CALIFORNIA STATE TREASURER BILL LOCKYER

NEWS RELEASE

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# Treasurer Lockyer Seeks Return of Taxpayer Money Used to Fund Wall Street Lobby Groups; Bans Further Payments from Bond Proceeds

SACRAMENTO – State Treasurer Bill Lockyer today moved to recoup taxpayer money used to fund state and national groups that lobby for Wall Street banks and other market participants, and finance political campaigns.

In a letter dated today, Lockyer advised the 86 firms in the State's underwriter pool that he wants them to give taxpayers their money back. He said he has ordered an end to the practice of using bond proceeds to cover the costs of fees underwriters pay to the advocacy groups to fund their activities. The policy will prohibit underwriters from claiming the fees as an expense of bond sales. It will require senior managers – or book runners – of the State's bond sales to pay the fees themselves. Senior managers will be prohibited from passing on the costs to the State or other underwriters that participate in the deals.

In a separate letter, Lockyer urged the two groups at issue – the California Public Securities Association (CalPSA) and the Securities Industry and Financial Markets Association (SIFMA) – to bar underwriters from seeking to pass on to municipal bond issuers fees the organizations charge to members.

"Making taxpayers, in effect, foot the bill for banks' lobbying or campaign activities is not justified under any circumstances," said Lockyer. "It's improper, it will stop now, it will not happen again, and we will get our money back. I urge municipal issuers in California and other states to take the same action if they're paying these fees from bond proceeds."

Lockyer learned about the payments last week, and moved quickly to end the practice and recover State funds. The State started allowing underwriters to charge against bond proceeds the fees CalPSA and SIFMA assess their members in 2005. Lockyer's staff believes the practice is not uncommon among issuers in California and nationwide.

CalPSA has political action committees (PACs) that finance both candidate and initiative campaigns. SIFMA has a PAC that finances federal campaigns. Both groups employ Sacramento-based lobbyists.

Lockyer's office is researching its records to determine the exact amount the State paid to cover underwriters' CalPSA and SIFMA fees. After Lockyer's office sets the number, the State will recoup the money. If necessary, the State will recover the funds by taking them out of underwriters' fees in future bond sales.

Through April 2010, CalPSA charged members a penny per $1,000 of bonds in State sales. Effective May 1, 2010, CalPSA increased the fee to 2 cents per $1,000 of bonds, up to a maximum of $25,000 for any one deal. CalPSA told members the extra penny would be allocated to its initiative campaign committee. SIFMA charges 3 cents per $1,000 of bonds.

Both organizations assess the fee on sales of new bonds, and not refinancing deals. They apparently charge the fees regardless of whether the new-bond sale is negotiated or competitively bid. And, with respect to State sales, both the CalPSA and SIFMA assessments apply in General Obligation (GO), lease revenue and revenue bond sales.

Staff's preliminary, rough estimates indicate that from 2005-2010, the State may have paid more than $380,000 for underwriters' CalPSA fees in GO sales alone. If the State paid three times that amount for the SIFMA fees in GO sales (three cents versus one cent), the preliminary estimates indicate the SIFMA total could be more than $1.14 million.

Lockyer today also announced he has launched a broader examination of policies and practices governing payment of bond-sale expenses claimed by underwriters. Lockyer said if he determines any other payments are inappropriate, he will end those, too.

CalPSA's members include Bank of America Merrill Lynch, Citigroup, Goldman Sachs, JPMorgan Securities, Morgan Stanley, UBS Financial Services and Wells Fargo Securities. Smaller underwriters that do substantial business in California also are members, including E. J. De La Rosa & Co., Siebert Brandford Shank & Co., and Stone & Youngberg. All these firms also belong to SIFMA.

SIFMA opposed successful legislation sponsored by Lockyer in 2010 that targeted public pension fund corruption by cracking down on placement agents. The measure, AB 1743 (Hernandez), requires placement agents to comply with state laws governing lobbyists. It prohibits placement agents from receiving compensation based on how much investments their clients secure.

CalPSA's initiative PAC in 2010 spent $250,000 to support Proposition 22, according to records filed with the Secretary of State. Proposition 22 is the voter-approved measure that limits the transfer of local funds to the State. The PAC also spent $150,000 to defeat Proposition 26. Also passed by voters, that measure generally requires a two-thirds majority of the Senate and Assembly to approve fee increases.

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