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Lessons for Us All from California's Evaporating Billions.

Rising interest rates have triggered substantial market losses from Golden State treasurers' untimely investments of idle cash. It's time for reforms wherever similar portfolios are now bleeding red ink.

Inflation and the Federal Reserve's new regime of monetary tightening have brought a perfect storm to a half-dozen of California's most prominent public treasurers. Their cash management investment portfolios have collectively lost $5 billion of market value in this fiscal year. That total is three times the losses suffered by Orange County in the 1994 investment debacle that took it into bankruptcy.

This time, the consequences of unrealized investment losses are unlikely to spawn that kind of financial crisis, but this episode does require a rethinking of several practices in public-sector cash management — not just in California, but nationwide.

It's a saga about how business-as-usual has backfired, so that's where this analysis begins. Many of these arrangements are also familiar to local treasurers and cash managers outside the Golden State, including in Arizona, Colorado, Florida, Michigan, New York, Nevada, Ohio, Oregon, Texas, Virginia and Washington state.

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