

SMCSBA

San Mateo County School Boards Association



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October 17, 2008

Adrienne J. Tissier, President
San Mateo County Board of Supervisors
555 County Center, 1st Floor
Redwood City, CA 94063

Re: Treasury loss of \$154.6 million

Dear President Tissier:

I am writing to the Board of Supervisors on behalf of the San Mateo County School Boards Association regarding the recent losses in the County Investment Pool. As I am sure you are aware the approximate loss apportioned to the 23 school districts in the County, the County Office of Education and the San Mateo Community College District is approximately \$66.3 million.

The loss of \$66.3 million is devastating to our schools. We have all just gone through very painful cuts to balance our budgets and have heard that the State of California expects to make additional midyear cuts to school. For some districts reserve funds used for operating budgets which are available for times of uncertainty will now be used up, and buildings that were desperately needed may not be built. Our public schools are already in dire financial straits and this loss will significantly exacerbate the problem. Quite honestly we can not afford this loss and we certainly can not sustain any additional losses.

I had two very enlightening conversations with John C. Beiers; Chief Deputy County Counsel; and Supervisor Rich Gordon. I understand fully that the Board of Supervisors does not have the ability to do much more than approve the investment policy of the County; since they do not provide oversight. I know that Supervisor Church and Gordon are establishing a subgroup of the Finance and Operations Committee to hire a professional financial advisor to help rewrite the investment policy that is more consistent with preservation of capital and prudent investment standards. I applaud you for taking this action and thank you for allowing us to have two elected San Mateo County School Boards Association members participate in this process. Both of these school board trustees have professional investment expertise which we believe will be invaluable to you.

We strongly encourage you to accelerate this process forward from your normal January review date because we are worried that there currently are other investments like Morgan Stanley that could put all of us in further financial peril. By way of example, as of September 30, 2008, the County Treasury Pool had \$160,000,000 of face amount of Morgan Stanley securities or 6.6% of the total portfolio. In that investment alone, there is an unrealized loss of \$29,853,000 or 18.7% of the cost basis. We are very concerned that the Board of Supervisors is being too passive on this issue. We believe the Board of Supervisors should independently reach a conclusion that our current investment portfolio and policy is prudent and is set up to preserve capital.

That being said, we do not think this review of the current policy is enough. As elected school officials we take seriously our responsibility to manage our tax payer's money prudently and efficiently. We know that you share that same objective.

To say that you have no oversight of the Treasurer may be true from a San Mateo County Charter perspective, but we need to know whether the approved policies and guidelines were followed. All of the stakeholders in the Investment Fund have the right to know if the policies were adhered to, or were ignored. Thus, we, the Executive Board of the SMCSBA, ask that you hire a team of forensic accountants to research and ascertain if there has been any malfeasance or if there are any processes that need to be changed in the Office of the San Mateo County Treasurer. Once done, this report should be made public. While we appreciate you may not be able to take any action once you have the report, we do think you owe the citizens of San Mateo County a thorough and independent review and analysis of what has transpired.

The way in which this crisis came about and the way it is being handled by the Treasurer's office demonstrate that there is a leadership vacuum in the County's investment operations. This is one of those situations where citizens look for all of our elected leaders to focus on what they can do, not what they can't. The Board of Supervisors can do a lot to resolve this situation by shedding light on it, encouraging transparency, challenging any perceived lack of corrective action and insisting upon full accountability.

As I go to school board functions around the County and talk to people; people are starting to question how something of this magnitude could happen to the public's money, and they ask "Is there really no independent review and no accountability?" In the absence of a thorough investigation, the County of San Mateo will be giving the public the appearance that no one is really concerned with accountability. A \$154.6 million loss demands a thorough examination.

Thank you in advance for your help.

Sincerely,

Dennis P. McBride
San Mateo County School Boards Association President

cc: Lee Buffington, San Mateo County Treasurer
Jean Holbrook, Ed.D. County Superintendent of Schools
John C. Beiers, Chief Deputy County Counsel
Ron Galatolo, Chancellor, San Mateo Community College District
School District Governing Board members