

Bond Case Briefs

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California Muni Dealers Can't Fund Bond Campaigns to Get Hired.

Promising municipal bond underwriters in California that they will be hired to sell debt if they provide election services that get voters to approve new authorizations is a violation of the law, state Attorney General Kamala Harris said in a ruling this week.

California law bans local officials from using public money to promote passage of bond issues. While they can provide basic information about what a proposed bond issue is for and how much it will cost, they can't take steps to actively persuade voters to approve the authorizations. Harris' Jan. 26 ruling also says schools can't inflate underwriting fees to cover the cost of campaigns.

Former Treasurer Bill Lockyer, who sought the opinion in 2013, praised the ruling, and said it could open up school districts and vendors to prosecution.

"It makes it clear that prior practices of this sort are illegal," Lockyer said in a telephone interview Thursday.

Lockyer sought the opinion after finding school districts in the state entered agreements with underwriting firms in which the districts award the dealers the right to sell the bonds in return for providing services to pass an initiative. He said at the time the agreements raise "substantive questions" about whether school officials broke the law by using public money to advocate passage.

"A school or community college district violates California law concerning the use of bond proceeds if the district reimburses the municipal finance firm for the cost of providing pre-election services from the fees the district pays to the firm in connection with the bond sale," Harris said in the opinion.

Mark Paxon, general counsel for current Treasurer John Chiang, declined comment on the opinion because it is still being reviewed. A spokesperson for Harris didn't respond to a request for comment.

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