



**COUNTY OF LOS ANGELES  
TREASURER AND TAX COLLECTOR**



**MARK J. SALADINO**  
TREASURER AND TAX COLLECTOR

October 30, 2008

TO: Supervisor Yvonne B. Burke, Chair  
Supervisor Gloria Molina  
Supervisor Zev Yaroslavsky  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino  
Treasurer and Tax Collector 

SUBJECT: **IMPACT OF FINANCIAL CRISIS (PART 4)**

On October 14, I presented your Board with an update on the current financial crisis and its impact on the County Treasury. Among other issues, I described market conditions affecting the County's tax-exempt commercial paper ("TECP") program. This memorandum will discuss recent developments in the short-term debt market and the current status of the TECP borrowing program.

As described in my memorandum dated October 10, 2008, the County's TECP notes are secured by letters of credit issued by two German banks (Westdeutsche Landesbank and Bayerische Landesbank) and by JPMorgan Chase Bank. As a result, the program is highly sensitive to disruptions in the banking sector. Earlier this month, as European banks faced increasing liquidity and solvency challenges, interest rates on the County's TECP notes spiked as high as 9% on October 8 and October 9.

As you know, in order to offset the threat of higher TECP interest costs my office arranged for the County Treasury to purchase the County's maturing TECP notes in the absence of other buyers. As I reported to your Board on October 14, the Treasury's willingness to make such purchases immediately helped to restore confidence in the County's TECP program and enabled us to sell TECP notes at the interest rate of 4.35% on October 10. As of today, it has not been necessary for the Treasury to intervene in the capital markets and purchase any of the County's TECP notes.

Our second step to stabilize the TECP program was to expand the number of broker-dealers that sell the TECP notes to investors. On October 15, my department added JPMorgan as a third broker-dealer to the TECP program (the other two are Barclays Capital and Morgan Stanley). This action fostered a new level of competition among

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the firms that sell these securities in the capital markets. The impact of this change has been dramatic and has helped to reduce interest rates on the County's TECP notes from 4% on October 15 to just 1.2% on October 29.

Our ability to issue TECP notes at rates as low as 1.2% is only partially due to the efforts of the finance and investment office in my Department. The most important factors in lowering the County's borrowing costs have been recent developments in the financial markets. Governments throughout the industrialized world have taken extraordinary measures to inject capital into the banking system to restore liquidity to the credit markets.

In the U.S., the Treasury Department has begun implementing the \$700 billion Emergency Economic Stabilization Act, and each of the nine largest U.S. banks is participating in the recovery program (along with many smaller banks). The Federal Reserve has also been active and initiated a program to purchase \$540 billion of distressed securities from money market mutual funds. These actions were followed by the Federal Reserve's decision on October 29 to lower its benchmark federal funds rate to 1%, the lowest level since June 2004.

Because TECP interest rates fell this week to below 2%, it appears that the County's TECP program is moving towards a period of normalcy and stability. While the program has benefited from the coordinated efforts of governments and central banks throughout the world, there is no guarantee that the current stability in the commercial paper market will continue. There is still a considerable amount of uncertainty in the credit markets and buyers are taking a very cautious approach towards their investments.

My department will continue to actively monitor the County's TECP program and take all prudent and necessary steps to protect it from further market turmoil. I will promptly advise your Board of new material developments.

c: Chief Executive Officer  
Executive Officer of the Board of Supervisors