

# TREASURER CHIANG AND COUNTY TREASURERS STOP WALL STREET PAY-TO-PLAY PRESSURE ON SCHOOL DISTRICTS

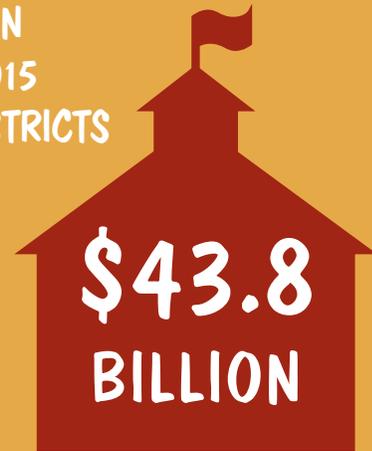


## THE PROBLEM:

WALL STREET FIRMS PREY ON SCHOOL DISTRICTS EAGER TO WIN VOTER APPROVAL FOR BOND ELECTIONS

Municipal finance firms, such as underwriters, bond counsels and financial advisors, front money for bond election campaigns with wink-and-a-nod understanding that they will win lucrative contracts to issue the bonds, once approved by voters.

BETWEEN  
2012-2015  
K-12 DISTRICTS  
ISSUED



IN SHORT-  
AND LONG-  
TERM DEBT

## STUDENTS AND TAXPAYERS PAY THE PRICE

The pay-to-play arrangement creates a conflict of interest that raises bond issuance costs to taxpayers by as much as 900%. An academic study shows:

**“ FEES PAID TO FIRMS MAKING POLITICAL CONTRIBUTIONS ARE SIGNIFICANTLY HIGHER... ”**

*“TO GIVE IS TO GET: THE PROMOTIONAL ROLE OF INVESTMENT BANKERS IN LOCAL BOND ELECTIONS,” ELY AND CALABRESE*

COST OF  
ISSUANCE FOR  
BOND DEALS ON  
AVERAGE =

1.02%

COST OF  
ISSUANCE FOR  
SOME CALIFORNIA  
SCHOOL DISTRICT  
BOND DEALS =

UP TO 10%

MUNICIPAL BOND COSTS OF ISSUANCE, MARC D. JOFFE

## SCHEME FOR RUNNING POLITICAL CAMPAIGNS WITH TAXPAYER MONEY IS UNLAWFUL

Under-the-table deals constitute an illegal use of public funds, according to a recent legal opinion from the California attorney general. Taxpayer funds cannot be used to pay for any campaign related activities, such as polling, public relations and mailings.

**“ THERE ARE UNSCRUPULOUS WALL STREET FIRMS OFFERING TO FUND LOCAL BOND CAMPAIGNS IN EXCHANGE FOR LUCRATIVE CONTRACTS. NOT ONLY ARE THESE PLAY-TO-PLAY ARRANGEMENTS UNLAWFUL, THEY RIP-OFF TAXPAYERS AND ENDANGER THE INTEGRITY OF SCHOOL BONDS, WHICH ARE VITAL TOOLS FOR BUILDING CLASSROOMS AND MEETING THE EDUCATIONAL NEEDS OF OUR COMMUNITIES. ”**

STATE TREASURER JOHN CHIANG

## THE SOLUTION:

### CALIFORNIA WIELDS GREAT INFLUENCE OVER THE MUNICIPAL BOND MARKET

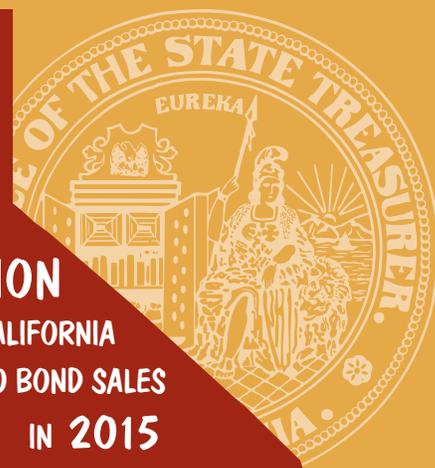
The Golden State sells more bonds than any other state. Sales totaled \$6 billion for general obligation bonds in 2015. Municipal finance firms will be listed as qualified vendors only if they comply with legal restrictions against engaging in campaign activities.

CALIFORNIA IS THE NATION'S LARGEST ISSUER OF BONDS

\$6

BILLION

IN CALIFORNIA GO BOND SALES IN 2015



### THE TREASURER'S OFFICE WILL DO NO BUSINESS WITH FIRMS THAT DO NOT PLAY BY THE RULES

Firms must certify on a quarterly basis that they are not involved in bond election campaigns in hopes of winning school district contracts for bond issuance services.

### CURRENTLY THE TREASURER'S OFFICE DOES BUSINESS WITH:

26 LAW FIRMS IN THE BOND COUNSEL POOL

+

13 ADVISORY FIRMS IN THE FINANCIAL ADVISOR POOL

+

66 FIRMS IN THE UNDERWRITER POOL



### TREASURER'S NEW ENFORCEMENT INITIATIVE HAS WIDESPREAD BACKING

The association of county treasurers from all 58 counties and two government efficiency advocates – California Forward and Common Cause – are in full support.

“ UNDISCLOSED CONFLICTS OF INTEREST ERODE THE PUBLIC'S CONFIDENCE IN THE INTEGRITY OF THEIR GOVERNMENT. THE THREAT OF DISQUALIFICATION SENDS A CLEAR SIGNAL TO MUNICIPAL SECURITIES FIRMS THAT THEY SHOULD NOT BE INVOLVED IN LOCAL BOND-APPROVAL ELECTION CAMPAIGNS. ”

STATE TREASURER JOHN CHIANG

