



**BILL LOCKYER**  
TREASURER  
STATE OF CALIFORNIA

February 4, 2011

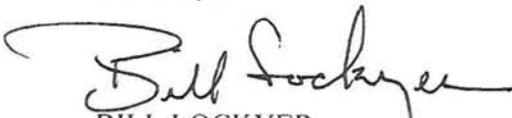
Dear California Municipal Issuer:

The Financial Industry Regulatory Authority (FINRA) has launched an inquiry into, among other issues, the payment of underwriter fees to the California Public Securities Association (CalPSA). Following media reports about FINRA's January 18, 2011 letter to underwriters seeking information related to the inquiry, I learned that it is a fairly common practice for underwriters to include the per-bond assessment of either or both the CalPSA and the Securities Industry and Financial Markets Association (SIFMA) in underwriter expenses paid from municipal bond transactions. In fact the State of California, since 2005, has permitted these expenses in state bond transactions. Based on my own review of these fees, I have concluded it is not an appropriate use of public funds to allow these expenses, which are used to support the lobbying and advocacy activities of private trade associations – organizations whose interests are not always aligned to those of state and local government. A Government Finance Officers Association (GFOA) Best Practices Memorandum issued in March 2010 recommended that issuers not pay SIFMA fees out of bond proceeds.

Effective immediately, therefore, I am rescinding authorization for payment of these fees from the proceeds of future state bond issues, reviewing past expenditures for these issues, and conducting a top-to-bottom review of all items permitted under our current policy for payment of underwriter expenses.

I am bringing this issue to the attention of local government issuers with the suggestion that you review your own current policies for paying underwriter expenses, including CalPSA and SIFMA. You may want to consider consulting your city attorney or county counsel as part of your review. Issuers that currently allow underwriters to include the CalPSA and SIFMA fees in expenses paid from bond proceeds should consider whether these fees meet your criteria for an appropriate use of public funds.

Sincerely,

  
BILL LOCKYER  
California State Treasurer