

DEC. 17. 2008 2:58PM
DIANNE FEINSTEIN
CALIFORNIA

SENATOR FEINSTEIN



NO. 696 P. 1

COMMITTEE ON APPROPRIATIONS
COMMITTEE ON THE JUDICIARY
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ADMINISTRATION - CHAIRMAN
SELECT COMMITTEE ON INTELLIGENCE

United States Senate

WASHINGTON, DC 20510-0504

<http://feinstein.senate.gov>

December 16, 2008

DRAFT

The Honorable Henry Paulson, Jr.
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Secretary Paulson:

On October 24, Senator Boxer and I sent a letter to you urging assistance for local governments under the Troubled Asset Relief Program (TARP). We have had no response. This disturbs me greatly because 28 California cities and counties are in jeopardy of losing \$300 million as a result of highly-rated investments with failed institutions, such as Lehman Brothers.

The severe losses incurred by these local governments have resulted in job cuts, infrastructure projects being placed on hold, and reduced budgets for critical services. This could not happen at a worst time, as California struggles with rising foreclosures and the third-highest unemployment rate in the country (8.2 percent).

The examples below demonstrate the gravity of this situation.

- The San Mateo County Transportation Authority has lost approximately \$12.5 million as a result of the Lehman Brothers collapse. These funds are necessary for Caltrain electrification throughout the 52-mile rail corridor from San Francisco to San Jose to develop a faster, more efficient, and environmentally-friendly rail network than the current diesel powered train system. The anticipated system upgrades will reduce air pollutant emissions from the trains by up to 90 percent. However, this project will now be delayed for at least six months, costing the San Mateo metropolitan area 300 new jobs.
- The Menlo Park School District has lost 3.5 percent of its entire bond funds, which places a considerable portion of the Hillview Middle School construction project in jeopardy. Construction of the school, which is expected to have approximately 950 students by 2016, was set to begin in the fall of 2009. The project has now been placed on hold as the school district redefines its priorities. This delay has impacted more than 200 construction jobs.

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- The Sequoia Union High School District budget for technology centers at high schools is \$18 million. The Lehman Brothers losses have forced the District to reduce the scope of its projects by \$4.7 million (25 percent). This will negatively impact the District's technology careers training program that currently serves roughly 2000 students. The technology-focused career training programs specialize in areas such as arts, media, entertainment, engineering, design, building trades, and construction. The reduction of the bond funds across the District will result in the elimination of some of these specific programs which prepare students for 21st century careers. Approximately 75 jobs will be lost as a result of these cuts.

Given the urgency of this situation, I ask that you immediately begin disbursing TARP funds to local governments so that communities remain solvent and taxpayers are protected.

While the implementation of the economic rescue legislation has not been consistent, the ultimate purpose of the Act is clear: to stabilize the financial system while protecting taxpayers. Section 103(7) of the Act gives you the explicit authority to purchase the troubled assets held by local governments to ensure this objective is achieved. Yet, to date, you have not chosen to exercise this authority.

This is an unacceptable course given the deteriorating state of the economy, and I intend to introduce legislation when Congress reconvenes to ensure that a portion of TARP funds are used as intended, to purchase or insure the troubled assets held by local governments.

Thank you for your attention to this serious matter. I would appreciate a response detailing your plans to address this problem. Please do not hesitate to contact me if I can provide any additional information or assistance.

Sincerely,

DRAFT

Dianne Feinstein
United States Senator

Enclosures:

1. October 24 Letter to the Honorable Henry Paulson, Jr. - Secretary of the Treasury