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Calif. Treasurer to Boot Bond Counsel That Back Campaigns.

SACRAMENTO — California Treasurer John Chiang announced Wednesday that he will bar municipal finance professionals—including attorneys—from working on state-issued bond sales if they and their firms continue bankrolling local bond election campaigns.

The move is an attempt to curb so-called pay-to-play politics in the industry, which has been plagued for years by accusations that law firms, advisors and underwriters make generous campaign contributions—mostly to school bond committees—with expectations of securing work preparing and selling the debt approved by voters. Such arrangements can inflate fees and create conflicts of interest for finance firms, the treasurer said.

“There are unscrupulous Wall Street firms offering to fund local bond campaigns in exchange for lucrative contracts,” Chiang said in a prepared statement. “Not only are these pay-to-play arrangements unlawful, they rip-off taxpayers and endanger the integrity of school bonds.”

In a letter sent to firms on Wednesday, Chiang asked them to submit by Aug. 31 “affirmative statements” that neither they nor their partners or employees will contribute to fundraising, polling, get-out-the-vote efforts or any other type of advocacy work on behalf of a general obligation bond campaign. Those that don’t could be tossed out of the treasurer’s public finance pool, Chiang said. That pool currently includes 26 law firms authorized to serve as bond counsel.

It’s difficult to calculate how much money a firm could lose by leaving the state pool. The amount of work an underwriter or legal group receives fluctuates greatly depending on the size and number of offerings in the works in any given year as well as the intricacies of the debt vehicles, Deputy Treasurer Tim Schaefer said.

But being a firm qualified by the treasurer’s office carries a sort of stamp of approval that’s valuable in securing other work.

“That’s our hammer,” Schaefer said.

Public finance leaders with Orrick, Herrington & Sutcliffe, historically one of the biggest players in bond counsel work in California, declined through a spokesman to comment on Chiang’s letter. Messages left with three other law firms that are members of the treasurer’s pool—and have also contributed in recent years to local school bond campaigns—were not returned.

The treasurer’s directive has the backing of the association representing county tax collectors and treasurers. In most counties, treasurers by law or custom serve as the agent for school bond sales, Schaefer said. Good government groups Common Cause and California Forward also endorsed the new rules.

“Our hope is by cobbling together this coalition that we can persuade our local governments, especially school districts, to be more discerning,” Schaefer said.

In the past, leaders of firms that provide bond counsel services have said that they make political contributions based on long-standing working relationships, not in expectation of some financial windfall.

“We are building a relationship,” then-Orrick chairman Ralph Baxter told the Recorder. “How would an elected official feel if we don’t make a contribution? Of course we think about that.”

In January, Attorney General Kamala Harris issued an opinion concluding that it’s illegal for a school district to contract with a municipal finance firm for election services in exchange for guaranteeing that firm post-election bond sales work. Most arrangements aren’t so black and white, said Schaefer, who founded a public finance consulting firm in Orange County and has spent decades in the industry.

“It lives in the shadows and it’s circumstantial evidence,” he said. “But there is enough anecdotal evidence that we think it’s a problem and it needs to be addressed.”

Cheryl Miller, The Recorder

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