

**CHRISTOPHER COX**

CALIFORNIA

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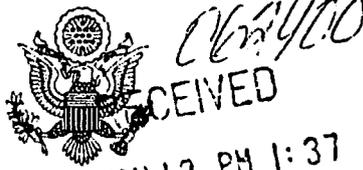
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CAPITAL MARKETS

January 10, 1995

Mr. Arthur Levitt  
Chairman  
Securities and Exchange Commission  
450 5th Street, N.W.  
Washington, DC 20549

Dear Mr. Chairman:

In light of the Commission's current examination of the situation in Orange County, I thought the Commission might find it useful to have the attached materials (my telephone call sheet for December 6 and press reports of my comments about Orange County's possible bankruptcy). These comprise the entirety of my foreknowledge of the bankruptcy.

At about 10:30 a.m. eastern time on December 6, 1994, immediately following my election to the new House leadership, I emerged from the Cannon Caucus Room to meet the television, radio, and print media assembled in front of the entrance. As I approached the cameras and microphones, one of my staff handed me the attached message from Orange County's Washington representative, Jim McConnell. I was unaware that the information was not public, and the contents of the message and the manner of its delivery (by telephone and via my staff with no indications of confidentiality) indicated it was in fact public information. I then made the remarks quoted in the attached press accounts, prefacing them with the comment that I was taken aback by this news. These remarks were carried on CNN, CNBC, and perhaps by other television networks and media.

I hope that this information is of use to the Commission. Please let me know if I can be of further assistance.

Sincerely,

Christopher Cox  
U.S. Representative

CCC:dos

CCC-CALL SHEET

Tuesday, December 6, 1994

10:15      JIM McCONNELL: 223-2451. URGENT. Orange County may declare bankruptcy by 1:30 this afternoon. Please call the SEC to urge them to get the federal court to freeze the asset pool. (Arthur Levitt 272-2000).

AP 12-06-94 05:34 PET

Orange County May File Bankruptcy in Investment Scandal

By LARRY GERBER=

Associated Press Writer=

SANTA ANA, Calif. (AP) Its investment fund hit by huge losses, Orange County may seek bankruptcy protection to keep investors from withdrawing their money and making things worse, a congressman said Tuesday.

Losses in the fund already have cost County Treasurer Robert L. Citron his job. Federal regulators and the major bond rating services are scrutinizing the finances of the suburban county, home to Disneyland and 2.5 million people.

About 185 cities, school districts and other government agencies have money in the fund, which holds securities whose market value has fallen from \$20 billion to \$18.5 billion this year. The fund previously had paid high returns, and Citron was much praised for his canny investments.

If investors demand to withdraw their money now, the fund will have to sell securities at depressed prices, turning what so far have been paper losses into real ones.

Rep. Christopher Cox, a Republican from Orange County, said he had heard that the fund may file for bankruptcy in California.

However, members of the county board of supervisors refused to comment as they emerged from a closed session at noon, saying only that they would resume the meeting later in the day.

The U.S. Bankruptcy Court in Santa Ana had received no bankruptcy filing from the county by late morning.

If a bankruptcy petition were filed and accepted by a judge, the judge would have the final say over how the county is run and could appoint a trustee to handle its affairs.

The county southeast of Los Angeles is home to Disneyland, Richard Nixon's Western White House retreat in San Clemente and the San Juan Capistrano mission famous for its swallows. Its 31 cities and a number of unincorporated areas range from wealthy beach towns to enclaves of Southeast Asian immigrants.

The fund had borrowed billions of dollars in short-term loans and then invested the money, hoping to make even higher returns than the low interest it paid on the loans. But that bet soured when interest rates rose sharply this year.

On Tuesday, financiers refused to renew \$1 billion worth of the short-term loans, said Peer Swan, chairman of the Irvine Ranch Water District, which has \$300 million in the Orange County fund.

That refusal may leave the fund with no recourse but to protect its assets through bankruptcy proceedings.

In 1991, Bridgeport, Conn., became the nation's largest city to file for bankruptcy protection, but its petition was rejected by a federal judge who said the city could still pay its bills.

Cox said he was "taken aback" to hear of the possible bankruptcy filing and of Citron's aggressive investments. He said he would push for tighter regulation of such funds.

"The number one objective of a county treasurer with billions of dollars at his disposal surely ought to be the preservation of principal," Cox said in Washington.

"And yet, in an effort to achieve higher returns it appears

that the treasurer has more than pushed the envelope and has taken possibly many municipalities down with him.''

Nearly two-thirds of the fund's investments were made with borrowed money.

Some losses came also from derivatives, arcane securities used to hedge against sudden changes in interest and exchange rates. Derivatives tied to interest rates plunged this year as rates soared, causing losses for some companies.

Citron's resignation was announced Monday after Securities and Exchange Commission officials spent the weekend examining the county's investments.

Matt Raabe, the assistant to the treasurer, assumed direction of the fund. He announced without elaboration that federal officials had been examining county financial documents.

Also, Moody's Investors Service said it would review the ratings of entities that have money invested in the Orange County investment fund.

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\* Orange County, California, is not ruling out bankruptcy in order to deal with its serious deficit caused by investment losses. This week, legislation will be introduced to limit the risk to taxpayers' money.

GUEST(S): JOHN MOORLACH, CPA, Balser, Horowitz, Frank;Rep.

\* CHRISTOPHER COX, (R-CA.);JOHN SAWYER, General Mgr., Orange Co. Employees Assn.;

\* Orange County Considers Bankruptcy Filing

\* LOU DOBBS, Anchor: Well, Orange County, California could go bankrupt because of a \$1.5 billion dollar loss in its investment fund - the county, scorched by a hot investment derivative. Now, it's facing a new challenge, trying to keep investors from bailing out of the beleaguered fund. Casey Wian has our report from Newport Beach, California,

\* CASEY WIAN, Business News Correspondent: Orange County supervisors met behind closed doors Tuesday, searching for a way out of their financial crisis. Orange County Congressman, Christopher Cox, suggested one way might be a bankruptcy filing - a sentiment echoed by the man who this year ran unsuccessfully for county treasurer, and warned about the speculative nature of the investments.

JOHN MOORLACH, CPA, Balser, Horowitz, Frank: Well, I don't want to alarm anybody, but it's an option that cannot be ruled out.

\* WIAN: That's because sources tell CNN, Orange County's investment fund losses may be double the \$1.5 billion the county claims. A county spokesman said no action had been taken that would lead to bankruptcy. The county's treasurer, Robert Citron sp?, resigned Monday. He devised the investment scheme that for years yielded healthy returns to Orange County and local governments. But rising interest rates have wiped out at least 20 percent of the money.

\* Rep. CHRISTOPHER COX, (R-CA.): The number one objective of the county treasurer with billions of dollars at his disposal, surely ought to be the preservation of the principal.

WIAN: More of that principal could be in jeopardy. The City of Irvine has all ready pulled some money out of the investment fund, and said it would sue if the county imposes a threatened 20 percent early withdrawal fee.

JOHN SAWYER, General Mgr., Orange Co. Employees Assn.: I think the general concern we have is the impact this will have on the county budget and county operations over the long pull.

WIAN: County officials met in New York, Tuesday, with a

consulting firm they've hired to help stem the fund's losses.

- \* This week, an Orange County state assemblyman is expected to introduce legislation to limit the amount of risk government officials can take with taxpayer money. For Orange County and the 180 investors in its fund, that effort comes too late. Case Wian, CNN Business News, Newport Beach, California.

- \* DOBBS: Well, coming up next on Moneyline, Wall Street reacts to those problems in the investment fund of Orange County, California, and a \$2 billion mistake that shocked some shareholders in the nation's largest mutual fund. We'll have that story. And we'll tell you about a friend of Bill's - in fact, his best friend - pleading guilty to felony charges in the Watergate sic scandal. We'll have the latest for you from Little Rock. Stay with us.  
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