

AGENDA ITEM 5 (ACTION ITEM) STAFF WORK PLAN - JULY 1, 2010 THROUGH DECEMBER 31, 2011

CDIAC Meeting Staff Report July 15, 2010

For purposes of planning, staff will divide the Commission's workload into four functional activity areas and provide a legislative update.

I. DATA COLLECTION AND DISSEMINATION

In 2009, the Information Technology Division (IT) began an upgrade to the Commission's database application and a conversion from an Oracle® based reporting system to Crystal Reports®. Staff has focused its resources on testing and validating the transfer of data from the old system to the new for the past several months. Commission staff has completed validation and continues testing to remedy the remaining issues with the upgrade and conversion. We have used this opportunity to review our processes and explore ways to improve our database collection procedures. Our goal is to make the database a more relevant tool in the current public debt issuance climate. To this end, we are analyzing the recommendations of a UC Berkeley doctoral student, commissioned in 2009, to review the database and suggest improvements for the collection and dissemination of our data. After we determine what, if any, changes we need to make in our collection of data, we will begin working with IT to review, update and improve public interface with our website. We are currently updating our correspondence and reports. Revised Mello-Roos and Marks-Roos fiscal year activity reports are nearing completion.

We have seen a steady increase in the use of our on-line submittal forms for proposed and final debt issuance. In Fiscal Year (FY) 2008-2009, we received 29% of filings electronically. Year to date for FY 2009-2010, 43% of our filings has been submitted electronically. We will continue to seek input from our customers on ways to improve the submittal process.

The Data Unit is currently storing three years of debt issuance files in our file room, calendar years 2008, 2009 and 2010. In an effort to reduce the amount of paper files that we store, we are currently reviewing final issues filed for completeness, scanning them and saving the files to an electronic filing system. Staff is accomplishing this as time permits while continuing with normal duties. When we ensure that all paper documents have been captured in the electronic file, we will keep the current and previous fiscal year files on-hand and archive all other files. To date, we have finished approximately nine percent of the 1,357 files for 2008.

In recent years, the Commission has increased its focus on the collection of voluntary information on cost of issuance (COI). When we receive final filings that do not contain COI data, we send a request for information to the filer. Response from filers has been positive. Unit staff has not had to send a request for COI data in several months. Now that we are consistently receiving the data, we are beginning our analysis and determining how to format it into a report for public access.

In the past, the Commission has completed several studies which are useful to the industry and are in need of updating to reflect changes in practice and policy; in particular, staff proposes to revise reports on Mello-Roos activity and Marks-Roos activity.

II. RESEARCH REPORTS

Statute authorizes the Commission to conduct research. Since the last meeting with the Commission in 2008, staff convened a working group of private and public sector professionals to assist staff with revising the *California Public Fund Investment Primer*. The revised Investment Primer was completed in December 2009. Staff also revised *Local Agency Investment Guidelines: Update for 2010*.

The staff is currently revising and updating the *California Debt Issuance Primer*. A substantial amount of staff time will be required over the next year to complete this project. In addition to staff resources, the knowledge and expertise of industry professionals will be utilized.

Staff is working on a research paper detailing the issuance of public enterprise revenue bonds. This report will illustrate what types of public infrastructure has been developed using enterprise revenue as the source of debt repayment in various regions in California since 1985. Selected excerpts of this research have been published in *Debt Line*.

After each statewide election, the Commission summarizes and reviews all State and local fiscal measures considered during a statewide election. The Commission proposes to continue this analysis for the elections in June and November 2010.

Staff has several other smaller projects slated for completion during the next year. For example, staff proposes to report on changes in the bond insurance market, the collapse of the auction rate securities market, the use of Build America Bonds (BABS), and federal legislation to extend the BABs programs. Staff may also update selected publications on topics such as property appraisal standards and trends in the issuance of general obligation bonds to keep them current with changes in practice and policy.

III. CURRICULAR ACTIVITIES

Statute requires the Commission to run a continuing education program for municipal debt and investment professionals. With the chronic budget constraints restricting public training budgets, the Commission has been attempting to expand its market and its statutory requirements by advancing partnerships, running certificate programs, continuing core seminars, and running workshops. To meet the statutory charges, Commission staff has identified the following tasks for the next 12 months:

Sustain or Expand Teaching Partnerships

The Government Code directs the Commission to consult with industry professionals about educational programs and research needs. To that end, staff proposes that the Commission conduct the following:

- BOND BUYER - Each year the Bond Buyer conducts a three-day conference on California Public Finance. For the last 12 years, the Commission has conducted a “pre-conference” seminar with the newspaper. The Commission proposes to facilitate another pre-conference seminar to be held October 6, 2010 in San Francisco addressing regulatory changes for the municipal market.
- CALIFORNIA MUNICIPAL TREASURERS ASSOCIATION (CMTA) - The Commission ran a very successful conference for CMTA in April 2010. Staff proposes to conduct another conference with the CMTA in 2011.
- INSTITUTE FOR GOVERNMENTAL STUDIES (IGS) AT UC BERKELEY - Staff proposes to explore a two-day conference on the causes and implications of the State’s growing debt burden. IGS would be a co-sponsor.

To enhance the value of the Commission’s training programs, the staff is developing a curriculum to serve as a professional certification for two different audiences:

- GOLDMAN SCHOOL OF PUBLIC POLICY, UC BERKELEY - The Policy School at UC Berkeley is interested in running a week-long executive training program for city debt managers. The program would be an intensive, residential program on the University's campus and would qualify for Berkeley class credits. CDIAC would provide the training. The Commission proposes to explore this class.

The Commission runs seven core seminars over two semesters annually. Over the next two semesters, it has scheduled the following:

Fall 2010:

- DEBT SEMINAR 1: FUNDAMENTALS OF DEBT FINANCING (September 23-24, 2010, Sheraton Park, Anaheim) Experts explain concepts of structuring, marketing and pricing the deal, the relationships between principal, interest, price and proceeds. Speakers instruct on ways to evaluate types of interim and long-term municipal finance instruments. They discuss how to use private expertise and how industry professionals can reduce costs. The seminar concludes with a discussion of issuer responsibilities for initial and continuing disclosure.
- DISCLOSURE IN MUNICIPAL SECURITIES (October 13, 2010, Renaissance Long Beach) Proper and timely disclosure helps ensure access to the municipal finance market. Under what circumstances do issuers "talk to the market?" When they do, what are the federal disclosure rules? Speakers discuss the regulatory requirements for initial and continuing disclosure. They also advise on ways to avoid common mistakes.
- INVESTMENT SEMINAR 1: INTERIM FINANCING AND INVESTMENT BASICS (October 20-21, 2010, Concord Hilton) This seminar has two distinct parts. Part 1, running for half a day, covers issues associated with investing in interim (also known as "short term") instruments. Part 2 is an introduction to municipal investment. Running for one and one-half days, the seminar covers investment concepts, options and performance measurements. This seminar is the first in a two-part series on investments. Participants receive a copy of the Commission's investment guidelines, a desktop reference for complying with California's statutory laws.

Spring 2011:

- DEBT SEMINAR 2: FROM INDENTURE DOCUMENTS TO SALE (February 3-4, 2011, Oakland Marriott) Speakers provide outlined steps for evaluating debt capacity and establishing a debt management

policy. The course discusses how to develop the bond documents. Panels address managing fund accounts, investing bond proceeds and administering the debt over the term of the instrument.

- DEBT SEMINAR 3: ON-GOING DEBT ADMINISTRATION (April 8, 2011, CSU Pomona Kellogg Center) This course describes the steps for managing debt over the next few decades. Speakers discuss the indenture documents and continuing disclosure requirements associated with out-year administration. They describe the steps for managing bond proceeds, arbitrage and reserve accounts. Panels cover evaluating refunding options and managing variable rate debt.
- IN THE KNOW ABOUT SCHOOL DEBT FINANCING (April 29, 2011, CSU Pomona Kellogg Center) This seminar is tailored to school officials seeking an understanding of debt finance from planning the debt program to ongoing administration and regulatory compliance. The speakers present fiscal management concepts, consideration before issuing debt, statutory requirements and out-year debt management strategies.
- LAND-SECURED FINANCE: MELLO-ROOS DISTRICT AND ASSESSMENT DISTRICT FINANCING (March 18, 2011, Hotel Shattuck, Berkeley) This seminar focuses on financing capital through special districts (Mello-Roos and assessment), answering the following questions. Under what circumstances are these districts appropriate for your needs? How does a local agency form a district? How does the district issue debt and administer the liens? Hear expert advice on how to comply with federal regulations and State law.

Staff will contract for Fall 2011/Spring 2012 venues during Fall 2010.

Conduct Marketing Outreach

The Commission shares its seminar opportunities and research publications on the State Treasurer's website where State and local government officials register for CDIAC education seminars and access data and information.

In the past two years, the Commission's seminar pricing and marketing has changed. Prices were elevated to \$350 to become more competitively priced within the market and education announcements were only distributed to electronic ListServ subscribers. As a result, the education programs experienced a 14.2% decline in enrollments from 2008 and 2009. In trying to keep marketing costs at a minimum, the Commission ceased utilizing traditional marketing strategies and relied exclusively on ListServ subscribers to market our seminars. Prior to 2008, the Commission's seminar programs were marketed through

direct mail announcements to a broad market which increased average attendance at a rate of 1.5 percent.

To increase enrollments in the coming year and to build a greater presence in the market, the Commission will resume its focus towards a more customized marketing and outreach approach and will:

- PRESENT INFORMATION AND EDUCATIONAL OPPORTUNITIES AT REGIONAL FINANCE ASSOCIATION MEETINGS AND LUNCHEONS. This regional field outreach will provide the Commission personal contact with participants in the industry where there are common interests at the local level.
- PROVIDE EDUCATIONAL RESOURCES TO INDUSTRY GROUP LEADERS THROUGH MEETINGS AND PRE-CONFERENCE OPPORTUNITIES. Holding one-on-one meetings with industry professionals and conducting pre-conferences at industry conferences will expand the Commission's market and open distribution channels. Vital input and endorsement from "Leaders of Central Influence" can also strengthen the Commission's position in the market.
- ATTEND AND PROVIDE CDIAK PRODUCTS AND SERVICES AT INDUSTRY CONFERENCES AND TRADESHOWS TO ATTRACT NEW MARKETS. There is greater access to industry specialists and target markets through this traditional outreach method not traditionally utilized by the Commission.
- COMMUNICATE INFORMATIONAL SERVICES TO RECENT AND PROPOSED ISSUERS OF DEBT. Additional notices and courtesy calls made to fee-paying issuers will provide added customer service.
- DISTRIBUTE SEMINAR ANNOUNCEMENTS TO OFFICIALS THROUGH DIRECT MAIL FROM PERMITTABLE LISTS SERVING CALIFORNIA LOCAL GOVERNMENTS. A return to the Commission's traditional marketing method alone will reach more constituents. Plus, a direct target effort will allow the Commission to reach more elected officials, school districts officials and other specialized staff.

IV. ADMINISTRATIVE ACTIVITIES

Over the past two years, staff has worked on developing the Public Finance Research Project approved at the last Commission meeting and expects to have completed research papers within Fiscal Year 2010-11. Over the course of the coming fiscal year, staff will be reviewing cashiering procedures for the collection of fees for issuance filings and seminars.

RESEARCH CONTRACT. At the last Commission meeting, the Commission approved the transfer of \$300,000 to the Center for California Studies (affiliated with California State University) to provide grants for original academic research on municipal finance. Ten (10) proposals responding to the CDIAC Public Finance Research Project RFP were received by Terri Sexton, CSU, Project Coordinator of the CDIAC Research Project. On February 26, 2010, the Advisory Committee met and recommended funding three proposals totaling \$169,422. They are as follows:²

- “Public Financing Options: Trends in Local Bond Pools.” Principal Investigator: Darien Shanske, UC Hastings, College of the Law
- “Public Financing Options: Trends and Future Prospects in Long-Term Financing.” Principal Investigator: Qian Janey Wang, Department of Public Administration, San Francisco State University
- “Debt Burdens of California State and Local Governments: Past, Present and Future.” Principal Investigator: Robert W. Wassmer, Department of Public Policy and Administration, California State University, Sacramento

All principal researchers were notified of the committee’s decision regarding the funding of their proposals on March 3, 2010. The researchers will adhere to the following timeline: progress reports due July 26, 2010, draft reports due September 20, 2010, and final reports due by January 24, 2011. The remaining funds (\$130,578) will be directed to the next round of RFPs, which have not been scheduled at this time.

CASHIERING. The Commission collects nearly \$3.0 million a year in filing and registration fees. The cashiering function for collection of these fees is in the process of being reviewed and updated to ensure the Commission is meeting standards set out by the State Administrative Manual and to have clear cut procedures that will assist with audits. Staff proposes to implement these new procedures upon final approval so that it will increase the self-auditing function performed in-house. This will ensure payments have been collected, documented and then forwarded to Accounting for deposit into the proper accounts.

² The Advisory Committee at the time of award consisted of Terri Sexton, CSU, Project Coordinator of the CDIAC Research Project; Jonathan Brown of Association of Independent California Colleges and Universities (AICCU) (he was absent from the February 26th meeting); John Decker, CDIAC; Tim Hodson, CSU, and Kirk Stark, UCLA.

V. LEGISLATIVE UPDATE

Two bills in the Legislature, AB-155 and AB- 2579, could have a significant impact on Commission operations.

AB 155 (As of June 1, 2010)

AB 155 requires a local entity that wishes to file for federal bankruptcy to seek approval from the Commission prior to such filing.³ The legislation has passed the Assembly and is under consideration in the Senate. AB 155 has been approved by the Senate Appropriations Committee and moved to the Senate floor with a key amendment: following a denial by the Commission, a local entity could override, by resolution, the Commission's decision and file for federal bankruptcy protection.

Should this legislation be signed into law as written, the operational impact on the Commission could be significant:

1. The impacts would depend partly on how many reviews and evaluations per year local entities requested of the Commission.
2. The legislative analysis indicates minor to major costs annually, though potentially offset in part or in whole with a fee deposited to the Commission's fund by the agency requesting a review by the Commission.
3. The Commission does not have any staff with accounting or auditing backgrounds, and possibly other specializations that might be needed for an assessment of local entity finances; staff expects to fill those needs initially by contracting up to \$300,000 per year.
4. The legislation permits the Commission to draft regulations to govern the filing/review/approval process. For example, regulations should specify financial data that would be essential to a review and evaluation. Staff believes it would be prudent to hire an outside contractor to assist the staff in developing regulations. A contract for this purpose could be up to \$250,000.

AB 2579 (As of April 4, 2010)

AB 2579 would establish an Infrastructure Financing and Development (IFD) Commission and charges this IFD Commission with recommending a plan to the Governor and the Legislature that covers public in-

³ AB 155 was placed in the Senate suspense file on June 17, 2010. The bill can be brought to the Senate floor for a vote two days after the bill is removed from the suspense file.

frastructure financing and construction through 2050. The IFD Commission is to submit its final report by December 1, 2012 and to cease operations within 30 days of submittal of the final report.

The legislative analysis estimates operational and staffing costs at about \$500,000 in 2010-2011, \$1.2 million in 2011-2012 and \$600,000 in 2012-2013, including an Executive Director and four staff. Staff may be borrowed from other agencies, including state agencies, local governments and private non-profit organizations.

Should this legislation be signed into law as written, staff estimates the impact on the California Debt and Investment Advisory Commission to be up to \$500,000 in 2010-2011. As permitted in the legislation, CDIAC staff resources may also be loaned to the IFD Commission.

STAFF RECOMMENDATION

Staff respectfully recommends that the Commission adopt the proposed work plan, pursuant to Resolution 10-02.