Bond Case Briefs

Municipal Finance Law Since 1971

California Wants More Disclosure From Bond Issuers.

LOS ANGELES — Bond issuers in California would have to provide significantly more disclosure to a state agency under recently introduced legislation.

Issuers would be required to submit an annual debt accountability report to the California Debt and Investment Advisory Commission under the bill, introduced by Sen. Bob Hertzberg, D-Los Angeles, at the behest of California Treasurer John Chiang.

Senate Bill 1029 came out of a task force Chiang formed after bond funds were embezzled from the ABAG Finance Authority For Nonprofit Corporations, a Northern California conduit issuer.

The Senate Committee on Government and Finance, chaired by Hertzberg, also produced an oversight report on the ABAG case.

“Public agencies can obligate the public to years of debt service from a bond issue, yet there are few standards on how the bond funds are managed and administered,” Chiang said in a prepared statement. “There is a gross lack of public oversight on the management and administration of bond funds.”

The legislation would also require issuers to certify they have adopted local debt policies and debt issuance is consistent with those policies.

The bill would expand the amount and the frequency of data CDIAC will require, because the treasurer wants to do whatever he can to improve transparency around bond issuance, said Deputy Treasurer Tim Schaefer.

Schaefer called the information currently provided to CDIAC “static,” because issuers provide information when bonds are sold, “but, a year later you don’t know how much has been paid off, refunded, or how much has been spent.”

Issuers disclose adherence to bond repayments in comprehensive annual financial reports posted on the Municipal Securities Rulemaking Board’s EMMA website, but the treasurer wants that information to be more easily accessible, Schaefer said. EMMA also doesn’t require that issuers report what the money was spent on, Schaefer said.

“We would like to have clarity around the use of bond proceeds — and make sure voters have confidence that those dollars will be spent on the capital projects for which they were intended,” Chiang said in an interview. State officials are prepared for pushback from municipalities about the cost of providing more information.

“We fully expect to have animated conversations,” Schaefer said. “We have gone to great lengths to hear objections and to be mindful in the manner that we ask for data.”

Some of the information is contained in the financial transaction report that every city, county, special district and pension fund is required to file with the state controller’s office each year,

Schaefer said. Municipalities could just forward that report to the treasurer's office along with some additional information, he said.

Those reports don't contain information about what bond proceeds were spent on, and school districts are not required to send financial transaction reports to the controller's office, he said.

In a "blueprint" issued last week that laid out his infrastructure agenda, Chiang said best practices guidelines developed by the bond task force will also be published in a California Debt Issuance Primer, providing issuers with a desktop reference manual.

The treasurer's report questioned whether "voluntary" compliance with best practices offers enough protection against willful acts of fraud or mismanagement. He said he will continue to work with the legislature to consider ways to compel public agencies to improve their practices. Chiang formed the task force in February 2015 after it was learned that community development district bond proceeds were siphoned from a conduit issuer operated through ABAG.

Clarke Howatt, who had been director of financial services at the ABAG conduit issuer, pleaded guilty in December to wire fraud and agreed to return $3.9 million to local municipalities.

Howatt embezzled from a $1.3 million bank account that held bond funds for public improvements in San Francisco's South of Market neighborhood. He also embezzled $2.6 million from accounts intended to fund public improvements at Windemere Ranch in San Ramon, an additional theft revealed when the plea agreement was entered.

"We learned with what happened in San Francisco that oversight of government debt is lacking," Hertzberg said in a statement. "Millions and millions of dollars of taxpayers' dollars are in state and local government bonds, and we must ensure they are managed wisely and legally."

The Bond Buyer

by Keeley Webster

FEB 16, 2016 2:29pm ET

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com