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Bond Firm's Gifts to California School Officials Draw Scrutiny.

California's political watchdog is investigating whether school officials failed to report gifts from municipal bond underwriter Stone & Youngberg, now a unit of Stifel Financial Corp.

The California Fair Political Practices Commission is looking into whether officials at districts that did business with Stone & Youngberg neglected to report meals and other gifts on mandatory disclosure forms, commission spokesman Jay Wierenga said by telephone.

Stone & Youngberg, based in San Francisco, was the state's fourth-biggest muni underwriter when Stifel bought it in 2011. In the five years preceding the acquisition, Stone & Youngberg managed \$14.7 billion in bond sales in California, according to data compiled by Bloomberg. Since October 2011, Stifel has overseen \$7.9 billion of issuance in the state, the data show.

"It's not necessarily Stone & Youngberg as the focus of our investigation," Wierenga said yesterday by telephone from Sacramento. "The focus is on unreported gifts. A lot of companies give gifts. Those have to be reported."

Stephen Heaney, a Stifel managing director in Los Angeles, didn't respond to telephone calls and e-mail messages seeking comment. Linda Olszewski, a company spokeswoman in St. Louis, didn't respond to e-mail after regular business hours.

Stone & Youngberg managed sales in two San Diego County school districts that pushed the largest debt payments decades into the future through capital-appreciation bonds. The Santee Unified School District sold \$3.5 million in 2011 with no payment due until 2026 and \$40.3 million payable in 2051. The Poway Unified School District deferred to 2033 all payments on \$105 million in bonds issued in 2011, with interest totaling \$1 billion.

'Abusive' Practice

State Treasurer Bill Lockyer criticized the practice as "abusive" and led a push in the legislature to cap interest costs at four times the principal.

Under California law, local elected officials must disclose gifts worth an aggregate of \$50 or more. Gifts from a single source may not total more than \$440 in a year. The state also prohibits elected officials from voting on matters from which they may personally profit.

Wierenga declined to provide details on the state's investigation such as the school districts or officials under scrutiny.

By James Nash April 21, 2014

To contact the reporter on this story: James Nash in Los Angeles at jnash24@bloomberg.net

To contact the editors responsible for this story: Stephen Merelman at smerelman@bloomberg.net
Pete Young, Mike Millard

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