

COUNTY OF SAN MATEO



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October 14, 2008

All Pool Participants

Re: *San Mateo County Investment Pool- Lehman Brothers Holdings*

The following is an update regarding the matters related to the San Mateo County Investment Pool (the "Investment Pool") following Lehman Brothers' September 15, 2008, filing of a bankruptcy petition (*In re Lehman Brothers Holdings, Inc, Case No. 08-13555 (JMP)*) in the United States Bankruptcy Court in New York. My office intends on providing on going periodic updates to you in regards to this matter.

1. On September 30, 2008, the San Mateo County Board of Supervisors acted to retain Nixon Peabody LLP to represent the Treasurer in connection with the aforementioned bankruptcy proceedings. The Board of Supervisors retained Nixon Peabody because of its reputation and track record of providing legal services to public entities. The partner who will be managing the case, Roger Crane, represented five California counties in bankruptcy litigation with PG&E that concluded in 2004 with excellent results and is highly recommended by those counties. Nixon Peabody will also be representing Monterey County, and an agreement has been reached to share litigation costs on an equal basis as to services provided which are common to both parties.

2. This office has provided Nixon Peabody with all information necessary to file Treasurer's creditor's claim, which will be filed shortly. Nixon Peabody will appear at all proceedings, and will monitor the bankruptcy proceeding's progress in order to ensure that any eventual recovery is maximized. In particular, Nixon Peabody has been instructed to ensure that no action is taken that jeopardizes the Treasurer's senior debt position. Nixon Peabody will consult with my office and the Office of the County Counsel in the event that they determine that specific action is necessary in order to protect the Treasurer's interests.

3. While it is unknown at this point how long the bankruptcy proceedings may take, given the complexity of the proceedings, it is estimated that the process will take at least a year. Nixon Peabody, which has been monitoring the bankruptcy since its inception, will provide the County with regular status updates, and this office, in turn,

will update you as to the status of the County's claim. In terms of recovery, estimates for creditors in senior debt position have ranged from 30 to 40 cents on the dollar. This amount, however, will depend on events during the bankruptcy process and cannot be determined with certainty at this juncture.

4. This office has received inquiries into whether it intends, in the near future, to declare the Lehman Brothers investment a complete loss and write off such loss from the Investment Pool books. Pursuant to San Mateo County's Pooled Fund Investment Policy (a copy of which is attached), gains or losses are attributed to the fund balance of each depositor quarterly. This office has booked the Lehman Brothers investment losses as of September 30, 2008. In writing off the Lehman Brothers investment, the losses are apportioned in accordance with the Investment Policy. This is calculated based upon the average daily balance during the quarter. To the extent that you believe that the current Investment Policy will allow this office to charge the loss to a one or more of your specific accounts, please let us know by October 24, 2008. We are open to discuss whether your request can be honored. The Investment Policy is scheduled to be re-evaluated in the near future and you will be receiving correspondence from the County inviting you to participate in the review process.

5. Finally, the Office of the County Counsel is in the process of reviewing the Emergency Economic Stabilization Act of 2008 (the "Act") to determine whether any of the provisions therein may beneficially impact these circumstances. Any conclusions resulting from our analysis of the Act, however, will be communicated at a future date. The County Counsel's Office will be in contact with the County Superintendent regarding the selection of a school representative to serve as a member of a soon to be established bailout strategic committee.

Very truly yours,



LEE BUFFINGTON
TREASURER