



## United States Senate

WASHINGTON, DC 20510-0504

<http://feinstein.senate.gov>

December 22, 2008

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 concerns me greatly because 28 California cities and counties are in jeopardy of losing nearly \$300 million as a result of investments with failed institutions, such as Lehman Brothers.

Increasingly in recent years, local governments have invested public funds in conservative, highly-rated instruments issued by large financial institutions. These investments include basic operational funds on which cities and counties rely upon to function. The effects of the losses incurred by local governments are rippling across California, compromising public safety, education, public health, infrastructure, and transit. Communities large and small are significantly impacted.

For example:

- San Mateo County sustained a loss of \$30 million, which will require the County to abandon plans for a new and urgently needed County jail. The current jail will continue to operate in overcrowded conditions, far beyond the rating of the facility. The result will be unsafe working conditions for the corrections personnel and the likelihood that convicted criminals will be released into the community early and in large numbers.
- The City of Shafter, a small community of 15,000 in the San Joaquin Valley, sustained a loss of \$300,000, or nearly 4 percent of its annual budget. The City will be forced to make across-the-board cuts in all services, including police and fire.

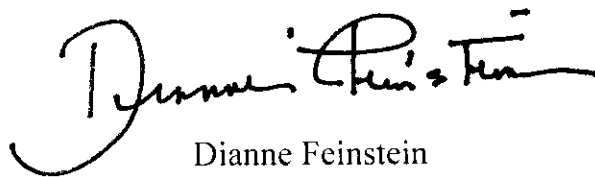
- Monterey County is facing a \$30 million loss. Amid numerous other cuts, hardest hit will be programs targeting gang activities, including a special task force and the construction of new adult and juvenile corrections facilities to manage these criminals.
- The San Mateo County Transportation Authority sustained a loss of more than \$25 million, which will mean delays and higher costs to major projects that will reduce emissions and traffic, specifically the electrification of the Caltrain Peninsula Commuter Rail Service. Similarly, cuts in highway and roads projects will put more people on the local roads for longer times at a major cost in compromised air quality.
- The City of Culver City has lost \$1 million. This will result in a substantial reduction in planned street repairs and higher liability exposure from accidents, greater environmental degradation from storm water drain off, and worsened traffic congestion in a region of the U.S. ranked as the one of the worst for traffic.
- The Hillsborough City School District lost over \$924,000. Projects to create more classrooms for increased enrollment will not take place, increasing class sizes. Combined with other budget cuts from the State, all the District's programs are threatened.
- The Vallejo Sanitation and Flood Control District, which provides sanitary sewer and storm water services to the City of Vallejo (population 119,600) and nearby areas of Solano County, sustained losses of \$4.5 million in Lehman Brothers investments and \$1.46 million in Washington Mutual investments. The result is that aging infrastructure essential to the health of this community will not be replaced. The City of Vallejo recently declared Chapter 9 Municipal bankruptcy.
- Sacramento County sustained an increase in costs of \$8 million related to an interest rate swap agreement with Lehman. This increase means fewer funds for Sheriff's patrol and investigations and probation supervision, resulting in an increased risk to the safety of the community and reductions in social safety net services, at a time of increased community need.
- The City of Folsom lost \$700,000, which has caused the City to indefinitely postpone staffing and equipping a new fire station.
- The San Mateo County Community College District sustained a loss of \$25 million in voter-approved bond funds. As a result, the District will be forced to abandon a program to build more classrooms, and, therefore, turn away

thousands of potential students, many of them unemployed adults seeking job training.

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.

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,

A handwritten signature in black ink, appearing to read "Dianne Feinstein". The signature is fluid and cursive, with a large initial "D" and a long horizontal stroke at the end.

Dianne Feinstein  
United States Senator

Enclosures:

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

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# United States Senate

WASHINGTON, DC 20510

October 24, 2008

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

Dear Secretary Paulson:

We write to follow up on the attached letter sent earlier this week by twenty California cities and counties regarding the Troubled Asset Recovery Program (TARP) in the Emergency Economic Stabilization Act of 2008.

California cities and counties could lose an estimated \$250 million as a result of investments with failed institutions such as Lehman Brothers and Washington Mutual. This is particularly troubling because these were highly-rated, conservative instruments designed to provide value to investors, including these local governments. The severe losses incurred by local governments now threatens not only retirement security and jobs, but also the availability of public health and safety services in communities throughout our state.

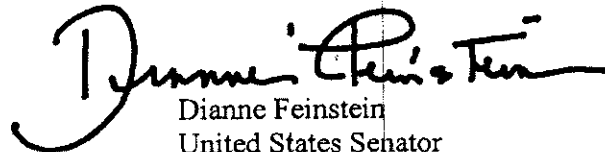
As you know, the economic rescue legislation included provisions that require Treasury to consider the impact of financial market losses on local governmental entities as part of the TARP. Accordingly, we request that you work constructively with California communities that are experiencing financial difficulties as a result of failed highly-rated investments to help develop solutions which keep local communities solvent and protect taxpayer investments.

We cannot ignore local communities that may become unable to provide essential public health and safety services for their citizens. Please do not hesitate to contact us to discuss how we can work together to address this situation. Thank you for your time and attention to this serious matter.

Sincerely,



Barbara Boxer  
United States Senator



Dianne Feinstein  
United States Senator

## 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.

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)  
San Mateo County Superintendent of Schools

Beach Cities Health District  
City of Burbank  
City of Costa Mesa  
City of El Segundo  
City of Folsom  
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 Harman  
Congressman "Buck" McKeon  
Congressman Dana Rohrabacher  
Congresswoman Loretta Sanchez  
Congresswoman Jackie Speier