

October 19, 2007

King County Commercial Paper Analysis

The King County Investment Pool invests cash reserves for all King County agencies and approximately 100 other special districts and other government entities such as school, fire, sewer and water districts, and other public authorities. It is one of the largest investment pools in the State of Washington with an asset balance of \$4.1 billion.

In early September 2007, King County's Executive Finance Committee requested the services of an outside financial expert to complete an independent review of the County's investment pool holdings in commercial paper. The review was prompted when credit rating agencies (Standard and Poor's and Moody's) suddenly and unexpectedly downgraded two of the County's commercial paper holdings in late August 2007 (the downgraded investments at that time were Mainsail II and Cheyne Finance).

Using a competitive selection process, the County selected the firm of Public Financial Management Asset Management (PFMAM) for this commercial paper analysis. PFMAM is a leading nationwide manager of public funds with more than \$26 billion under management and more than 27 years as an investment manager. The scope of their analysis included: (1) an overview of current market conditions for commercial paper; (2) a review of the County's investment portfolio in various forms of commercial paper, including a categorization of risks; and, (3) recommendations for risk mitigation and future investments in commercial paper.

The King County Executive Finance Committee concurs with the observations about the unprecedented current market conditions and risk mitigation strategies. Given fewer buyers for asset-backed commercial paper, PFMAM's recommendations for risk mitigation validate actions King County has already taken to date. Specifically, the County has not purchased any new commercial paper since late August 2007, and is holding remaining investments to their maturity date. Using this strategy, King County has reduced its exposure in commercial paper from 25 to less than 10 percent of total investment pool holdings as of October 19, 2007.

PFMAM also indicates that King County policies and current practices governing commercial paper are reasonable and that a "creditor's list" and "credit oversight committee" could be established to further guide future investments in commercial paper. The King County Executive Finance Committee will be considering these recommendations, as well as other staff recommendations, at upcoming meetings in October and November 2007.

If you have any questions about the report, please contact Ken Guy, Director of Finance and Business Operations Division at 206-263-9254.