



2009 JAN - 7 AM 8: 05 Supplemental Transmittal
January 7, 2009 Meeting

CLERK OF THE BOARD
ORANGE COUNTY
BOARD OF SUPERVISORS

DATE: January 6, 2009

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

SUBJECT: Supplemental Information - Presentation on Commission Investment Program and State Budget

Presentation on Commission Investment Program

Enclosed is the handout for the presentation by James Martling, Commission Financial Advisor. Copies will be available at the Commission meeting.

Update on State Budget

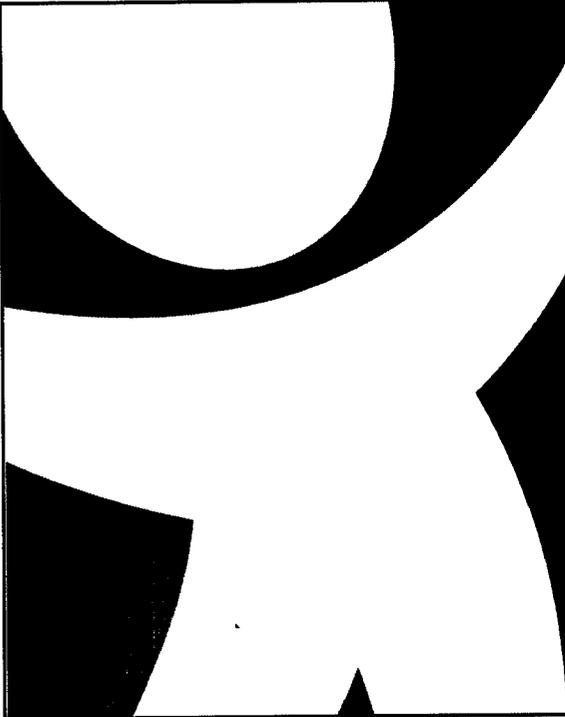
There will be a presentation and recommendations presented at the meeting following a discussion of three scenarios:

1. Elimination of the state commission and diversion of 50 percent of County Commission revenues to the General Fund – requires voter approval (Governor's Budget Proposal)
2. Develop a three-year funding proposal to expand health care to children utilizing \$50 million contributions per year from state and county commissions (similar to State Senate Leader Steinberg's proposal).
3. No impact or minor impact revenues as a result of the state budget process (similar to FY 2008/09 Budget).

Staff and your Sacramento Legislative Advocate will be recommending that Orange County takes the lead or an active role in developing a proposal similar to scenario number 2, consistent with financial parameters established by your Board.

cc: Clerk of the Commission
Commission Counsel

Enclosure



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Commission Investment
Program Update

*Presentation
January 7, 2009*

Today's Topics

- Overview of Financial Markets
- Treasury Yield Curve
- Orange County Investment Pool
- Status of Commission Investments
- County Investment Policy Update
- On-Going Monitoring & Reporting

Overview of Financial Markets

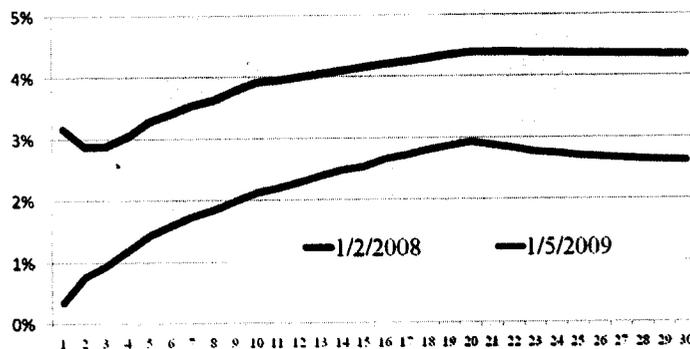
- Investor concern has caused unprecedented “flight to quality”
 - Subprime mortgage defaults started credit crisis
 - Resulting credit crisis has frozen new loans for business and consumers
 - 90 day Treasury Bills have had negative yield several times recently
- US Treasuries and Government Agencies
 - Treasuries are at lowest yields in decades
 - 4 basis points for 30 day maturity to 2.64% for 30 year maturity
 - Federal Reserve took over operation of Fannie Mae and Freddie Mae in Sept. 2008
- Fixed Income
 - Almost all securities issued by financial firms under severe pressure
- Key Issues
 - Is Federal bailout of financial industry starting to work?
 - When will falling housing prices stabilize?
 - Unemployment rate in November was 8.3% in California
 - Unemployment rate in November was 6.1% in Orange County

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Treasury Yield Curve Lowest in Decades

Today's lower Treasury yields will have a significant impact on the returns of OCIP's Money Market Fund (MMF) and Commission's Sustainability Fund in 2009



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Orange County Investment Pool (OCIP)

- Repositioning / Recalibration of Investments
 - Shift from large investments in Financial Institutions to Government Agencies and Consumer Companies
 - Reduced Exposure to SIVs
 - \$262 million outstanding in January 2009
 - \$200 million scheduled to mature by June 2009
- OCIP's County and Education MMFs are rated highest level at "AAAm"
- "AAAm" Principal Stability Fund rating December 1, 2008
 - County MMF and Education MMF "AAAm" ratings are the first such ratings assigned to a California government investment pool



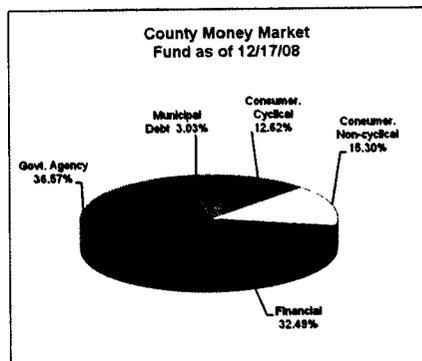
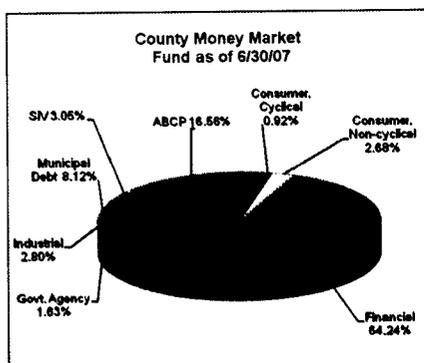
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Treasurer Reallocated Investments

In response to the credit and liquidity crisis:

- Government Agencies allocation was increased from 1.63% to 36.57%
- Financial securities allocation was decreased from 64.24% to 32.49%.

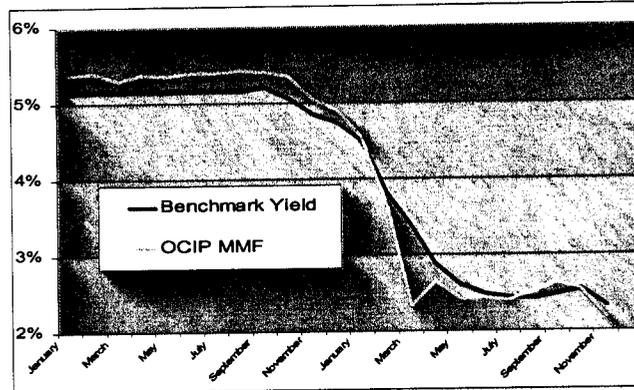


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Lower Yields are Likely to Remain in 2009

Today's lower average monthly yields in OCIP's MMF reflect the "flight to quality" in all the fixed income markets

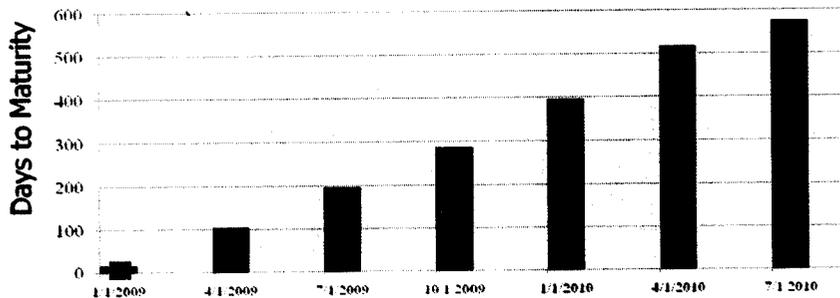


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Status of Commission Investments

- \$115 million in OCIP MMF as of November 20, 2008
- \$35 million in Specific Long-Term Investment Fund (SLIP)

SLIP is invested in Treasury Bonds in "laddered" maturity structure. Four \$5 million investments mature and must be reinvested in 2009.



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County Investment Policy (IPS) Update

- Board adopted 2009 IPS on December 16, 2008
- Maximum allowable maturity of the Extended Fund was increased from 3 to 5 years
- Liquidity Providers for Asset-Backed Commercial Paper Notes must also be Approved Issuers
- The Weighted Average Maturity or “WAM” of OCIP’s MMF was shortened from 90 days to 60 days
- SIVs and other structured securities are prohibited

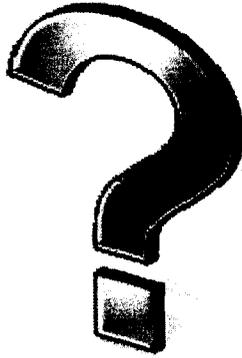
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On-Going Monitoring & Reporting

- Continue active monitoring of OCIP
- Commission’s Investment Oversight Committee
 - January 20, 2009 Meeting
 - Staff and financial advisor will develop work plan for 2009
 - Staff will continue to meet with OCIP staff on routine basis
- Regular Quarterly Investment Reports to Commission
- Periodic Updates to Commission

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Questions





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**Presentation
January 7, 2009 Meeting**

DATE: December 29, 2008

TO: Children and Families Commission of Orange County

FROM: Michael M. Ruane, Executive Director

SUBJECT: Commission Investment Program

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James Martling of Sperry Capital will provide a presentation regarding oversight and mentoring of the Commission Investment Program and recent trends in the investment market. Mr. Martling serves as Financial Advisor to your Commission and your Investment Oversight Committee.