COUNTY OF LOS ANGELES
TREASURER AND TAX COLLECTOR

MARK J. SALADINO
TREASURER AND TAX COLLECTOR

December 5, 2008

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: Mark J. Saladino
Treasurer and Tax Collector

SUBJECT: **IMPACT OF FINANCIAL CRISIS (PART 5)**

This memorandum represents the fifth installment in my reporting on the impact of the financial crisis on the County Treasury. Beginning with the bankruptcy of Lehman Brothers on September 15, the financial markets in the U.S. have been in a continual state of disarray. The economy is now believed to be in recession and the federal government has committed more than $4 trillion to its various relief efforts. On November 23, Citigroup (the nation's second largest bank) became the latest firm to receive emergency funding from the federal government.

In spite of the market turmoil, I am pleased to report that as of this date, the County no longer has any investments that we consider to be at risk in the current market environment. The following summarizes the current status of our operations.

Treasury Pool Investments

The most recent event to impact the Treasury Pool involves the financial difficulties of Citigroup. Our Investment Office staff began to actively monitor this situation well ahead of the November 23rd bailout by the federal government. As a result of their analysis, the Investment Office limited investments in Citigroup to short maturities of forty-five days or less, even though there had been no ratings downgrades and no action had yet been taken by the federal government. The Treasury Pool currently owns approximately $522 million of Citigroup securities, which are all considered highly secure investments given the financial resources of Citigroup, the recent actions of the federal government, and the short duration of the investments.

Public Finance Operations

In my memorandum of September 30, I informed your Board that the County had approximately $28.2 million of exposure to an investment agreement with Lehman Brothers Special Financing Inc. related to our 2006 Tobacco Bonds. On November 28, the collateral securities purchased under the agreement matured and the County received the full amount of the investment principal. Concurrent with the receipt of these funds, we directed the trustee for the bonds to invest in an agency security backed by the federal government. The County no longer has any exposure to Lehman Brothers or its affiliates.

The County's sole short-term borrowing that continues to be active in the financial markets is the tax-exempt commercial paper ("TECP") program. As reported in my October 30 memorandum to your Board, the market for commercial paper notes has been extremely volatile over the past several months. This volatility began to subside in late October and has brought about a dramatic reduction in the County's short-term borrowing costs. During November, the County's TECP notes were issued at an average interest rate of just 1.375%.

Banking Relationships

The financial crisis has had a minimal impact on my department's commercial banking operations. The County's principal banking relationship remains with Bank of America, which has been one of the most stable banks throughout the current economic downturn. The County does maintain a controlled disbursement account with Citibank, but this contract does not pose any financial risk to the County. The Citibank account functions as an operating fund for the County and no long-term deposits are held in this account. Given the recent government bailout of the bank, we do not anticipate any disruption in County operations due to this relationship.

Conclusion

The financial crisis that began in earnest in September 2008 has triggered a major downturn in the U.S. economy. With the unemployment rate in California now standing at 8.2% and the State struggling to meet its cash flow needs, my department will continue to actively monitor the financial markets and work closely with the Chief Executive Office to ensure the stability of the County's investment, commercial banking, and borrowing operations. I will promptly advise your Board should any circumstance develop that could have a material adverse impact on the County Treasury.

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