.

2. **Public Communications to the Board.** None.

3. **Items Arising After Posting of Agenda.** None.

4. **Financial Matters.**

A. **Investment Policy.** President VANDERWERFF called the meeting to order and noted that there was going to be a presentation on investment options, however, the representatives from Great Pacific Securities had called and they were running late. In the interim period, the Board would consider the Investment Policy.

General Manager OHLUND stated that the Investment Policy was brought to the Board annually for review and revision, if necessary. The Ad-Hoc Investment Committee had considered the Investment Policy at their January 17th meeting and were recommending that the Policy remain unchanged.

Director BARRETT concurred, however, he did note that on page 3 of the Investment Policy, in the second paragraph, the second sentence should read, "...treasurer/fiscal office "shall" have received...instead of "stall." General Manager OHLUND agreed that this was an error and that it would be corrected. Director

BARRETT also mentioned that under the paragraph entitled "Collateralization," the second line of the paragraph included the word "parry" and it should be "party." General Manager OHLUND agreed.

Note: AI DOMASIN of Great Pacific Securities entered the meeting. President VANDERWERFF tabled discussion on the Investment Policy and opened the presentation of Item B.

B. Presentation by Mr. AI Domasin of Great Pacific Securities

President VANDERWERFF related the process that the Ad Hoc Investment Committee had undertaken to review the current investment portfolio and to consider ways to diversify the portfolio for safety and liquidity and increase the return on investment.

General Manager OHLUND stated that the Ad Hoc Investment Committee had interviewed two regional broker-dealer firms and the Committee recommended that the Board hear a presentation by Great Pacific Securities. She noted that broker-dealers are different from Investment Advisors because they only broker (buy and sell) securities, they don't make investment recommendations and they don't have a fiduciary duty to make investment recommendations based upon the client's goals and objectives. A regional broker-dealer is distinguished from a national broker-dealer in that they usually don't "warehouse" securities, i.e., provide investment banking services and/or buy securities, hold them and then market them to clients. Regional brokers scan the daily securities available and then contact clients who have expressed interest in specific types of securities, e.g., U.S. Government Agency Bonds, corporate bonds, etc.

General Manager OHLUND introduced AI DOMASIN and James WEBB from Great Pacific Securities and noted that Mr. DOMASIN was a sales representative for the firm and Mr. WEBB handles the trading desk where the securities are bought and sold. If we were to buy a security, Mr. DOMASIN would submit a buy order to Mr. WEBB and he would execute the transaction.

Mr. DOMASIN reviewed the firm's background and representative clients, noting that he had worked with several of them for almost 20 years. He presented a sample portfolio for \$1.5 million showing how the investments could be laddered with 3-5 year maturities in Government Agency Securities (e.g., Freddie Mac, Federal Farm Credit Bank, Federal Home Loan Bank) and yield 0.8560% as compared to the current LAIF quarterly yield of 0.3800%. He noted that if the opportunity arises and interest rates fell further, the securities' value may increase and the District might want to sell them for more than they bought them for, yielding an increase in principal, and increasing the overall return on the investment. General Manager OHLUND noted that the purpose of buying the securities was to buy and hold them to maturity, however, if the opportunity presented itself, this was an excellent, safe way to increase yield.

Board Members questioned Mr. DOMASIN about the experience of other agencies he worked with. He noted that Crescenta Valley Water District was enjoying a 2.13% return as they had purchased some bonds with higher interest rates than were

currently available. Director BELL asked what the fee was for their services. Mr. DOMASIN replied that if it is a new issue, they are paid by the seller of the security, and if the security is sold on the secondary market, their markup is usually 12.5 basis points (0.125%).

Director CHAPMAN expressed concern that though the investment strategy would increase yield, the District would still be losing real value because of inflation. He encouraged the Board to consider a longer investment horizon, corporate bonds and bond funds instead of individual bonds. Director BELL expressed concern regarding the strength and viability of Fannie Mae and Freddie Mac. Mr. DOMASIN and Mr. WELLS indicated that several of their customers don't buy those particular securities and purchase other government agencies.

Discussion ensued regarding the settlement process: delivery-versus-payment (DVP). General Manager OHLUND noted that the District would open an account with a third-party trustee who would ensure that custody of the security would occur before payment was made.

President VANDERWERFF thanked Messrs. DOMASIN and WELLS and excused them from the meeting.

Note: District Counsel and Secretary ARNESON entered the meeting.

A. Investment Policy and Delegation (cont'd discussion). The proposed draft investment policy was discussed. It was the consensus that the delegation language on the second page be clarified by deleting references to the Finance Committee and inserting reference to the parameters that would be established by the Board for the delegation. It was also the consensus that the policy recitals be deleted and incorporated into the adopting resolution to the extent of anything not covered in the resolution recitals.

ACTION TAKEN:

Upon a motion duly made, seconded and carried unanimously, Resolution No. 701 was adopted with such revisions, entitled: "Resolution of the Board of Directors of the East Orange County Water District Approving Investment Policy and Authorizing the Treasurer to Invest Funds."

B. Investment Management (cont'd. discussion). President VANDERWERFF invited a discussion of whether the District should use Great Pacific's services. Director DULEBOHN and General Manager OHLUND suggested that this be done with a portion of the District's invested funds portfolio. Director BARRETT inquired about the use of the LAIF pool, and General Manager OHLUND responded that the County pool was providing a higher return than LAIF but required a certification that the funds are not required for immediate cash flow needs, and she would need to come back to the Board with recommended amounts for that purpose. Mr. SCHOONOVER said he was in favor of using Great Pacific, but it should be approached by building the laddered portfolio, making trades at optimum times. Director BELL concurred, and recommended that the Board establish parameters rather than specify a particular portfolio.

ACTION TAKEN:

Upon a motion duly made, seconded and carried unanimously, the President, Treasurer, Secretary and each other officer of the district, acting singly, were authorized and directed, to execute and deliver any and all documents and instruments, and to do and cause to be done any and all acts and things necessary or proper for utilizing the services of Great Pacific Securities in regard to the District's investments, including any third-party custodial arrangements as may be necessary for such purpose; and authorization was given to the Treasurer to work with Great Pacific Securities to invest within the following parameters: up to \$1.5 million of District portfolio to be laddered based on the sample presented to the meeting by Great Pacific Securities, with a minimum average investment yield of .83, and with not more than \$250,000 to be invested in debt instruments of Federal Home Loan Mortgage Corporation (Freddie Mac) and not more than \$250,000 to be invested in Federal National Mortgage Association (Fannie Mae).

Director CHAPMAN's suggestion to look into a fund with corporate bonds was discussed, and it was agreed that he obtain further information so that it can be determined whether it is a permissible District investment and whether the Board wishes to pursue it. President VANDERWERFF said that the above-authorized transactions with Great Pacific Securities should not move forward until staff finishes the due diligence on the firm.

5. **Miscellaneous Matters.**

A. Reports from Committees and Representatives to Organizations. None.

B. Directors' Reports on Meetings Attended. None.


6. **Informational Items.** No discussion.

7. **Adjournment.**

ACTION TAKEN:

Upon a motion duly made, seconded and carried unanimously, the meeting was adjourned at 7:35 p.m., the next regular meeting date and time being Thursday, February 16, 2012, at 5:00 p.m., to be held in the Offices of the East Orange County Water District, 185 N. McPherson Road, Orange, California.

Respectfully submitted,



Joan C. Arneson