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Los Angeles County Bars Brokers That Donate to Bond Campaigns.

Los Angeles County will no longer do business with underwriters that make financial contributions to school bond campaigns.

Under Treasurer and Tax Collector Mark Saladino's new policy, underwriters cannot donate to school bond measure campaigns if they want to qualify for the treasurer's pool of dealers eligible to sell county bonds.

California Audit Finds Major Lapses In Oversight for School Bond Funds

"We will not allow anyone in our pool if they engage in giving contributions to school campaigns," said Glenn Byers, assistant treasurer and tax collector for the county. "It amounts to pay-to-play and we are opposed to that.

In July, 12 dealer firms asked the Municipal Securities Rulemaking Board to adopt further restrictions on bond measure contributions by broker-dealers, and pledged a two-year moratorium against such contributions. Byers said the county will not hold dealers liable for past donations, but wants them to pledge not to do it in the future.

"We are not going backward to punish the guilty," Byers said.

Such a change would bring rules for bond measure campaigns closer to the MSRB Rule G-37 limits against contributing to politicians' campaigns.

The pledge letters "we have seen so far have been addressed to the MSRB," Byers said. "Frankly, that is where we would like them to go, but we haven't determined that yet."

The dozen firms making the pledge were Barclays Capital, Morgan Stanley, Bank of America Merrill Lynch, Citi, Wells Fargo Securities LLC., First Southwest, Goldman Sachs, JPMorgan, Loop Capital Markets LLC, Siebert, Brandford Shank & Co. LLC, Janney Montgomery Scott LLC and BMO Capital Markets, Inc.

Los Angeles County typically reviews and revises its pool of financial firms every five years. The review is currently underway and the new list will come out early next year, Byers said.

The county government issues school district general obligation bonds sold under the state education code, and the treasurer may act as an advisor on the deals. The county has 93 school districts. Districts can also go to market under the state government code, circumventing the county treasurer's role.

Los Angeles County, the Los Angeles County Public Works Finance Authority, the Los Angeles County Asset Leasing Corp., and the Los Angeles County Redevelopment Agency have issued approximately $3.2 billion of long-term debt since 2000, according to Thomson Reuters data. The county also typically has a large tax and revenue anticipation note issue every year; in June it sold $1 billion of TRANs.

The county treasurer's office has been in contact with most of the state's county treasurers, who support the policy, Byers said. It hasn't been in contact with all of the county's school districts – as the policy was just announced – but some of the smaller school districts have come out in opposition, he said.

The districts fear that the policy might limit their ability to hold successful bond elections, but Byers disagrees: "It just means the easy money will go away."

Under state law, school districts can't use public money to publicize bond elections, but the districts could hold press conferences and engage community groups, he said.

"When school districts have legitimate needs, it's not that hard to let the public know," Byers said.

The county treasurer's office also plans to notify State Treasurer Bill Lockyer and encourage him to adopt the same restrictions.

Tom Dresslar, a spokesman for Lockyer, said Los Angeles County officials have not yet contacted his office.

"We are considering what, if any, action to take with respect to our pools," Dresslar said. "Whatever action we take likely would cover not just underwriters, but also financial advisers and bond counsel."

The treasurer's office "wants to make sure any policy we adopt covers all the bases and targets the problem in an effective way," Dresslar said.

Lockyer continues to believe that the best way to fight the pay-to-play problem is to adopt statewide statutory restrictions.

Assembly Bill 621, which would have accomplished that by restricting donations from financial firms, stalled in the Senate Governance and Finance Committee this year.

"The aroma emanating from the school bond finance arena is not pleasant," Dresslar said. "You have district officials that have cozy relationships with finance professionals, who contribute to campaigns, then get no-bid contracts to conduct non-competitive bond sales."

The problem is not that underwriters and other finance professionals contribute to school bond campaigns, but that "they contribute or provide pre-election services, and then obtain underwriting business for the bonds, often under sole-source contracts entered into prior to elections. That creates, at least, the appearance of corruption."

The whole system is due for a "deep cleaning," Dresslar said.