



COUNTY OF LOS ANGELES TREASURER AND TAX COLLECTOR



MARK J. SALADINO
TREASURER AND TAX COLLECTOR

October 9, 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 2)

Last week I sent your Board a report concerning the impact of the current financial crisis. This memorandum is to apprise your Board of new developments affecting the two German banks that provide letters of credit (LOCs) that support our tax-exempt commercial paper (CP) program.

Our CP program is secured by letters of credit provided by Westdeutsche Landesbank (WestLB), Bayerische Landesbank (BayernLB) and JP Morgan Bank. Our program is additionally secured by a State guarantee of the Federal Republic of Germany, which backs up the letter of credit issued by WestLB, as agent bank for our three LOC banks, through 2015.

This week several European banks, including WestLB and BayernLB, required capital injections to offset their subprime loan exposure. This has created a loss of investor confidence regarding the long-term viability of many European banks. Coupled with the ongoing market uncertainties, this has resulted in weak investor interest in our CP.

Yesterday there were no buyers for \$38.75 million of our maturing CP. Our dealer, Morgan Stanley, bought this CP overnight for their inventory at an interest rate of 9%. Today the \$38.75 million plus \$64 million of additional maturing CP was re-offered and sold by Morgan Stanley to two investors for one day, but again the rate was 9%.

The credit contraction that started in commercial banks and mortgage lenders has now spread to the debt market for both taxable and tax-exempt issuers. In many cases there is simply no market; fear and uncertainty have resulted in a temporary absence of buyers for short-term instruments. Even the State of California has been unable to issue Revenue Anticipation Notes to finance its short-term cash needs, and the State

Controller recently projected that the State's internal resources will be exhausted on October 29. If external financing does not become available by then, the State may be unable to make disbursements, including payment of amounts due to the County, cities, schools and other agencies within Los Angeles County.

Overall the current market environment is one of crisis, fear and impulsive response to any piece of bad news. In the case of our CP, investors are not distinguishing between banks such as WestLB which is guaranteed by the German government, and banks whose letters of credit are not similarly guaranteed. Moreover, investors are not looking past the banks to the County's high credit ratings which under normal circumstances would further reassure investors. In time we expect a return to rational credit differentiation. However, in the short term our CP program will likely be disrupted not just because of its association with foreign banks but also because of general market conditions.

My office is moving quickly to provide liquidity support to our CP program by arranging for the Treasury Pool to purchase maturing commercial paper whenever there are no other buyers at reasonably competitive rates. This will be similar to the program approved by your Board earlier this year to support the Museum of Art and the Natural History Museum with their auction rate securities. In order to minimize the County's financing costs, we expect to begin purchasing our own CP as early as Friday, October 10, 2008, and will continue to do so until market conditions improve.

We are continuing to monitor the financial system and capital markets very closely, as conditions are evolving quite rapidly. We will promptly advise your Board of any further material developments as they occur.

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