



CALIFORNIA STATE TREASURER JOHN CHIANG

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Debt Task Force Seeks More Government Borrower Accountability

Treasurer John Chiang Considering Best Practices Legislation

SACRAMENTO – A task force of California’s leading finance and securities experts has concluded months of deliberations by issuing proposed “Best Practices” to ensure proceeds from municipal bonds sales are spent for intended purposes.

State Treasurer John Chiang convened the 12-person panel in February after being alarmed by media accounts of the alleged embezzlement of nearly \$1.3 million in bond funds by an official of the Bay Area Association of Governments. The money, earmarked for public parks and street improvements in downtown San Francisco, was found missing by auditors.

The revelation, said Chiang, “raises concerns regarding whether there are sufficient safeguards at the thousands of state and local agencies which have borrowed nearly three-quarters of a trillion dollars from bond sales over the past 30 years.”

Chiang charged the task force with developing and recommending practices to monitor that bond money is properly spent, accounted, managed and secured in compliance with legal and fiduciary obligations. All spending should be subject to stringent internal controls with records made easily accessible to the public.

“It’s not free money when government borrows from Wall Street,” said Chiang. “Interest payments can run as high as \$1 for each dollar of debt, and those costs are paid by taxpayers. That’s why governments should adhere to higher standards of how to manage, track and spend proceeds. State and local leaders must be accountable for building the schools, roads, and police stations that were promised with each bond sale.”

To that end, the task force on Monday presented 17 recommendations calling for voluntary compliance by local governments, school districts and special service entities in the areas of governance, oversight and internal controls. Additionally, the panel called for annual reporting of bond fund expenditures.

“The key aspect of the recommendations is to increase uniformity and transparency and accountability to the public,” said Fred Keeley, the task force co-chairman and a former Santa Cruz County treasurer and California State Assembly member.

The task force accomplished its mandate of providing local governments with “things to do as a public agency to minimize the risk” that bond proceeds could be handled improperly,” said the

other co-chairman, Jay Goldstone, managing director for public finance at MUFG Americas, a bank holding company.

Local government officials in public comments praised the task force's work. "The guidelines are well constructed and offer a solid framework with which to approach the administration of and reporting on the use of bond proceeds," said the California Association of County Treasurers and Tax Collectors.

Chiang ordered his public finance staff to incorporate the task force recommendations into a "California Debt Issuance Primer" – a guide for local government bond issuers – which will be released in 2016.

But that action, alone, may not be enough. The Treasurer directed staff to engage immediately with the state Legislature to determine whether California needs stronger laws – and not just voluntary guidelines – to discourage potential fraud in the raising and spending of bond funds.

The Treasurer believes that such legislation, if introduced early next year, should require:

- Annual reporting of outstanding debt, including uses of proceeds and bond fund balances.
- Establishment of policies to specify bond purposes and performance measures.
- Creation of compliance checklists to ensure adequate internal controls.
- Certification from top local officials that required internal controls, oversight and compliance mechanisms are in place and fully functioning.

"I commend the members of the Task Force on Bond Accountability for their invaluable work. Their recommendations provide a roadmap to protect billions of dollars in public borrowing from possible misuse," Chiang said. "But we may need to take further action by guaranteeing that the task force's best practices are locked into state law."

Learn more about the [Task Force on Bond Accountability](#).

[Here's the report.](#)

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