



**COUNTY OF SAN MATEO**  
**Inter-Departmental Correspondence**

County Manager's Office

**DATE:** October 22, 2008  
**BOARD MEETING DATE:** October 28, 2008  
**SPECIAL NOTICE/HEARING:** None  
**VOTE REQUIRED:** Majority

**TO:** Honorable Board of Supervisors  
**FROM:** John L. Maltbie, County Manager  
**SUBJECT:** County Manager's Report #12

**RECOMMENDATION:**

Accept the report on House Resolution 1424, the "Emergency Economic Stabilization Act of 2008"

**VISION ALIGNMENT:**

**Commitment:** Responsive, effective and collaborative government

**Goal(s):** Government decisions are based on careful consideration of future impact, rather than temporary relief or immediate gain.

**H.R. 1424, Emergency Economic Stabilization Act of 2008**

As you well know, the sub-prime mortgage crisis has resulted in a crisis with the U.S. financial markets: Washington Mutual Bank failed, the largest bank failure in our nation's history, Bear Stearns, Wachovia, Merrill Lynch and Countrywide were all purchased by other financial institutions, and Lehman Brothers, the fourth largest investment bank on Wall Street filed for Chapter 7 bankruptcy protection on September 15, 2008. As a result, the Administration and Congress acted swiftly to enact a "bailout" package authorizing upwards of \$700 billion to stabilize the markets by purchasing troubled assets. House Resolution 1424, the "Emergency Economic Stabilization Act of 2008," establishes the Troubled Asset Relief Program (TARP) and gives broad authority to the Secretary of the Treasury to purchase or insure troubled assets. At the request of San Mateo County Congresswoman Anna Eshoo, Section 103, sub part 7, was included to direct the Secretary of the Treasury to include cities and counties in this relief. Attached please find correspondence

initiated by San Mateo County requesting the Secretary of the Treasury to meet with representatives from the affected local agencies and to operationalize that section of the new law.

Additionally, a meeting has been scheduled with Congresswoman Eshoo and County representatives on Monday, October 27, 2008 to personally thank and acknowledge her successful efforts to support San Mateo County in this legislation. The meeting will also provide an opportunity to fully inform the Congresswoman of the potential significant impact of the Lehman Brothers loss to San Mateo County pool participants and to outline appropriate strategies to approach the Treasury to initiate the relief afforded under the legislation.

**FISCAL IMPACT:**

There are approximately 20 California cities and counties that have identified \$255 million of exposure with Lehman Brothers bankruptcy; and another \$400 million held by CalPERS. The full extent of the losses attributed to the Lehman Brothers bankruptcy are not known at this time.

# County Manager's Office



## COUNTY OF SAN MATEO

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October 22, 2008

Mr. Henry M. Paulson, Jr.  
Secretary of the Treasury  
Department of the Treasury  
1500 Pennsylvania Ave. NW  
Washington, D.C. 20220

Re: California Public Agencies Request for Recovery of Troubled Assets

Dear Secretary Paulson:

We, the undersigned, respectfully request your consideration of federal purchase and/or insurance of securities to eliminate exposure to losses of taxpayer dollars arising from investments in Lehman Brothers Holding, Inc. and Washington Mutual Bank. We represent cities, counties, special districts, and school districts throughout the State of California and we hold securities in these two institutions. By law, we can only invest in what were deemed conservative instruments that were also highly rated. These investments represent taxpayer money used for all manner of local government needs, including police, fire and education.

Our total par value exposure could exceed \$250 million. The securities we own meet the definition of "Troubled Assets" found in Sec. 3(9) of the Emergency Economic Stabilization Act of 2008. The ultimate purpose of the Act is to stabilize the financial system while protecting taxpayers. In other words, it is our position that there is no better way to protect the taxpayers than by the Secretary exercising his authority to purchase Troubled Assets that are directly owned by taxpayers; the securities owned by cities, counties, special districts and school districts. Alternatively, the U.S. Treasury could insure the value of these taxpayer-funded assets as it has done recently with many other assets.

The recital/preamble of the Emergency Economic Stabilization Act of 2008 states in part that the intent of the Act is:

[t]o purchase and insure certain types of troubled assets for the purpose of providing stability to and preventing disruption in the economy and financial systems and protecting taxpayers....

We understand that the Emergency Economic Stabilization Act of 2008, Troubled Assets Relief Program (TARP) contains specific provisions, including Section 103, authorizing the Secretary of the Treasury to take action to provide relief. In fact, at the behest of Congresswoman Anna Eshoo, working together with Chairman Barney Frank, the language contained in that Section, subpart 7 was included to direct you to consider the stability of public instrumentalities, such as counties and cities that have suffered losses in the current market turmoil. Most subparts to section 103 provide support for our position. For instance, subparts 1 and 2 direct you to consider the interests of taxpayers and the protection of jobs and retirement security. Loss of these investments may mean teachers out on the street instead of in the classroom. In subparts 4 and 5, you shall consider the long-term viability of financial institutions and ensure that all institutions are eligible to participate. The viability of two institutions that have fallen into bankruptcy during this crisis is at stake. They should be able to participate in this rescue program in order for the taxpayers of California to be made whole.

Secretary Henry M. Paulson, Jr.

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It would be inequitable were the federal bailout to buy bad mortgages, shoring up banks, yet fail to protect agencies' taxpayer money. As mandated investors of local entity funds, city, county and district treasurers are integral parts of the financial system of this country. The purpose of the Act directly addresses our situation. We hold "troubled assets" the loss of which would destabilize and disrupt our local economy and these national and local "financial systems." More importantly, purchase of these assets would directly "protect taxpayers" since it is their tax dollars at risk. These assets do not represent complex financial instruments in which some people got rich while others got in over their heads. Rather, these investments represent an attempt at conservative stewardship of public funds, the loss of which was instigated by the sudden collapse of the oldest investment bank in our country. These investments appeared far from risky and represent the backbone of local government finance.

Our collective exposure represents a severe financial hardship to our agencies, and to all our local schools and special districts. Our Treasurers had invested in these highly rated assets in good faith and in conformance with all governing statutes and policy considerations. These losses have severely impacted the budgets of our local government entities, schools, and special districts throughout the State of California and without mitigation will impact delivery of all manner of local government programs and services, including police, fire, health care and education. We ask that you consider the effect of this potential loss and use your authority to protect taxpayer moneys held by local governments.

Accordingly, we respectfully ask for federal purchase or insurance of these assets under the provisions of the TARP program. We would also request a meeting in Washington with you to discuss this urgent matter.

Sincerely,

County of San Mateo  
County of Monterey  
County of Sacramento  
County of Santa Clara  
County of Tehama, Treasurers Office  
County of Tuolumne  
California State Association of Counties (CSAC)

Beach Cities Health District  
City of Burbank  
City of Costa Mesa  
City of El Segundo  
City of Fontana  
City of Loomis  
City of Long Beach  
City of Moreno Valley  
City of Santa Clarita  
City of Shafter  
City of Ventura

cc: Senator Barbara Boxer  
Senator Dianne Feinstein,  
Speaker of the House Nancy Pelosi  
Congresswoman Lois Capps  
Congresswoman Anna Eshoo  
Congressman Sam Farr  
Congressman Elton Gallegly  
Congresswoman Jane Harmon  
Congressman "Buck" McKeon  
Congressman Dana Rohrabacher  
Congresswoman Loretta Sanchez  
Congresswoman Jackie Speier