

# Memorandum



CITY OF DALLAS

DATE December 10, 2009

TO Members of the Budget, Finance & Audit Committee:  
Chair Jerry Allen, Vice-Chair Ann Margolin, Vonciel Jones Hill, Angela Hunt, Delia Jasso, Ron Natinsky, David Neumann

SUBJECT UPDATE – City's Investment in The Reserve Primary Fund

This memo provides an updated status and history of the City's \$2,073,000 investment in the Reserve Primary Fund.

- **September 15, 2008** – Lehman Brothers filed for bankruptcy protection.
- **September 16, 2008** – The Reserve Primary Fund announced that the fund “broke the dollar” (Net asset value fell below \$1 a share to \$0.97) due to its exposure to Lehman Brothers.
- **September 16, 2008** – Standard and Poors downgraded The Reserve Primary Fund to “Dm” from “AAAm”.
- **September 17, 2008** – The City requested redemption of the remaining balance at \$0.9712.
  - Pursuant to the SEC Rule 2a-7 that governs money market mutual funds, a seven day waiting period was established for all redemptions. In other words, even though the City redeemed the remaining balance on the 17<sup>th</sup>, The Reserve had until the 24<sup>th</sup> to settle.
- **September 17, 2008** – Shareholders filed a lawsuit in U.S. District Court seeking damages for a class of shareholders who had not redeemed their shares as of September 16<sup>th</sup>.
  - The lawsuit accused the fund of deviating from its investment objective by investing \$785 million in commercial paper issued by Lehman, which resulted in the fund “breaking the dollar.”
- **September 19, 2008** – The Reserve filed an application with the SEC for a temporary order to suspend all rights of redemption and to postpone the date of payment of redemption proceeds for a period longer than 7 days (this directly affected the City of Dallas).
- **September 23, 2008** – The SEC, pursuant to section 22(e)(3) of the Investment Company Act of 1940, approved The Reserve's request. Accordingly, the SEC requested that the request be granted until the markets are liquid to a degree that enables the Fund to liquidate the portfolio securities without impairing the net asset value of the Fund. Finally, the SEC said that this shall be in effect as of September 17, 2008 (the day the City redeemed its balance).
- **October 31, 2008** – The City received the first of several planned distributions from the Reserve Primary Fund. Details of the distributions are listed below.

\*Balance as of September 17, 2008: \$ 2,075,221

Distribution Date	Amount	Remaining Balance
10/31/08	\$ 1,052,944	\$ 1,022,277
12/03/08	583,243	439,034
02/20/09	137,672	301,362
04/17/09	93,155	208,207
10/02/09	40,499	167,708

\* Includes principal (\$2,073,000) and interest (\$2,221) accrued from September 1 through September 14, 2008.

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- **November 25, 2009** – A federal judge ruled that the remaining assets of the Reserve Primary Fund, minus legal fees and management expenses, should be distributed on prorated basis to shareholders.
  - The distribution is anticipated to occur within two months. According to a statement published by the Securities and Exchange Commission on November 27<sup>th</sup>, the amount to be returned to investors will be approximately \$0.99 for each \$1.00 invested in the fund when it closed on September 16, 2008.
  - Based on that estimate, the city would receive a final distribution of approximately \$144,757. This would provide an overall redemption of \$2,052,270 of the City's \$2,075,221 September 17, 2008 account balance.

We will continue to keep you informed.



David Cook  
Chief Financial Officer

c: Mary K. Suhm, City Manager  
Ryan S. Evans, First Assistant City Manager  
Ramon F. Miguez, P.E., Assistant City Manager  
Jill A. Jordan, P.E., Assistant City Manager  
A.C. Gonzalez, Assistant City Manager  
Forest E. Turner, Assistant City Manager