TASK FORCE ON BOND ACCOUNTABILITY
STAFF ANALYSIS OF PUBLIC COMMENTS RECEIVED

Submitted to Task Force Members
December 14, 2015

REVIEWER COMMENTS RECEIVED

Julie Hagen, CPA, CPFO, Chief Deputy Controller, County of Santa Barbara
Comments of California State Association of County Auditors, transmitted by Bob Campbell, Task Force member
California State Association of County Auditors
California Association of County Treasurers and Tax Collectors
Alicia Minyen, CPA, CFE, Pleasant Hill, California

REVIEWER COMMENTS

REVIEWER 1 - JULIE HAGEN, CHIEF DEPUTY CONTROLLER, OFFICE OF THE AUDITOR-CONTROLLER, COUNTY OF SANTA BARBARA, MEMBER OF CSACA

COMMENT 1. This document will be very useful and an important tool for Counties.

RESPONSE: No response necessary.

COMMENT 2. More emphasis should be placed on the importance of monitoring compliance regarding the use of proceeds, private use, required timing of expenditures, and disposition of bond-financed facilities.

RESPONSE: The activities cited in this comment are specifically related to IRS post-issuance tax compliance requirements for tax-exempt debt and are referenced on the Internal Control System Checklist attached to the *Bond Accountability Best Practice Guidelines* (Guidelines) on Page 21 under the heading, Other Control Activities. It is important to note that there are additional resources provided in the checklist to direct the public agency to detailed information on monitoring activities regarding compliance with post-issuance requirements. Since the comment is supportive of the Guidelines, the Task Force may wish to consider adding a reference to these monitoring activities and additional resources/lists directly in Guideline 16 – Monitoring on Page 11 or alternatively, by footnote.

COMMENT 3. I am a proponent of keeping a document as short as possible so people will be more likely to read it. This document is very large. Will the final product be shorter? (I couldn't tell if the whole document would be part of the final published product.)

RESPONSE: As previously directed by the Task Force, the intent is to publish the Guidelines in Appendix A as a stand-alone publication.

Reviewer 2 Comments – sub group of the California State Association of County Auditors sent via Bob Campbell

Comment 4. This document will be very useful and an important tool for Counties.

Response: No response necessary.

Comment 5. More emphasis should be placed on the importance of monitoring compliance regarding the use of proceeds, private use, required timing of expenditures, and disposition of bond-financed facilities.

Response: Same response as provided to Comment 2, above.

Comment 6. I am a proponent of keeping a document as short as possible so people will be more likely to read it. This document is very large. Will the final product be shorter? (I couldn't tell if the whole document would be part of the final published product.)

Response: Same response as provided to Comment 3, above.

Comment 7. Page 6, 2nd paragraph, last sentence "… bond proceeds and the manner in which public agencies ensure that they are used safely…" I'm not sure "safely" is the word that is intended?

Response: The term "Safely" as used in the Task Force Draft Report on page 6, 2nd paragraph, last sentence, should be replaced with "for intended, legal purposes" in the final version.

Comment 8. Appendix A, page 1, 2nd paragraph, first sentence "… and objectives that set a positive attitude towards and wiliness to employ internal control …" I think they meant willingness, not wiliness?

Response: The term "wiliness" as used in the Guidelines on Appendix A, page 1, 2nd paragraph, first sentence, will be corrected to "willingness" in the final version.

Reviewer 3 Comments - California State Association of County Auditors

Comment 9. This document, specifically Appendix A that sets out best practices, will be a useful tool to California counties and their special districts, and we welcome its statewide issuance.

Response: No response necessary.

Comment 10. The usefulness of the document, including the main report and the appendixes, can be enhanced making it more succinct. The contents include generic information on internal control derived from the COSO Internal Control Integrated Framework (2013) that can be condensed or simply referred to in order to keep the focus on the actual best practices. We suspect that these bond accountability guidelines will be most beneficial to small issuers who would not have the resources to embrace the entirety of the document.

RESPONSE: The Task Force proposed the Guidelines on the assumption that public agencies have developed and implemented a system of internal controls to properly manage their financial affairs. Because there are additional resources available to public agencies to guide them in the development of an internal control system, the information in the Guidelines emphasize practices for bond funds and are intended to compliment the internal control practices that public agencies should already have in place. To more succinctly guide public agencies on practices related to bonds funds and accountability for bond proceeds, the Task Force may wish to add references to additional resources available from the GFOA and other professional organizations that are relevant to specific bond-related topics in the Guidelines. The Task Force acknowledges in the report that there is additional work to be done to help public agencies improve the management of their bond funds. These may be issued by CDIAC or other organizations in the future as a supplement to the Guidelines.

Comment 11. While acknowledging this effort initiated by the State Treasurer, we also recognize that the contents reflect largely the Internal Control Guidelines for California Local Agencies that were issued by the State Controller in December 2014. In this regard, given that the Controller has already set base guidelines for internal control, it would be more helpful for counties to receive further guidance on bond accountability from the Treasurer in the form of supplemental guidelines, focusing on pertinent best practices in this area.

RESPONSE: Same response as provided to Comment 10, above.

Comment 12. Given the abundance of best practices, it is beneficial to point out certain key risk points in bonded debt issuance and management that have been the cause of most failures and provide specific examples to illustrate how internal control work in those situations. For examples, improper uses of bond proceeds; noncompliance with tax certificate covenants and other bond covenants; inadequate continuing disclosure.

RESPONSE: Guideline 8 addresses risk assessment broadly by instructing agencies to: "Identify and analyze relevant risks." CDIAC recommends including an additional paragraph under Guideline 8 that reads:

In conducting a risk assessment, local agencies should update their debt management policies, investment policies, or other controlling documents to reflect their risk management objectives. Certain debt structures, such as swap agreements and short-term interim financing, may expose the agency to heightened risk. In amending their policies and procedures, local agencies may consider disallowing certain debt structures or investments or requiring the retention of certain municipal market professionals, such as a municipal advisor, to ensure appropriate risk management.

Comment 13. We noted that the Task Force was focused on accountability of bond proceeds. An area that public agencies need guidance would be the decision making that precedes bond issuance, such as evaluation of debt burden, etc.

RESPONSE: Same response as provided to Comment 10, above.

Comment 14. We noted a typographical error in Appendix A, page 1, 2nd paragraph, first sentence: "wiliness".

RESPONSE: Same response as provided to Comment 8, above.

REVIEWER 4 COMMENTS - CALIFORNIA ASSOCIATION OF COUNTY TREASURERS AND TAX COLLECTORS

Comment 15. We have reviewed the Guidelines and are very supportive of the State Treasurer's efforts to address this important topic. We believe the Guidelines are well-constructed and offer a solid framework with which to approach the administration of and reporting on the use of bond proceeds. The two Checklists provided by the Task Force are a particularly useful tool; although we would have preferred that the preceding 12 pages were perhaps a little more concise.

RESPONSE: No response necessary.

Comment 16. Guideline 1, Page 2, second bullet: Documentation is reviewed by an authority independent of the transaction, typically accounting or treasury.

COMMENT: Delivery of goods or services and/or construction progress associated with an invoice needs to be verified against the invoice first before it is submitted to accounting or treasury. For instance, if the invoice is for architectural services, someone needs to visually inspect the set of plans before signing off on the invoice. If the invoice is construction related, an inspector needs to sign off on the invoice.

RESPONSE: The Task Force may wish to amend Guideline 1 to acknowledge this comment.

Comment 17. Guideline 1, Page 2, middle paragraph: Bond compliance staff should assume primary responsibility for regularly monitoring and reviewing the use of bond proceeds to ensure that proceeds are used in accordance with legal requirements. COMMENT: A bond compliance officer needs to be completely independent of the payment process.

RESPONSE: The Task Force may wish to amend Guideline 1 to acknowledge this comment.

Comment 18. Guideline 1, Page 2, middle paragraph: Results of their review should be reported to and reviewed by management. COMMENT: If management is one person, then the governing body needs to review the results.

RESPONSE: The Task Force may wish to amend Guideline 1 to acknowledge this comment.

Comment 19. Guideline 3, Page 3, end of paragraph: The committee may also review the local agency's budgets, interim financial reports, and other financial documents as needed and make recommendations regarding the documents' adequacy or the need for improvements. COMMENT: A special audit should be done that focuses solely on bond expenditures for a particular year and for a particular bond issuance.

RESPONSE: The Task Force may wish to amend Guideline 3 to acknowledge this comment.

Comment 20. Part 2, Page 5, middle paragraph. A public agency's risk assessment must also focus on the potential risk of fraud or misuse as a consequence of weaknesses in its system of controls. These weaknesses may be the outcome of complex program structures, turnover and poor allocations of responsibilities, lack of training, or lack of clearly stated objectives. COMMENT: For bond expenditures related to construction projects, a big risk factor is construction change orders during the project. A tight control process and policy related to change orders should be established up front before construction begins so change order expectations are known up front.

RESPONSE: The Task Force may wish to amend the Guidelines to acknowledge this comment.

Comment 21. Guideline 9, Page 8, second bullet list. COMMENT: Add "Filing ongoing continuing disclosure reports pursuant to the bond continuing disclosure agreement."

RESPONSE: The Task Force may wish to amend Guideline 9 to acknowledge this comment.

Comment 22. Guideline 12, Page 9, last paragraph: At the close of a bond sale, the public agency will deposit bond proceeds into funds and accounts with a trustee. COMMENT: "Or with the Treasurer of the District's respective County."

RESPONSE: The Task Force may wish to amend Guideline 12 to acknowledge this comment.

Comment 23. Guideline 13, Page 10, second paragraph: Regularly report to stakeholders on the outcomes of expenditures of bond funds. COMMENT: During periods of heavy expenditures due to construction project progress, reporting should be more frequent such as weekly, biweekly or monthly so that if fraud is occurring, there is a better chance it is caught sooner. Reporting can become less frequent after project completion since most, if not all of the funds are expended.

RESPONSE: Guideline 13 encourages transparency by directing agencies to: "Regularly report to stakeholders on the outcomes of expenditures of bond funds." This Guideline encompasses disclosure of all of the agency's outstanding debt without requiring the agency to have certain debt structures approved or justified. Prepared reports should be detailed, but the Guidelines do not suggest the level of detail that should be provided, including whether or not developer fees should be listed or if committed but unspent proceeds should be listed as such. Staff recommends that the Guidelines remain as they are and avoid recommending specific content of reports.

Comment 24. Debt Issuance and Management Review Checklist, Page 14, fourth box: Establish a system to track expenditures that includes a review and approval process that conforms to the controlling bond document(s). COMMENT: A key component to this system is to physically verify the delivery of goods or services and/or construction progress prior to invoice sign off.

RESPONSE: The Task Force may wish to amend the Checklist to acknowledge this comment.

Comment 25. Debt Issuance and Management Review Checklist, Page 14, second bullet: Indicate where bond funds will be used to reimburse the agency for prior expenditures (e.g., planning and design) and identify the type and timing of the reimbursement. COMMENT: Make sure the appropriate reimbursement resolution is established prior to bond issuance.

RESPONSE: The Task Force may wish to amend the Checklist to acknowledge this comment.

Comment 26. Debt Issuance and Management Review Checklist, Page 14, last bullet: Investment of bond proceeds. COMMENT: Make sure investment of bond proceeds is in accordance with government code requirements, bond covenants, and with liquidity requirements that match the draw down schedules of the bond projects.

RESPONSE: The Task Force may wish to amend the Checklist to acknowledge this comment.

Comment 27. Debt Issuance and Management Review Checklist, Page 15, third-to-last box: Regularly monitor the investment of bond proceeds in conformity with the bond documents and state law. COMMENT: And liquidity requirements.

RESPONSE: THE TASK FORCE MAY WISH TO AMEND THE CHECKLIST TO ACKNOWLEDGE THIS COMMENT.

DEBT ISSUANCE AND MANAGEMENT REVIEW CHECKLIST, PAGE 15, LAST BOX, FIRST BULLET: PREPARE reports (such as a Bond Accountability Report) for the governing board and/or oversight committee as required that include: Expenditures to date and remaining balance.

COMMENT: This should be done as frequently as weekly, biweekly or monthly during heavy project expenditure time periods.

RESPONSE: The Task Force may wish to amend the Checklist to acknowledge this comment.

Comment 28. Internal Control Checklist, Page 17, item 1: Do you have a compliance officer? (Identify a compliance officer or establish a compliance team to verify internal controls and bond requirements.) COMMENT: Must be completely independent of the progress verification and invoice payment processes.

RESPONSE: THE TASK FORCE MAY WISH TO AMEND THE CHECKLIST TO ACKNOWLEDGE THIS COMMENT.

Comment 29. Internal Control Checklist, Page 18, item 6: Establish an audit committee to review internal and external audits that include compliance tests of bond requirements. COMMENT: And compliance tests of the invoice payment process.

RESPONSE: The Task Force may wish to amend the Checklist to acknowledge this comment.

Comment 30. Internal Control Checklist, Page 18, item 5: Identify and analyze risks (including potential fraud and misuse) related to the objectives and conditional elements of the bond administration program. COMMENT: The construction change order process is a high risk activity that should be focused on.

RESPONSE: The Task Force may wish to conform the checklists with these comments.

Comment 31. Internal Control Checklist, Page 19, item 1: The agency applies the same system of internal control activities to bond funds as it does to all other governmental funds. COMMENT: If not a higher system of internal control activities!

RESPONSE: The Task Force may wish to conform the checklist to this comment by adding, "At minimum," to the beginning of the sentence.

Comment 32. The report often makes the assumption that all bonds are issued on a tax-exempt basis, whereas there is considerable taxable municipal debt issued in California.

RESPONSE: While the Guidelines may address issues specifically related to tax-exempt municipal bonds, the standards and practices recommended by the Task Force should equally apply to taxable municipal bonds. To clarify that the Guidelines were crafted to apply to all forms of municipal debt, the Task Force may wish to add this information by footnote to the Introduction of the Guidelines.

Comment 33. The report should reference that the IRS form 8038 has a specific line item inquiring about tax compliance procedures and that the failure to have such written procedures could be an audit flag for the IRS.

RESPONSE: The Task Force may wish to amend the Checklist to acknowledge this comment.

Comment 34. There is an assumption that bond proceeds will be held by a trustee (see Guideline 12 and Internal Control System Checklist), but the most common debt issuance in California is school district general obligation bonds. These monies are invariably held by the County Treasurer and are often audited by the County Office of Education.

RESPONSE: Based on staff research and presentations from subject matter experts, the role of a bond trustee may be performed by a corporate trust (private financial institution or public control agency such as a County Treasurer. The Task Force may wish to clarify this information in the checklist by footnote.

Comment 35. The Debt Issuance and Management Review Checklist assumes that bond proceeds relate to a tax-exempt capital project financing (see references to "Project" on pages 13-

15). There are, however, many other uses of municipal bond proceeds, each of which carries the risk of fraud if not managed properly.

RESPONSE: The Task Force may wish to amend the Checklist with these comments by adding a footnote.

Comment 36. The Debt Issuance and Management Review Checklist implies that disclosure filings and arbitrage reporting must be out-sourced to a consultant (see footnote 51). Similar references also exist in the Internal Control System Checklist. These statements overlook the possibility that an issuer may have the resources and expertise to manage these tasks internally.

RESPONSE: The Task Force may wish to amend the Checklist with these comments by adding a footnote.

REVIEWER 5 COMMENTS - ALICIA MINYEN, CPA, CFE

Comment 37. Local Government Agencies - Swap Agreements.
I obtained a list of government agencies within California from CDIAC that have entered into swap agreements. This list identified agencies, including ABAG, transportation authorities, and many others. For example, in reviewing Official Statements on EMMA for the Contra Costa Transportation Authority (CCTA), CCTA had entered into a swap agreement resulting in substantial liability exceeding $39 million, including that CCTA had to post about $10 million in collateral. It is concerning that debt proceeds may be wasted to pay for unintended uses such as termination payments associated with derivative hedging instruments.

RESPONSE: Guideline 8 addresses risk assessment broadly by instructing agencies to: "Identify and analyze relevant risks." Staff recommends including an additional paragraph under Guideline 8 that reads:

In conducting a risk assessment, local agencies should update their debt management policies, investment policies, or other controlling documents to reflect their risk management objectives. Certain debt structures, such as swap agreements and short-term interim financing, may expose the agency to heightened risk. In amending their policies and procedures, local agencies may consider disallowing certain debt structures or investments or requiring the retention of certain municipal market professionals, such as a municipal advisor, to ensure appropriate risk management.

Comment 38. Local Government Agencies Issuing Bond Anticipation Notes and Other Bridge Financing.
Debt proceeds could also be wasted when governments entering into bridge loan types of financing such as bond anticipation notes where the government plans on using a subsequent bond issue to pay for such debt. This results in paying cost of issuance twice, and raises other risks, such as going concern, to the extent the bonding capacity

does not allow for the subsequent sale of a bonds and the government agency is forced to pay off the bridge financing using the general fund.

RESPONSE: Guideline 8 addresses risk assessment broadly by instructing agencies to: "Identify and analyze relevant risks." Staff recommends including an additional paragraph under Guideline 8 that reads:

In conducting a risk assessment, local agencies should update their debt management policies, investment policies, or other controlling documents to reflect their risk management objectives. Certain debt structures, such as swap agreements and short-term interim financing, may expose the agency to heightened risk. In amending their policies and procedures, local agencies may consider disallowing certain debt structures or investments or requiring the retention of certain municipal market professionals, such as a municipal advisor, to ensure appropriate risk management.

Comment 39. Local Government Agencies Issuing Taxable Bonds. I've seen many instances where school districts issue taxable bonds and the governing board was not provided materials to substantiate or provide reasons for issuing a taxable bond.

RESPONSE: Guideline 13 encourages transparency by directing agencies to: "Regularly report to stakeholders on the outcomes of expenditures of bond funds." This Guideline encompasses disclosure of all of the agency's outstanding debt without requiring the agency to have certain debt structures approved or justified. Prepared reports should be detailed, but the Guidelines do not suggest the level of detail that should be provided, including whether or not developer fees should be listed or if committed but unspent proceeds should be listed as such. Staff recommends that the Guidelines remain as they are and avoid recommending specific content of reports.

Comment 40. Advanced Refunding. The public should be provided with the reasons for justifying an advanced refunding.

RESPONSE: Guideline 13 encourages transparency by directing agencies to: "Regularly report to stakeholders on the outcomes of expenditures of bond funds." This Guideline encompasses disclosure of all of the agency's outstanding debt without requiring the agency to have certain debt structures approved or justified. Prepared reports should be detailed, but the Guidelines do not suggest the level of detail that should be provided, including whether or not developer fees should be listed or if committed but unspent proceeds should be listed as such. Staff recommends that the Guidelines remain as they are and avoid recommending specific content of reports.

Comment 41. Monitoring Interfund Transfers/Interfund Borrowing. Controls should be in place to monitor permanent interfund transfers and borrowings involving bond proceeds.

RESPONSE: Guideline 8 addresses risk assessment broadly by instructing agencies to: "Identify and analyze relevant risks." Staff recommends including an additional paragraph under Guideline 8 that reads:

In conducting a risk assessment, local agencies should update their debt management policies, investment policies, or other controlling documents to reflect their risk management objectives. Certain debt structures, such as swap agreements and short-term interim financing, may expose the agency to heightened risk. In amending their policies and procedures, local agencies may consider disallowing certain debt structures or investments or requiring the retention of certain municipal market professionals, such as a municipal advisor, to ensure appropriate risk management.

Guideline 12 addresses best practices in fund and account structure in advising local agencies to: "Establish a fund and account structure that records the expenditure of bond proceeds in sufficient detail to enable the agency to evaluate the use of the proceeds and to communicate the outcome of these expenditures." However, the Guidelines do not discuss the provisions that should be included in the indentures of trust, resolutions, or other legal agreements. Staff recommends leaving the Guidelines as they are, addressing fund and account structure at a broad level. However, it may be appropriate to incorporate these suggestions into the Draft Debt Accountability and Management Checklist and/or the Draft Internal Control System Checklist.

Comment 42. Approved Vendor Lists/Creation of New Vendors. Vendors should be vetted and pre-approved. At least two persons should be involved in creating a new vendor to add to the approved list of vendors. Those persons approving purchase orders or approve claims for payment shall not be allowed to create a new vendor. Governing Boards should receive detailed warrant reports prior to approval. Name of vendor, amount, and description of purpose should be included in the warrant report. Checks should not be released until board approval.

RESPONSE: Guideline 12 addresses best practices in fund and account structure in advising local agencies to: "Establish a fund and account structure that records the expenditure of bond proceeds in sufficient detail to enable the agency to evaluate the use of the proceeds and to communicate the outcome of these expenditures." However, the Guidelines do not discuss the provisions that should be included in the indentures of trust, resolutions, or other legal agreements. Staff recommends leaving the Guidelines as they are, addressing fund and account structure at a broad level. However, it may be appropriate to incorporate these suggestions into the Draft Debt Accountability and Management Checklist and/or the Draft Internal Control System Checklist.

Comment 43. Controls to Protect Electronic/Facsimile Signatures. Controls should be implemented to protect electronic/facsimile signatures from unauthorized use.

RESPONSE: Guideline 12 addresses best practices in fund and account structure in advising local agencies to: "Establish a fund and account structure that records the expenditure of bond proceeds in sufficient detail to enable the agency to evaluate the use of the proceeds and to communicate the outcome of these expenditures." However, the

Guidelines do not discuss the provisions that should be included in the indentures of trust, resolutions, or other legal agreements. Staff recommends leaving the Guidelines as they are, addressing fund and account structure at a broad level. However, it may be appropriate to incorporate these suggestions into the Draft Debt Accountability and Management Checklist and/or the Draft Internal Control System Checklist.

Comment 44. Controls over Wire Transfers. Before wire transfers are approved, detailed documentation showing the amount, purpose and destination of the wire should be presented for review and approval. Pre-approval of wire transfers could reduce the risk of errors or fraud. The government agency can also instruct the custodian to call at least 2 employees, prior to the wire being executed, to confirm the amount, destination, and purpose of the wire. Also, the custodian should be instructed to provide a written confirmation of each wire transfer within 24 hours.

RESPONSE: Guideline 12 addresses best practices in fund and account structure in advising local agencies to: "Establish a fund and account structure that records the expenditure of bond proceeds in sufficient detail to enable the agency to evaluate the use of the proceeds and to communicate the outcome of these expenditures." However, the Guidelines do not discuss the provisions that should be included in the indentures of trust, resolutions, or other legal agreements. Staff recommends leaving the Guidelines as they are, addressing fund and account structure at a broad level. However, it may be appropriate to incorporate these suggestions into the Draft Debt Accountability and Management Checklist and/or the Draft Internal Control System Checklist.

Comment 45. Controls to Avoid Unauthorized or Secret Bank Accounts. Custodians should be instructed to inform at least two persons to confirm the opening or closing of a bank account. A complete list of bank accounts held in the name of the government agency and all accounts held carrying the government's federal tax ID shall be maintained in a secure location.

RESPONSE: Guideline 12 addresses best practices in fund and account structure in advising local agencies to: "Establish a fund and account structure that records the expenditure of bond proceeds in sufficient detail to enable the agency to evaluate the use of the proceeds and to communicate the outcome of these expenditures." However, the Guidelines do not discuss the provisions that should be included in the indentures of trust, resolutions, or other legal agreements. Staff recommends leaving the Guidelines as they are, addressing fund and account structure at a broad level. However, it may be appropriate to incorporate these suggestions into the Draft Debt Accountability and Management Checklist and/or the Draft Internal Control System Checklist.

Comment 46. Change Orders. At Mt. Diablo Unified, the governing board approved change orders AFTER the work had already been done. In order to ensure change orders are necessary and to verify the work associated with the change order was actually completed, the governing board should pre-approve change orders and be provided with documentation supporting the need for the work associated with the change order.

RESPONSE: Guideline 12 addresses best practices in fund and account structure in advising local agencies to: “Establish a fund and account structure that records the expenditure of bond proceeds in sufficient detail to enable the agency to evaluate the use of the proceeds and to communicate the outcome of these expenditures.” However, the Guidelines do not discuss the provisions that should be included in the indentures of trust, resolutions, or other legal agreements. Staff recommends leaving the Guidelines as they are, addressing fund and account structure at a broad level. However, it may be appropriate to incorporate these suggestions into the Draft Debt Accountability and Management Checklist and/or the Draft Internal Control System Checklist.

Comment 47. Identifying Conflicts of Interest. Conflicts of interest can occur when government agencies are provided services at no cost or below the governing board dollar threshold. For example, Mt. Diablo received services at no cost relating to a design consultation services contract with a vendor where the vendor. Yet that vendor was subsequently awarded a no-bid construction contract relating to the project that was designed by the same vendor.

RESPONSE: Under the Guidelines, Part 1 – Control Environment addresses the importance of establishing and maintaining ethical standards within the local agency. Appropriate reporting and management of conflicts of interest is an aspect of ethical considerations. CDIAC staff is currently developing a tool for local agencies to use in developing a Code of Ethics which addresses conflicts of interest. The Guidelines should remain as currently written, with a broad discussion of ethical issues, and rely on the forthcoming Code of Ethics for a more detailed account of conflicts of interest.

Comment 48. Developer Fees. Districts do not report the amount of developer fees used to subsidize the amount of a specific project. It would be helpful to report the amount of developer fees used to pay for a project.

RESPONSE: Guideline 13 encourages transparency by directing agencies to: “Regularly report to stakeholders on the outcomes of expenditures of bond funds.” This Guideline encompasses disclosure of all of the agency’s outstanding debt without requiring the agency to have certain debt structures approved or justified. Prepared reports should be detailed, but the Guidelines do not suggest the level of detail that should be provided, including whether or not developer fees should be listed or if committed but unspent proceeds should be listed as such. Staff recommends that the Guidelines remain as they are and avoid recommending specific content of reports.

Comment 49. Guideline 13 - "Information and Communication". You state that "information of interest to stakeholders includes current status of bond funds - e.g., "spent and unspent, authorized and unissued,".... It would be also helpful to disclose those bond proceeds that have been "committed." Often school districts interpret "spent" bond proceeds to be those proceeds that have physically been disbursed from the Building Fund.

Therefore, the bond oversight committee is not aware of those situations where the school district has committed the value of an executed contract that has yet to be paid.

RESPONSE: Guideline 13 encourages transparency by directing agencies to: "Regularly report to stakeholders on the outcomes of expenditures of bond funds." This Guideline encompasses disclosure of all of the agency's outstanding debt without requiring the agency to have certain debt structures approved or justified. Prepared reports should be detailed, but the Guidelines do not suggest the level of detail that should be provided, including whether or not bond funds should be listed or if committed but unspent proceeds should be listed as such. Staff recommends that the Guidelines remain as they are and avoid recommending specific content of reports.