JOSH MANDEL
STATE TREASURER OF OHIO

FOR IMMEDIATE RELEASE
September 8, 2011

Contact: Seth Unger
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Treasurer's Local Government Investment Fund, STAR Ohio, Receives Highest Rating from Standard & Poor's

Ohio Receives Top Credit Rating Amidst U.S. Downgrade and Uncertainty

COLUMBUS – Ohio Treasurer Josh Mandel announced today that the State Treasury Asset Reserve of Ohio (STAR Ohio) investment fund, which the Treasurer invests on behalf of school districts and local governments, has received the highest possible rating, AAAm, from Standard & Poor's rating agency.

"The STAR Ohio investment fund is one of the most trusted and stable public investment pools in the country. Even amidst global economic uncertainty and a historic downgrade of the U.S. credit rating, Ohio has maintained and improved our top credit ratings due to conservative management of taxpayer dollars," said Treasurer Mandel. "Our investment strategy focuses first on security and liquidity, while ensuring that local government subdivisions can pool together to generate positive returns on taxpayer dollars. STAR Ohio's AAAm rating by Standard & Poor's proves that the investments of Ohio school districts and local governments remain safe and secure in this top-rated fund."

How STAR Ohio Compares to Other Local Government Investment Funds
STAR Ohio is the seventh largest local government investment pool in the nation based on assets held. STAR Ohio's receipt of Standard & Poor's top AAAm rating is in contrast to many other local government investment pools that have received downgrades this year. S&P recently reported that of the 90 local government investment pools it currently rates, 14 were downgraded in August. Those 14 investment pool sponsors included:

Georgia Office of the State Treasurer, Extended Asset Pool
Illinois Metropolitan, 1-3 Year Investment Fund
Broward County, CA, Investment Portfolio
Hillsborough County, FL, Investment Pool
Manatee County, FL, Investment Portfolio
Palm Beach County, FL, Investment Portfolio
San Bernardino County, CA, Investment Pool
San Mateo County, CA, Treasurer's Office Investment Portfolio
Santa Barbara County, CA, Treasurer's Investment Pool

Solano County, CA, Treasurer's Investment Pool
St. Lucie County, FL, Investment Portfolio
City of Anaheim, CA, Treasurer Investment Pool
City of Houston, TX, General Investment Pool
City of Los Angeles, CA, Office of the Treasurer, General Pool

In addition, last month as the U.S. Credit rating was downgraded, Ohio was upgraded by S&P to AA+ stable from AA+ negative. This is in contrast to states like Nevada and New Jersey that were downgraded by S&P in 2011. It also contrasts what happened in Florida in recent years, when the state sought higher yields through risky and legally questionable investments that potentially cost taxpayers hundreds of millions of dollars after the collapse of housing and financial markets in 2008.

STAR Ohio Overview

STAR Ohio allows government subdivisions—from municipalities to school districts—to invest funds in a highly rated public investment pool. On August 31, 2011, the STAR Ohio investment fund's assets totaled $4,120,545,315.45 with 2,786 accounts. School districts are one of the primary users of STAR Ohio, with 963 accounts totaling approximately 36% of all STAR Ohio assets. State custodial funds, cities, counties, townships, villages, libraries and some public hospitals also invest in STAR Ohio.

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STANDARD
&POOR'S

Standard & Poor's
Financial Services Ratings

55 Water Street
New York, NY
212 438 2000 Tel
212 438 5075 Fax

August 23, 2011

Mr. Gordon Short
CIO
State of Ohio
30 East Broad Street, 9th Floor
Columbus, OH 43215

Re: State Treasury Asset Reserve of Ohio (STAR OHIO)

Dear Mr. Short:

The purpose of the letter is to affirm the Standard & Poor's **"AAAm"** Principal Stability Fund Rating for the above-referenced fund.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

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Municipalities Drop S&P Investment Ratings After Downgrade

Published August 17, 2011 | Dow Jones Newswires

--San Mateo, Calif., two others drop S&P investment-pool ratings in wake of downgrade

--St. Lucie County, Fla., is deciding whether to drop S&P investment-pool ratings

--One non-municipal fund downgraded by S&P has dropped S&P's ratings

(Adds details on municipalities dropping investment ratings beginning in first paragraph, and municipalities considering dropping ratings in the second paragraph.)

NEW YORK (Dow Jones)--Three municipalities that aimed to reassure investors by seeking ratings for their investment portfolios have dropped those ratings after being downgraded by Standard & Poor's following its cut to the U.S. credit rating.

Other municipalities said they might consider dropping S&P ratings for their investment pools as well.

The three defections this week came from local governments, including the City of Los Angeles, that had paid the agency to rate investment portfolios. S&P said it currently rates about 90 such investment pools. It had downgraded 14 of those as part of a broader downgrade last week of 73 funds that had "significant exposure" to investments in U.S. Treasury and U.S. government agency securities, which were downgraded to double-A-plus when S&P stripped the U.S. government of its triple-A rating.

The actions by the municipalities--which apply to investment pools, not to ratings on the municipalities' own debt--come as politicians and some issuers are expressing unhappiness with S&P's historic downgrade of U.S. debt to double-A plus from triple A. The ratings company, a unit of McGraw-Hill Cos. (MHP), also caught flak from Wall Street when it came out with an 11th-hour decision to withdraw its rating on a $1.5 billion commercial mortgage bond, which could result in losses for the bankers on the deal--Goldman Sachs Group (GS) and Citigroup Inc. (C).

San Mateo (California) County, which has a $2.6 billion investment pool that is mostly invested in U.S. government securities, said it was in the process of renewing its contract with S&P when the downgrade came and decided not to renew.

"We will save the taxpayers $20,000 annually," said Sandie Arnott, treasurer and tax collector at San Mateo County. "We found the whole process of the downgrade flawed."

Arnott said the county had switched to S&P from Fitch Ratings three years ago and will consider another rating company at a later time.

Other local governments whose investment funds were downgraded are looking into dropping S&P's ratings for those portfolios. Shai Francis, finance director for St. Lucie County, Fla., expects the county to decide by Sept. 30.

"We are more than upset" about the investment fund downgrade, she said. "It's just kind of mind-boggling at this point. You buy the most secure investment out there--U.S. debt--and I don't think anyone can argue about that."

Francis said about half of the county's $325 million portfolio is invested in U.S. Treasurys.

Peter Rizzo, senior director in S&P's fund-ratings group, said the agency began rating such investment pools in 1994 in response to requests from some municipalities seeking to calm investors following the financial crisis in Orange County, Calif. That year, Orange County filed for the largest-ever municipal bankruptcy after its investment fund lost more than $1 billion, due in part to investments in risky derivatives.

Some local governments have since voluntarily sought ratings on their portfolios from one or more credit-rating companies.

"They're doing a good thing to indicate to participants of the pool that it's a sound investment," Rizzo said. "To have the U.S. government get downgraded, they may feel frustrated and I imagine some are re-evaluating whether they have a need for the rating."

On Wednesday, S&P confirmed that the City of Los Angeles had dropped S&P's rating on its $7 billion general investment pool. The news had earlier been reported by The Bond Buyer.

On Monday, S&P said it had similarly withdrawn its rating on Manatee County's investment portfolio, valued at roughly $700 million, at the request of the fund's investment adviser. S&P had downgraded both funds last week, to AAf from AAAf. The new rating is still investment grade.

"They unfairly penalized us for following best practices," said Dan Wolfson, finance director in the Manatee County Clerk of Circuit Court & Comptroller's office in Bradenton, Fla., one of the two local governments that dropped S&P's rating this week.

Manatee County said the bulk of its investments were county bonds with some small amounts from neighboring municipalities. S&P monitored the investment pool at an annual cost of $16,000.

Messages left with the Los Angeles treasurer's office weren't returned.

S&P also said on Monday that it had withdrawn its fund credit-quality rating on The Core Fund--one of the 59 non-municipal investment funds among the 73 funds downgraded by S&P--at the request of the fund's investment adviser, Wertz York Capital Management Group LLC.

S&P remains the only major rating company to have lowered its rating on the U.S. government. Fitch Ratings on Monday affirmed its rating for the U.S. at triple-A with a stable outlook.

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--Kelly Nolan contributed to this article.

Sponsor	Fund Name/Desc	From Rating	From OL/CW	To Rating	To OL/CW	Release Date
Broward County Finance & Administrative Services Department	Broward County Investment Portfolio	AAAf	WatchNeg	AAf	--	8/8/2011
City of Anaheim, CA	City of Anaheim Treasurer Investment Pool	AAAf	WatchNeg	AAf	--	8/8/2011
Clerk of the Circuit Court/Comptroller for Hillsborough Cnty (The)	Hillsborough County Investment Pool	AAAf	WatchNeg	AA+f	--	8/8/2011
Illinois Metropolitan Investment Fund	IMET 1-3 Year Fund	AAAf	WatchNeg	AAf	--	8/8/2011
Los Angeles Office of the Treasurer (City of)	City of Los Angeles General Pool	AAAf	WatchNeg	AAf	--	8/8/2011
Manatee County Clerk of the Circuit Court Comptroller	Manatee County Investment Portfolio	AAAf	WatchNeg	AA+f	--	8/8/2011
Office of the City Controller for the City of Houston	City of Houston General Investment Pool	AAAf	WatchNeg	AAf	--	8/8/2011
Office of the Clerk of the Circuit Court-St. Lucie County	St. Lucie County Investment Portfolio	AAAf	WatchNeg	AAf	--	8/8/2011
Office of the State Treasurer	Georgia Extended Asset Pool	AAAf	WatchNeg	AA+f	--	8/8/2011
Palm Beach County	Palm Beach County Investment Portfolio	AAAf	WatchNeg	AAf	--	8/8/2011
San Bernardino County	San Bernardino County Investment Pool	AAAf	WatchNeg	AA+f	--	8/8/2011
San Mateo County Treasurer's Office	San Mateo County Investment Portfolio	AAAf	WatchNeg	AAf	--	8/8/2011
Santa Barbara County	Santa Barbara County Treasurer's Investment Pool	AAAf	WatchNeg	AAf	--	8/8/2011
Solano County	Solano County Treasurer's Investment Pool	AAAf	WatchNeg	AAf	--	8/8/2011

St. Petersburg Times
tampabay.com

September 18, 2010

Florida's State Board of Administration skirted legal advice, gambled on risky investments

By Sydney P. Freedberg, Times Staff Writer

State money managers skirted legal advice and gambled on securities that lost hundreds of millions in value.

Three years ago, the state of Florida made bad investments that lost hundreds of millions in value. State leaders blamed the sharks of Wall Street, who they said duped Florida money managers into buying way-too-risky securities.

Chief Financial Officer Alex Sink pushed the state to sue big banks, which she said dumped tainted investments on Florida.

Gov. Charlie Crist demanded a no-holds-barred investigation and named four Wall Street firms that he suspected took advantage of the state.

Attorney General Bill McCollum wondered if there had been fraud and promised help with an investigation.

But no bank was prosecuted, no lawsuit was filed and there was never a full accounting of a financial debacle that could cost Florida governments and taxpayers hundreds of millions of dollars.

Now the *St. Petersburg Times* has obtained e-mails and internal memos that document a story at odds with the one told by Crist, Sink and McCollum, the elected officials responsible for oversight of the state's money managers.

The securities Wall Street "dumped" on Florida? The records show the state was anything but an innocent dupe; it was an eager partner.

Going back at least seven years, state money managers had been trying to find a way around rules that restricted them from buying certain risky securities. Time and again they asked, time and again lawyers told them no.

But so eager were Florida's money managers for higher yields, they bought them anyway. In two months at the brink of the housing market meltdown in 2007, the state invested at least $9.5 billion in securities it was not authorized to buy, a review of confidential memos shows.

"Florida can't say it got snookered," said Peter Henning, a Wayne State University law professor and securities law expert, when told what the documents said.

"They were chomping at the bit to buy risky securities. … These weren't lambs being led to the slaughter. They weren't fooled. … They seemed to go along quite happily."

What happened?

The State Board of Administration invests more than $140 billion of public money, most of it for the state retirement system. It also manages a fund that pools money from hundreds of Florida towns, counties and school districts.

As of June 30, 2007, the local pool totaled $31 billion, making Florida's the country's largest such fund.

But with the collapse of financial markets and revelations of troubled investments, hundreds of the local clients withdrew billions from the pool. Today it holds less than $6 billion.

Beyond the lost dollars, beyond eroding trust in government, the state's perilous investing aggravated already-strained budgets and put holds on construction of schools, roads, sewers and firehouses across the state. It forced school districts to take out loans to pay teachers.

"I would never invest in the SBA again," said Marcia Dedert, finance director of Port St. Lucie, which had to borrow money to finish some roads. "In my mind, they robbed the citizens of my city."

It's hard to calculate the costs of the risky deals that went awry. The SBA refuses to recognize any loss for local governments. The agency says it has made many positive changes and its goal is to make its clients "whole." But if the bad securities were sold today, taxpayers could be out more than $300 million.

Ashbel C. Williams Jr., who replaced the SBA director who presided over the fiasco, said the agency and its employees did not violate federal securities laws.

"There was never any effort to circumvent either the law or our investment guidelines," he said last year in a letter to the U.S. Securities and Exchange Commission, which was investigating Florida's investment mess.

Williams was out of the office last week and unavailable to be interviewed, his spokesman said.

In a statement to the *Times* on Wednesday, an SBA attorney said money managers always operated under the belief that a legal exemption - different from the one the lawyers focused on - allowed them to buy the unregistered securities.

Crist, Sink and McCollum, responsible for oversight of the SBA, have given no public explanation about what happened.

What did these elected officials know about the agency's repeated efforts to get around the rules? All of them declined to be interviewed.

The lingo

To follow what happened, it helps to speak the language, a mix of acronyms and subsections of obscure rules.

Three are key: the LGIP, Rule 144A and QIBs.

The LGIP. The Local Government Investment Pool. Hundreds of governments and organizations use this short-term investment fund like a money market. They need access to their money in emergencies and count on the LGIP for investments that are safe and easily converted to cash.

Rule 144A. In 1933, after the Great Depression crushed investors and banks, Congress passed the "truth in securities" law to restore public confidence in the markets and protect mom-and-pop investors from fraud.

Sellers had to register with the SEC and disclose the risks. The SEC created exemptions that allowed experienced, wealthy individuals and institutions to trade securities privately.

In 1990, the SEC adopted Rule 144A, which allows sophisticated investors to trade in unregistered securities, which tend to have higher potential returns, higher risk and less disclosure than securities sold on the public market.

QIBs. Rule 144A creates a specific designation that defines a sophisticated investor as a "qualified institutional buyer," or QIB. A QIB usually must own or invest at least $100 million in securities and be on a list of allowed entities, including insurance companies, investment firms and pension funds. Local governments are not on the list.

First try

The newly released documents show that SBA money managers were frustrated that they could not chase higher yields for the local government pool and other funds that were not on the Rule 144A list.

In 2000, senior investment officer Barbara Jarriel wrote to the SBA's general counsel that the federal rule was "restrictive" and "illogical."

Why should an SBA money manager qualified to buy 144A securities for the pension fund not be qualified to buy them for other SBA funds?

In August 2000, Jarriel hired Steven B. Boehm, a partner in the Washington, D.C., office of Sutherland Asbill & Brennan to seek clarification from the SEC. She asked that Boehm leave the SBA's name out of it.

Anthony Barone, an SEC attorney, told Boehm: A money manager who buys unregistered securities for a fund that is a qualified institutional buyer is *not* allowed to buy them for a fund that is not a qualified institutional buyer.

"We read very strictly Rule 144A and what entities qualify as qualified institutions or buyers," Barone told Boehm.

Boehm, himself a former SEC lawyer, relayed the answer to Jarriel and told her the same: Local governments are not QIBs.

That meant the SBA could not certify itself as a QIB to buy unregistered securities on its behalf.

Boehm suggested a solution: The SBA could push for a change in the federal rule.

Jarriel said she didn't have the resources or the time for that.

Second try

Less than a year later, in May 2001, SBA assistant general counsel Ray Petty again hired Boehm's law firm. The SBA wanted Boehm to ask the SEC if the state could gain QIB status partly by relying on another federal rule that defined an "accredited investor."

It "uses almost identical language to the QIB definition," Petty said.

The SBA wanted a "no action letter," which a person or entity commonly files to get the SEC's assurance that it won't recommend civil or criminal action.

The SEC, however, did not grant Florida's request for no action.

Third try

At least as far back as July 2002, the SBA's own policy did not allow the purchase of Rule 144A securities for the local pool.

As the housing bubble inflated, Wall Street relied more on Rule 144A products, including mortgage-backed securities. In good times they were a money machine - for the investment firms that sold them and the investors who bought them.

In February 2007, Mike Lombardi, the head of short-term investments for the SBA, again raised the Rule 144A issue. Lombardi wrote deputy executive director Kevin SigRist that Florida seemed behind.

"I have spoken to various plans and (local government investment pools) across the country that simply declared themselves QIBs and operated as such," Lombardi wrote. "Fraught with QIB envy, can you ask our legal staff to revisit Rule 144A?"

SigRist asked and on March 15, 2007, assistant general counsel Maureen Hazen replied: "SBA staff spent a lot of time and about $20,000 on this issue back in 2000-2001 with no true finality. … I would like to meet with you at your convenience to discuss the law and history of the issue and what, if any, next step you would like to take."

That next step

The next day, a portfolio manager in Lombardi's unit was contemplating the purchase of a risky 144A security called Axon Financial Funding.

"I was just wondering if you had an update on when Axon is expecting to launch," Carmen Fisher wrote to a contact at Credit Suisse, a financial services company.

Axon's offering documents stated that the purchaser must be a qualified institutional buyer under Rule 144A. Multiple lawyers had said the LGIP was not a QIB, and the SBA's own guidelines also precluded an investment.

On April 4, 2007, the SBA bought $90 million of Axon for the local government pool.

On April 6, Lombardi talked to a Wall Street colleague who worked for the credit rating agency Standard & Poor's. Lombardi asked if he knew of local government pools that were certified as QIBs.

He'd not gotten an answer by April 25, when assistant portfolio manager Mary Barry e-mailed her SBA colleagues about a new product called Ottimo, Italian for excellent.

Ottimo's offering documents stated that the purchaser had to be a qualified institutional buyer under Rule 144A.

On May 3, the SBA bought $134 million of Ottimo for the local government pool, which was not eligible to buy those securities.

Ottimo and Axon matured with good return on investment - that time.

Fourth try

The same day the SBA bought securities it was not qualified to buy, Lombardi e-mailed SigRist about a way around the QIB requirement.

Lombardi said the local government pool met the standard of a "qualified purchaser" under a subsection of the Investment Company Act of 1940.

"This particular section is one of the policies used frequently by hedge fund companies to avoid certain SEC requirements," Lombardi wrote.

The problem: Some unregistered securities required that buyers be not only "qualified purchasers," they had to be qualified institutional buyers.

On June 14, 2007, Lombardi again wrote his colleague at Standard & Poor's. "Were you able to pursue the QIB issue? The question repeatedly comes up from different people throughout my organization."

In another e-mail, Lombardi acknowledged that he didn't think the local government fund was a qualified institutional buyer. Of the "laundry list" of types of QIBs, Lombardi wrote his colleague, the "closest" category was "any plan established and maintained by a state … for the benefit of its employees."

"But that refers to employee benefit plans," Lombardi wrote. "Nowhere is there a state or municipal fund used for non-pension assets."

"(Local government pools) that consider themselves a QIB are reaching," he wrote.

"It certainly would make my life easier if the SEC would address this issue, but they have refused to do so in the past."

Burned

By July 2007, many sophisticated investors worried about subprime mortgages had stopped buying mortgage-related products. The SBA, however, remained in overdrive.

In July and August 2007, with the market for mortgage-backed investments drying up and their value starting to drop, SBA money managers, without proper certification, bought at least $9.5 billion of securities for the local pool, records show. Most matured with good returns.

But the good run was about to end. Over the next few months more than $2 billion in securities the SBA bought for the local pool and other funds were downgraded by credit-rating agencies or lost much of their value.

Many local governments found out about the troubled investments on Nov. 14, 2007, when *Bloomberg News* reported that some of them had been downgraded to junk status.

In one of the biggest bank runs since the Great Depression, panicked city, county and school officials pulled about $13 billion from the pool. Crist, Sink and McCollum froze the fund.

On Dec. 21, 2007, in a conference call with SBA managers, federal securities investigators requested the names and account numbers of qualified institutional buyers.

That same day, SBA managers revised the agency policy that barred the local pool from purchasing 144A securities. The agency changed the words "restricted from purchasing" to "generally restricted."

In February 2008, federal regulators asked the SBA for documents relating to Axon, Ottimo and eight other securities. They also sought background information about the state's money managers and "all documents related to … the (local pool's) ability to acquire Rule 144A securities … and status as a qualified purchaser or qualified institutional buyer."

In April 2008, an audit commissioned by the SBA documented that Florida did not meet the qualified institutional buyer requirement in about one-third of the securities purchases that the auditors examined in the local pool and two other funds. The audit found 168 questionable purchases of Rule 144A securities.

The audit found a troubling combination: weak internal controls and a lack of external oversight by the trustees - Crist, Sink and McCollum.

The auditors said they were not hired to do a criminal investigation, and it was "outside the scope" to determine if the problems were the result of fraud or illegal acts.

Misled?

Sink said Lehman Brothers and JPMorgan Chase might have offloaded tainted securities on Florida and other states to keep them off their balance sheets.

In March 2008, she called a news conference to unveil 10 proposed reforms of the SBA. No. 1: determine if Florida has a lawsuit against Wall Street.

"The people of Florida deserve to know if there was wrongdoing with the sale of these investments to the LGIP," she said. "If so, we must hold those companies that sold the investments accountable."

Echoing Sink, Crist said: "I think it reeks."

The governor said Florida may have been "taken advantage of" and singled out four firms - Lehman, JPMorgan, Credit Suisse and an affiliate of Kohlberg Kravis Roberts & Co. - that might have "dumped" investments on the state.

"Who knows," he said, "there could have been fraud involved in that."

At a meeting of the SBA trustees in April 2008, McCollum promised his office's assistance in an investigation. "I think there were judgments and controls that weren't appropriate, and we could have done better around the margins," he said. "But the idea that there was some action on the part of SBA to go out and buy something extraordinarily risky didn't seem to be revealed."

In May 2008, the SBA announced it had a legal case against Wall Street for peddling unregistered securities and a lawsuit could be "imminent." Instead, the agency extended the deadline for going to court.

In July 2008, the SEC ordered a full-scale fraud investigation, not only of the three banks that sold the tainted securities but also of Florida's SBA.

SEC investigators came to Tallahassee that October to take testimony from four SBA managers.

In January 2009, the SBA filed a $682 million claim in bankruptcy court against Lehman Brothers, which sold the state a big chunk of the troubled securities.

The SBA made many of the bad purchases around the time Lehman hired former Gov. Jeb Bush as a consultant. Bush has said he played no role in the sale of securities to the SBA.

In April 2009, the SEC subpoenaed documents relating to complaints by local governments about the SBA's management and investment strategy for the local pool.

More than a year after the federal regulators started their formal fraud investigation, the public found out about it from the newspaper.

Williams, the SBA director, chastised the *Times* for reporting old news. "We have no indication whatsoever from the … SEC that they are looking at fraud at the SBA," he said.

The newly released documents show that just the day before, Williams sent a five-page letter to the SEC in which he said that "neither the SBA nor any of its employees engaged in any violations of the federal securities laws."

He wrote that his staff had made "every effort" to gain and follow "expert advice and guidance" on buying securities, and the SBA thought it was eligible to buy everything it bought.

Williams urged federal regulators to close their investigation and "publicly remove this cloud."

Four months later, they did. In a one-paragraph letter March 3, 2010, Eric R. Busto, an assistant director of the SEC'S Miami office, said the agency was ending its investigation into the SBA with no enforcement action.

He included an SEC statement that said the termination letter "must in no way be construed as indicating that the party has been exonerated or that no action may ultimately result from the staff's investigation of that particular matter."

Crist, Sink and McCollum praised Williams. Said McCollum:

"Sounds like we were cleared to me."

Duped?

Michael J. Pucillo, an attorney representing the SBA, said in a statement to the *Times* on Wednesday that the agency did not ignore its own lawyer's advice. To buy the securities, he said state money managers relied on a different exemption, which allows purchases directly from firms that issue securities.

Pucillo said the SBA traders got assurances from various brokers that the state was purchasing directly and had a legal exemption. But those brokers gave incorrect information, Pucillo said, adding that the SBA never would have made the buys had the banks given accurate information.

"The only liability for selling these securities to the SBA without an exemption rests with the seller," he said.

Pucillo also said the SBA did not ease its guidelines for purchasing Rule 144A securities to "justify prior conduct or in response to an SEC inquiry."

Three former securities regulators and a nationally known expert said the investment misfortune may be a case of "unclean hands" - the legal doctrine that a party in a lawsuit who has done wrong should not recover from another who may have done wrong as well.

Adam Pritchard, a University of Michigan Law School professor, said Florida's explanation of how it purchased the securities is plausible, but if the state sued, the banks might argue, "You knowingly participated in the violation of these rules, and you did it because you thought the rules didn't make sense, and now you're trying to get out of these transactions."

James D. Cox, a Duke Law School professor, said it's odd that state money managers went out on a limb.

"It's one thing for Wall Street to go down dark alleys and through speed traps when they're not satisfied with the securities laws," Cox said. "But it's another thing to find government blowing through the securities law with the same belief as Wall Street."

Jack Kiefner, a St. Petersburg securities lawyer, reviewed documents obtained by the *Times.* He said they show the SBA asked the same questions over and over, refused to take no for an answer, tried to come at it from different directions and relied on technical arguments to buy highly risky products it should never have bought.

"The state merely decided to knowingly circumvent these rules because it apparently believed the hype of Wall Street that these products were as safe as the gold in Fort Knox and the products paid premium rates. Time has proven the truth.

"Why would the state so desperately want to find a way or mechanism to avoid the protection that securities laws were intended to provide?"

. . .

The local pool has been renamed Florida Prime and is managed now by an outside investment adviser. The SBA says the pool has removed about 80 percent of its bad holdings, tightened investment guidelines and secured a top rating from Standard & Poor's.

Williams concluded: "Clearly lessons have been learned, behaviors changed and investment policies and processes improved."

The SBA gives managers incentives of up to 8 percent of their salaries if they increase returns for the state's pension fund. The SBA said the plan is not related to the local pool and does not encourage "excessive risk taking."

Though steadfast in saying the SBA did not knowingly do anything wrong in the blowup of the local government pool, Williams said three men still with the agency were held accountable: SigRist, Lombardi and his boss, Rob Smith.

How were they punished? They had their bonuses withheld that year.

Computer assisted reporting specialist Connie Humburg, staff writer Kris Hundley and researchers Shirl Kennedy and Carolyn Edds contributed to this report.

$9.5 billion

Securities state money managers purchased that they were not authorized to buy

$160 million

Loss to taxpayers, if sold today, of two securities that managers were not authorized to buy

St. Petersburg Times