



# CALIFORNIA STATE TREASURER JOHN CHIANG

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## MINUTES

### TASK FORCE ON BOND ACCOUNTABILITY

Wednesday, April 8, 2015, 9:30 am

CalSTRS Board Room  
100 Waterfront Place, 1<sup>st</sup> Floor  
West Sacramento, California 95605

#### ITEM 1: CALL TO ORDER AND ROLL CALL

Co-Chair Fred Keeley called the meeting to order at 9:35am.

#### Present:

The Honorable John Chiang, State Treasurer

#### TASK FORCE MEMBERS:

James (Jim) Bemis, Principal

Robert Campbell, Auditor-Controller

Carrie Corder, Manager/CFO

Andrew Finlayson, Bureau Chief

Blake Fowler, Director

William Holder, Dean

Ana Matosantos, Principal

Jenny Salkeld, Chief Financial Officer

*(\*Not present until 10:30am - left word she would arrive late)*

Nadia Sesay, Director

Robert Whalen, Mayor

Jay Goldstone, Co-Chair

Fred Keeley, Co-Chair

#### EXECUTIVE STAFF:

Tim Schaefer, Deputy Treasurer

Mark Campbell, CDIAC Executive Director

Mark Paxson, Chief Counsel

## ITEM 2-4: TREASURER'S WELCOME, OPENING REMARKS AND INTRODUCTION OF TASK FORCE MEMBERS

After Roll Call, Co-Chair Keeley introduced the State Treasurer, Honorable John Chiang. Treasurer Chiang welcomed the members of the Task Force, identified the scope of work and expressed his confidence in the expertise of the group's talent, reputation and ability to be productive in meeting each objective.

Co-Chairs Keeley and Goldstone made opening remarks, expressed their gratitude to chair the Task Force and welcomed all Task Force members who then followed with brief introductions.

## ITEM 5: ADMINISTRATIVE MATTERS (INFORMATION ITEM)

A) MEETING SCHEDULE AND PURPOSES: Mark Campbell welcomed the opportunity to work with the Task Force and look to members to provide clear direction on work that can be supported by CDIAC (California Debt and Investment Advisory Commission).

B) BAGLEY-KEENE OPEN MEETING ACT REQUIREMENTS AND COMPLIANCE: Chief Counsel, Mark Paxson briefed the Task Force members on the requirements of complying with the act.

- i. Agenda should be posted ten (10) days before a meeting.
- ii. Teleconferencing- if a member can't participate in person, but wants to participate by phone, it can be done, but the member must let staff know before the ten day notice is posted, and the member's location needs to be included in the agenda and also be accessible to the public. Furthermore, you cannot change your mind after the ten day notice has been posted.

If your location is not included in the posted agenda, you can listen in to the meeting but you could not participate as a member of the Task Force.

- iii. Quorum rules- the work of the Task Force should be conducted in open meetings noticed in compliance with Bagley-Keene. This is a twelve (12) member body- a quorum would be seven (7) members. Seven members of the Task Force can't talk about the work of the Task Force outside of an open meeting. It would be a violation.
- iv. Serial meetings- an example would be if a member had an e-mail exchange with three members about Task Force related business and that same member then had an email with another three members about the same issue. Be careful about open communications regarding Task Force meetings and be cognizant of how many people you are talking with and its relation to the Task Force. These conversations should not occur outside noticed open and public meetings.

C) CONTACT INFORMATION REVIEW AND APPROVAL: Mark Campbell recommended that all Task Force members review contact information and refer all corrections to Ja'Neen Gilbreath.

D) TRAVEL CLAIMS AND REIMBURSEMENTS: The Task Force members were advised to review the State Pocket Travel Guides located in their folders for detailed information regarding reimbursable expenses. CDIAC's staff will work with you to make it as easy as possible.

**ITEM 6A: ADOPTION OF TASK FORCE MISSION STATEMENT (ACTION ITEM)**

Co-Chairs Keeley, Goldstone and staff developed a mission statement to help guide the work of the Task Force. The Task Force members were invited to ask questions, make comments, and provide edits to the Mission Statement.

Current reading of the Mission Statement: *“To develop and recommend practices that enable public agencies to ensure that bond proceeds are used only for legal and intended purposes, are properly accounted for and managed in a manner consistent with the expenditure of other public funds and that provide for transparency and public review.”*

Task Force members amended the statement to read: *“ To develop and recommend practices that enable public agencies to ensure that bond proceeds are used only for legal and intended purposes and that they are properly accounted for, managed, and safeguarded in a manner consistent with applicable legal requirements and with best practices and internal controls and transparent to the public.”*

Co-Chair Keeley entertained a motion to adopt the mission statement as amended. A motion was made by Ana Matosantos and the motion was seconded by Nadia Sesay.

Co-Chair Keeley moved to adopt the amended mission statement and asked for any additional questions or comments from the members as well as the public regarding the motion. None were offered. Co-Chair Keeley called for a roll call vote. The secretary called a vote. All members were in favor. None were opposed.

**TASK FORCE ROLL CALL FOR ACTION ITEM 6A**

|                  | <b>VOTE TO ADOPT AMENDED MISSION STATEMENT</b> |            |               |
|------------------|--|------------|---------------|
|                  | <b>AYE</b>                                     | <b>NAY</b> | <b>ABSENT</b> |
| Jim Bemis        | <b>X</b>                                       |            |               |
| Robert Campbell  | <b>X</b>                                       |            |               |
| Carrie Corder    | <b>X</b>                                       |            |               |
| Andrew Finlayson | <b>X</b>                                       |            |               |
| Blake Fowler     | <b>X</b>                                       |            |               |
| William Holder   | <b>X</b>                                       |            |               |
| Ana Matosantos   | <b>X</b>                                       |            |               |
| Jenny Salkeld    | <b>X</b>                                       |            |               |
| Nadia Sesay      | <b>X</b>                                       |            |               |
| Robert Whalen    | <b>X</b>                                       |            |               |
| Jay Goldstone    | <b>X</b>                                       |            |               |
| Fred Keeley      | <b>X</b>                                       |            |               |

**ITEM 6B: ADOPTION OF SCOPE OF WORK (ACTION ITEM)**

Co-Chair Keeley explained that the scope of work was developed by the State Treasurer, Executive Office of the State Treasurer, himself and Co-Chair Goldstone, and the CDIAC staff. He reminded the Task Force members that the Treasurer affirmed the scope of work in his opening remarks and that the members serve to help him with

this job. Co-Chair Keeley then asked for comment and amendment to the proposed scope of work.

Co-Chair Keeley, with the assistance of Mark Campbell, led the Task Force Members through a reading of each part of the scope.

Current reading of the Scope of Work: *In an effort to protect public agencies and their constituents from the misuse of bond proceeds, the Task Force on Bond Accountability will undertake the following scope of work in an advisory role to the California Debt and Investment Advisory Commission:*

1. *Identify the range of practices employed by public agencies and other fiduciaries that receive and disburse bond proceeds.*
2. *Evaluate these practices to identify increased protections against mismanagement or misuse of proceeds.*
3. *Establish best practice guidelines for public agencies that provide controls and oversight of the use of bond proceeds.*
4. *Establish administrative practices that institutionalize and operationalize the use of these guidelines. (Specifically, to consider imbedding best practice standards in controlling documents, audit programs, and definitions of roles and responsibilities of administrative and elected officials.)*
5. *Promote the adoption of best practice guidelines through publications, training, or other means.*
6. *Consider legal, administrative, and organizational strategies to increase transparency and oversight of the use of bond proceeds by public agencies.*

Task Force members amended the Scope of Work to read: *In an effort to protect public agencies and their constituents from the misuse of bond proceeds, the Task Force on Bond Accountability will undertake the following scope of work in an advisory role to the California Debt and Investment Advisory Commission:*

1. *Identify the range of practices employed by public agencies and other fiduciaries that receive and disburse bond proceeds.*
2. *Evaluate these practices to identify increased protections against mismanagement or misuse of proceeds.*
3. *Establish best practice guidelines for public agencies that provide administrative and accounting controls and oversight of the administration of bond proceeds.*
4. *Recommend administrative practices that institutionalize and operationalize the use of these guidelines. (Specifically, to consider imbedding best practice standards in controlling documents, audit programs, and definitions of roles and responsibilities of administrative and elected officials.)*
5. *Promote the adoption of best practice guidelines through publications, training, or other means.*

6. Consider legal, administrative, and organizational strategies to increase transparency and oversight of the administration of bond proceeds by public agencies.

Co-Chair Keeley entertained a motion to adopt the amended scope of work. A motion was made by Bob Whalen and the motion was seconded by Ana Matosantos.

Co-Chair Keeley moved to adopt the amended scope of work before the Task Force and asked for any additional questions or comments from the members as well as the public regarding the motion in front of them. Seeing and hearing none, Co-Chair Keeley called for a roll call vote. The secretary called a vote: All members were in favor. None were opposed.

TASK FORCE ROLL CALL FOR ACTION ITEM 6B

|                  | VOTE TO ADOPT AMENDED SCOPE OF WORK |     |        |
|------------------|-------------------------------------|-----|--------|
|                  | AYE                                 | NAY | ABSENT |
| Jim Bemis        | X                                   |     |        |
| Robert Campbell  | X                                   |     |        |
| Carrie Corder    | X                                   |     |        |
| Andrew Finlayson | X                                   |     |        |
| Blake Fowler     | X                                   |     |        |
| William Holder   | X                                   |     |        |
| Ana Matosantos   | X                                   |     |        |
| Jenny Salkeld    | X                                   |     |        |
| Nadia Sesay      | X                                   |     |        |
| Robert Whalen    | X                                   |     |        |
| Jay Goldstone    | X                                   |     |        |
| Fred Keeley      | X                                   |     |        |

ITEM 7: DISCUSSION OF STAFF REPORT (INFORMATION ITEM)

Mr. M. Campbell explained that the staff report provided background information on the administration of bond proceeds. The report also shares some keys terms and is a resource guide to other references and available resource materials that the members may find on the subject.

ITEM 8: CURRENT PRACTICES AND PROCEDURES AMONG CALIFORNIA PUBLIC AGENCIES (INFORMATION ITEM)

Co-Chair Keeley asked that members weigh in on the current practices and procedures over the next four to five meetings.

Co-Chair Goldman pointed out that the item was placed on the agenda to get input from Task Force members and hear their initial thoughts regarding debt issuance and administration. He shared that in subsequent meetings individuals will be invited to provide input so that the information can be compiled and reviewed in an effort to identify best practices. The vision would be that these practices become a part of the procedures and administrative functions for staff, as well as elected officials.

He also shared that as the Task Force goes through this process that a product might find its way into the CDIAAC Debt Primer.

Following comments from Co-Chair Goldstone, Co-Chair Keeley asked for comments from Task Force members.

MR. WHALEN agreed that there should be a component for elected officials such as presenting them with some information on what the impact of what debt repayment looks like when bonds are being sold and accumulating interest along the way instead of paying interest current. He also encouraged members to think about the types of things that should go into the resolution or the presentation to boards or councils as preconditions to issuance. He expressed that there is no “marrying between internal controls and the disbursement in the bond documents.” There should be some thought given to the internal control process.

He shared that there is oversight already put into place like school districts, with oversight committees, and thought it would be interesting to contrast or consider this approach and if it has been effective or should be applied more broadly in other contexts.

Mr. Whalen shared that in the vast majority of local debt there is pretty limited oversight on the disbursement side and that the Task Force should be aware of the increase in the public record act request and that on the transparency front the members might consider whether there should be internet postings of some of the expenditures on a periodic basis.

MS. SESAY wanted to elaborate from an issuer’s perspective and suggested that looking at policies that are already in place, as well as the process of getting authorization before bonds are issued be part of the equation. She continued her discussion on steps taken in the San Francisco office regarding best practices and preventative controls taken from the onset.

Ms. Sesay relayed how internal controls help and has been part of standard practice. She recommended that the Task Force members think about the controls in two buckets: preventive and corrective. She suggested that in thinking about preventative, think about documentation that is established prior to going to the board and documentation throughout the process and so on. This can be tailored depending on the bond program or the issuer or security.

Co-Chair Keeley expressed that the notion of two buckets: preventive and corrective was really helpful.

MS. CORDER shared comments from a small issuer’s perspective and suggested that if this committee can provide some sample policies and some best management practices that it would reassure people coming into new positions, and be a source of training.

MR. BEMIS expressed that the practices of both large and small organizations need to be considered in disbursement procedures. He would like members to get involved in disbursement procedures on the front end reviewing trust indentures and other things, and questions designated representatives that are allowed to sign off on invoices. He discussed whether one signature is sufficient and suggested issuers think more about protection.

Mr. Bemis also talked about the proper role of the trustee or who pays the invoices, as well as quasi-government agencies and their level of transparency.

MR. R. CAMPBELL suggested that the Task Force maybe look into the legal limit for issuing debt and exemptions.

MS. SALKELD commented on the infrastructure from an accounting standpoint and the importance of transparency and accounting system.

MR. FINLAYSON remarked that there is oversight set up in law or a particular bond measure, but that oversight isn't being fulfilled properly.

MS. MATOSANTOS made comments about fund disbursement and how important it is to make sure that when projects change that dollars be repurposed within the parameters of the bond act and that they are not sitting in accounts for extended periods of time. She shared that "idle cash is generally not a good thing from the prevention standpoint."

After comments were concluded from members, Co-Chair Keeley suggested that the members keep in mind the relative size and capacity of entities to be able to comply with best practices. In addition, he shared with the members that they have a range of ways to recommend to the State Treasurer to improve processes and accountability. Co-Chair Keeley suggested that members think about improvement from the least to the most aggressive. On the aggressive end he would put the California State Legislature and the Governor passing a law and on the least aggressive, an example would be CDIAC's education programs, as Ms. Corder suggested. This process would continue over the next several months and as recommendations are presented to be mindful of various tools and problems identified along the way.

Co-Chair Keeley shared that he and Co-Chair Goldstone have discussed ways to look at the work of the Task Force and identified two phases:

- A) AN EXPANDING UNIVERSE PHASE. One or two general meetings, looking broadly and expansively at the work.
- B) A CONTRACTING UNIVERSE PHASE. Getting more and more condensed and specific, ending up with a final meeting that is all about recommendations to the Treasurer on very specific ways using a variety of tools, looking at everything from increased education to potential legislation.

Co-Chair Keeley then recommended that the next couple of meetings be structured to conform to this approach and that the next meeting be in Southern California.

After speaking with legal counsel and hearing no objections from the members, it was agreed that staff and Co-chairs would draft agenda and subject matter for the next meeting.

The members were also polled on the best day of the week for meetings and the majority stated Wednesday or Thursday.

#### ITEM 9: PUBLIC COMMENT (INFORMATION ITEM)

Co-Chair Keeley gave the public the opportunity to address the Task Force on any item on the agenda. There was no public comment.

#### ITEM 10: CLOSING COMMENTS AND ADJOURNMENT (INFORMATION ITEM)

Co-Chair Keeley thanked everyone for attending and without objection, the meeting was adjourned at 12:05pm.