

SMCSBA

San Mateo County School Boards Association



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October 17, 2008

Lee Buffington
San Mateo County Treasurer
555 County Center, 1st Floor
Redwood City, CA 94063

Dear Mr. Buffington:

I am writing to you on behalf of the San Mateo County School Boards Association which represents all 25 school districts in the County. We are extremely concerned about the loss of approximately \$66 million suffered by our K-14 schools, as a result of the County Treasury's investment in Lehman Brothers.

We called an emergency meeting with our Executive Board on Monday, October 13, 2008 and want to share our concerns with you.

Our most immediate concern is the current investments in the County pool that appear neither prudent nor consistent with preservation of capital. We would like to know what steps you are taking to evaluate the portfolio based on the current market environment and prior losses. As outlined in your investment policy we want assurance that preservation of capital is the highest priority. We have been advised by investment professionals that high concentrations of investments in financial institutions are an inappropriate investment in this current market. As public officials, it is our duty to manage our taxpayers' funds as wisely and conservatively as possible and we need to be able to report what immediate steps you are taking to address potential problems in the portfolio that could result in additional losses. In particular, we are very concerned with the holdings in Morgan Stanley (\$160,000,000 of face amount at September 30, 2008 or 6.6% of the total portfolio) and small regional banks. In Morgan Stanley alone, you have an unrealized loss of \$29,853,000 or 18.7% of the cost basis as of September 30. That investment does not seem to meet the primary objective of capital preservation.

It would improve our understanding of the risks facing us as participants in the County pool if we saw more frequent reports on the current market value of each investment, including the date on which the market value was last determined based on a marketplace transaction. We also believe you should begin issuing reports summarizing pool holdings by issuer and industry/sector, which will highlight the degree of concentration. Finally, making all reports available online in a timely fashion, preferably in a format which allows for analysis (e.g., Microsoft Excel)) would help improve the transparency of the pool's operation.

We also have not seen evidence of any review of previous practices to determine how such dramatic losses occurred and whether investment policies were followed, as well as immediate action to insure that we do not have additional portfolio losses.

Another immediate concern is the method by which you have chosen to calculate and distribute the loss. While we understand your desire to move swiftly, we do not accept as final your decision to calculate the loss based upon average daily cash balances for the quarter. As major pool participants and stewards of public monies, we have not been afforded any real opportunity to engage in a dialogue that could influence the decision process. It is our understanding that the Superintendents Sub Committee would like to meet with you to discuss this. We would like to participate in this discussion.

Our last concern; to date the communication with the School Boards from your office has been non-existent. We request that you immediately institute a process where you provide regular updates to the school district trustees, who are the public elected officials answering to the taxpayers, and the general public. In particular, we urge your office to begin posting information and reports online in a timely fashion.

The loss of \$66 million is devastating to our schools' ability to function effectively. We have all implemented budget cuts to balance our budgets and have been warned that the State of California will be reevaluating their budgets with additional cuts to school districts coming in January. Our public schools were in dire financial straights and this loss has exacerbated the problem significantly. Quite honestly we could not afford this loss and we certainly can not sustain any additional losses.

Sincerely,

Dennis P. McBride

San Mateo County School Boards Association President on behalf of the Executive Board

cc: County Board of Supervisors
Jean Holbrook, Ed.D. County Superintendent of Schools
School District Governing Board members
Ron Galatolo, Chancellor, San Mateo Community College District