



**Letter From County Manager, John Maltbie
to County Employees (October 23, 2008)
Lehman Loss - Impact to San Mateo County**

I want to provide you with details about the loss of \$155 million in the County's investment pool as a result of the Lehman Brothers bankruptcy. This one-time loss is serious and we are vigorously pursuing recovery of the funds through bankruptcy proceedings and the federal bailout package.

San Mateo County's \$2.6 billion investment pool has approximately 600 participants, including the County, school districts, special districts, and some cities. California law limits the types of investments allowed in the pool, which is managed by our County Treasurer Lee Buffington. When Lehman Brothers declared bankruptcy on September 15, the pool had 5.9 percent, or \$155 million, of its funds invested in Lehman floating rate notes and corporate bonds. The law allows pooled funds to be invested in these types of securities, with a maximum of 10 percent per issuer.

San Mateo County's portion of the \$155 million overall loss is approximately 20 percent or \$30 million. Approximately \$9 million of this is in the General Fund, which is the County's main operating fund, and the rest is in funds for specific purposes, such as capital projects and debt service, state/federal funding for health and social services, and insurance.

The County has hired a Wall Street legal firm to provide the strongest possible representation during Lehman bankruptcy proceedings. Additionally, at the County's request Congresswoman Eshoo was successful including language in the federal bailout legislation that could further assist us and other government agencies in the recovery of funds. It is hoped that these losses will be partially replenished with monies recovered through bankruptcy litigation and/or our federal bailout efforts.

The County is already facing ongoing budget deficits as a result of the economic slowdown, as are other government agencies. We expected lower investment earnings in the future due to the continued uncertainty in the financial markets. The Board of Supervisors approved a multi-year plan last December to eliminate a structural budget deficit that is projected to grow from \$28 million this year to more than \$92 million per year by 2013. The hiring freeze was implemented to reduce spending and minimize layoffs. The County has approximately 600, or 10 percent, of its positions vacant. As you know, the County has also implemented policies to maintain at least 15 percent operating reserves and 3 percent contingency reserves in the General Fund.

And finally, I encourage you to continue submitting your budget suggestions on the County Intranet. You can submit budget suggestions through October 31 to be considered for an award of up to \$5,000. Go to <http://intranet/budgetnews> and give us your ideas to help with the budget.