

Board of Supervisors



COUNTY OF SAN MATEO

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November 3, 2009

The Honorable Timothy F. Geithner, Secretary
Department of the Treasury
1500 Pennsylvania Ave., NW
Washington, D.C. 20220

Dear Secretary Geithner,

Thank you for your continued leadership in strengthening the American economy through prudent use of funds available under the Troubled Asset Relief Program. The recent signs of positive economic activity are a major accomplishment.

However, this rebound, if sustained, will not erase the catastrophic losses suffered by public entities as a result of the failure of Lehman Brothers. Counties, cities, school districts and special districts nationwide saw approximately \$1.7 billion wiped out when Lehman failed on Sept. 15, 2008. These investments were in conservative, highly rated securities in keeping with the strict regulations required of public agencies.

Due to the unique and critical services local governments provide, Congress expressly granted the Treasury Department the authority under Section 103(7) of the Emergency Economic Stabilization Act of 2008 to purchase the troubled assets held by local governments. The section states: **"In exercising the authorities granted in this Act, the Secretary shall take into consideration — the need to ensure stability for United States public instrumentalities, such as counties and cities, that may have suffered significant increased costs or losses in the current market turmoil..."**

I urge you to exercise that authority.

If there were any doubt about the intent of Congress, Representative Barney Frank, the Chairman of the House Financial Services Committee, clearly stated in a Jan. 15, 2009, colloquy with Representative Anna Eshoo that **"the purpose of this bill is not simply to confirm that the authority is there, but to say that we expect it to be used and to demand that if it is not used, we get a written explanation as to why not."**

I recognize that there are two areas of concern: 1) other Lehman investors might question why local governments are offered relief, and; 2) TARP funds have been allocated in the form of loans, while local governments are seeking grant relief.

Let me tackle both.

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First, the Emergency Economic Stabilization Act of 2008 was signed into law to stabilize our financial system, protect taxpayers and mitigate harm to our economy. Congress expressly included local governments in the legislation precisely because local governments can put TARP relief funds to work to improve the economy. No such certainty exists when TARP funds are used in the private sector. Moreover, the losses suffered by public agencies in Lehman comprised public funds. Local governments are unique from other creditors.

Second, the losses suffered by local governments in the Lehman bankruptcy prevented job creation and led to job losses in capital improvement and other projects. Taxpayers saw their funds evaporate, leaving local agencies terminating or reducing critical services and laying off teachers and nurses, for instance.

In real terms, these financial losses mean the loss of 1,658 jobs in San Mateo County, according to a financial analysis by Beacon Economics. The County will suffer the overall loss of \$216 million in output within the local economy due directly to the Lehman bankruptcy.

Losses in San Mateo County include: \$25 million in proceeds of a voter approved community college facility bond; \$25 million in transportation improvement funds; \$40 million in K-12 school operating funds, including teacher salaries and educational materials; and \$36.7 million in operating funds that support public health, affordable housing, law enforcement and other critical services.

By providing relief, the overall economy will benefit by the additional economic activity in the form of capital purchases, construction and job creation. These are tangible, measurable benefits. Local governments are transparent and accountable. The money will be put to work.

Relief for local governments is an investment, not a grant. Buying our troubled assets will not only provide a direct return on those funds recovered during the Lehman bankruptcy proceedings (currently estimated at 25 cents on the dollar), but more importantly, it will provide both an immediate and long-term return to the Treasury in the form of new taxes resulting from the jobs created by investing in our schools, health care, and transportation infrastructure. For example, the multiplier effect for every dollar spent on transportation results in five dollars into the economy. In our case, we lost \$25 million in transportation funds, or \$125 million into our economy. Returning those funds is a real investment with tangible returns to the Treasury.

On behalf of the San Mateo County Board of Supervisors, the residents and the taxpayers of San Mateo County, I urge you to use your authority to provide relief to public entities that had investments in conservative, highly rated investments in Lehman Brothers. Thank you for your consideration.

Respectfully,



MARK CHURCH
President of the Board

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C: Honorable Nancy Pelosi
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