

AGENDA ITEM 3 (INFORMATION ITEM) EXECUTIVE DIRECTOR'S REPORT

Executive Director's Report June 21, 2017

2017-18 BUDGET PROPOSAL

CDIAC's proposed budget for the Fiscal Year (FY) 2017-18 is \$3,676,000, an increase of nearly nine (9%) percent. Total budget authority includes \$3,496,000 in expenditure authority and \$180,000 in reimbursement authority. CDIAC generates reimbursements from educational programming and the sale of selected publications. The proposed budget includes adjustments totaling \$206,000, including an increase for pension contributions, a decrease resulting from a new method for assessing pro rata costs, and a sizable increase derived from three separate budget change proposals (BCP).

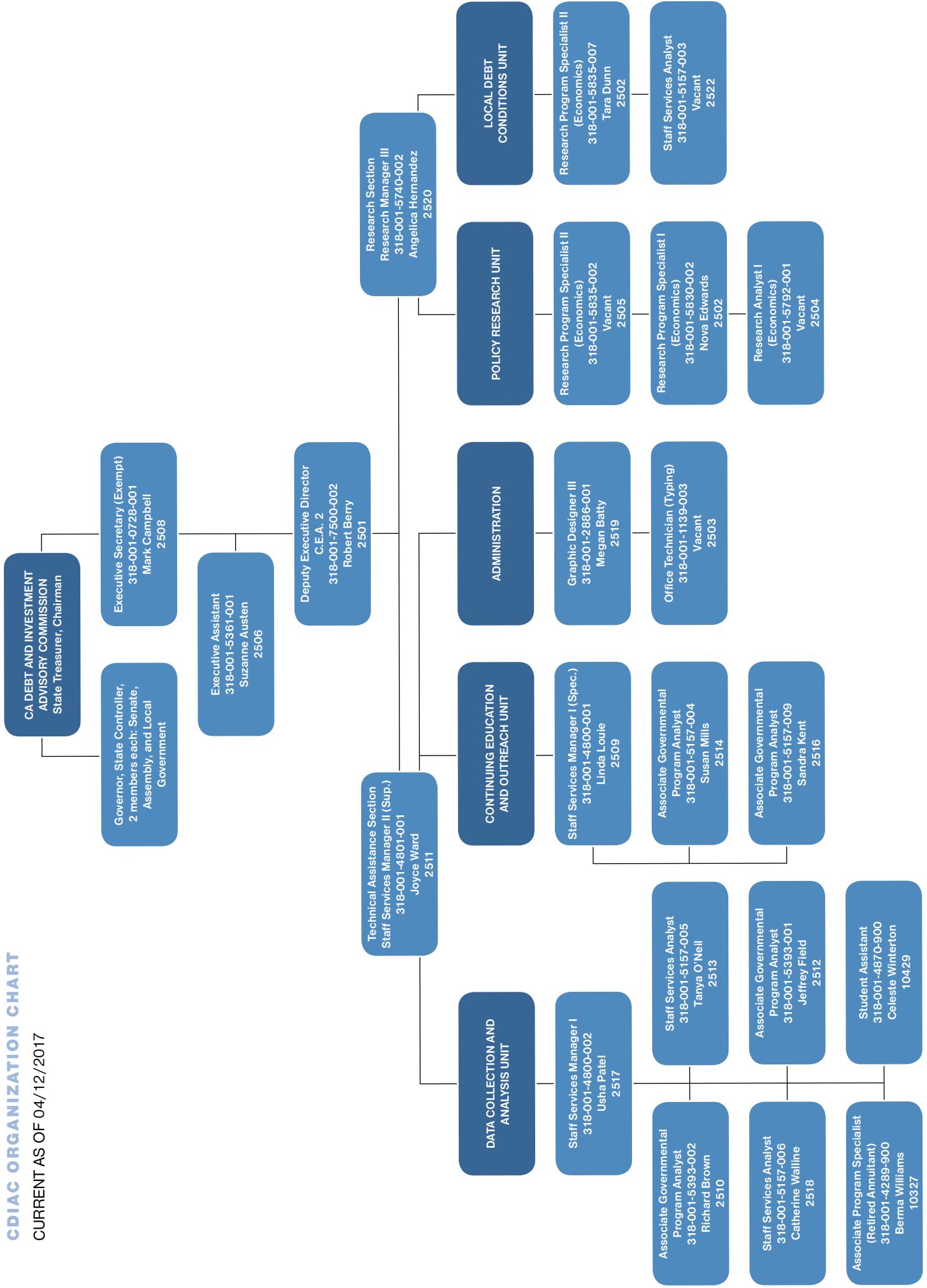
The proposed budget includes a \$200,000 augmentation to its personal services budget yet to be approved. CDIAC's personal services expenditures for authorized positions have significantly outpaced its budget authority, causing it to use operating expense and equipment (OE&E) authority to pay staff. This has left fewer resources for important projects and operational expenditures. The proposed budget augmentation, in combination with savings from normal vacancy levels, will alleviate this recurring and growing budget imbalance.

CDIAC has also proposed in its budget to add \$140,000 and a personnel year (PY) to the Data Collection and Analysis Unit (Data Unit) to accommodate the new annual reporting requirements imposed on debt issuers by the adoption of Senate Bill 1029, Hertzberg (Chapter 307, Statutes of 2016). The new requirement will cause the Data Unit to process as many as 1,000 new reports in year one increasing annually to as many as 15,000 in year eight. CDIAC management will monitor the growth in workload to assess the need for future BCPs.

The Treasurer's Office's Information Technology Division (ITD) has proposed in its budget to convert positions in its Data Transparency Unit

CDIAC ORGANIZATION CHART

CURRENT AS OF 04/12/2017



from limited term to permanent. CDIAC expects that its administrative services contract with the Treasurer's Office for its share of the information technology services will increase \$88,000.

CDIAC's annual appropriation has been reduced by \$190,000 in FY 2017-18 and retroactively in FY 2016-17 for its share of the statewide pro rata administrative costs. While the appropriation was removed from CDIAC's authority, the pro rata costs will be drawn directly from CDIAC's fund as an annual year-end adjustment (see CDIAC Fund Condition).

In FY 2016-17, CDIAC was authorized for 20 full-time staff, a retired annuitant, and a student assistant. The personal services augmentation BCP will add one permanent position for a total of 21 full-time staff in FY 2017-18. The following chart provides a three year overview of CDIAC's authorized budget.

CDIAC BUDGET APPROPRIATION WITH ADJUSTMENTS (THOUSAND \$)

	FISCAL YEAR 2015-16 BUDGETED	FISCAL YEAR 2016-17 BUDGETED	FISCAL YEAR 2017-18 PROPOSED
Authorized Positions	20	20	21
Personal Services	\$1,719	\$1,788	\$1,788
Operating Expenses & Equipment	1,684	1,717	1,628
BUDGET ACT APPROPRIATION ^A	\$3,403	\$3,505	\$3,416
Net Adjustments ^B	63	(130)	260
GRAND TOTAL	\$3,466	\$3,375	\$3,676

^A. Includes \$180,000 appropriation authority for reimbursements associated primarily with education programs and the sale of the printed version of the California Debt Issuance Primer.

Adjustment (thousands \$)	FY 2015-16	FY 2016-17	FY 2017-18
Pension Contributions	\$11	\$22	\$22
Employee Benefits	19	-	-
Employee Compensation	13	-	-
Represented Staff Bonuses	-	38	-
Prorata Assessment Removal	-	(190)	(190)
Personal Services BCP	-	-	200
SB 1029 BCP	-	-	140
IT Transparency Unit BCP	-	-	88
Total	\$63	(\$130)	\$260

CDIAC FUND CONDITION (THOUSAND \$)

	2015-16 ACTUAL	2016-17 ESTIMATED ⁴	2017-18 PROJECTED
RESERVES, ADJUSTED	\$5,426	\$5,262	\$4,839
REVENUE			
Fees ¹	\$2,626	\$2,850	\$3,270
Interest ²	383	30	30
Reimbursements, Misc.	31	60	40
TOTAL REVENUES	\$3,040	\$2,940	\$3,340
EXPENDITURES			
State Operation	\$3,199	\$3,169	\$3,509
Adjustments (FI\$Cal, Prorata ³)	5	194	223
TOTAL EXPENDITURES	\$3,204	\$3,363	\$3,732
FUND BALANCE	\$5,262	\$4,839	\$4,447

1. FY 2017-18 issuance fee revenue is projected to increase to approximately \$3.3 million as a result of the issuance fee rate increase that went into effect for all debt sold on or after April 1, 2017. This estimate of fee revenue for FY 2017-18 is based upon the mean annual revenue generated from the prescribed fee schedule under Government Code section 8895 and the exceptions under CCR Title 4, Section 6030 applied to five years of issuance activity (2015-2011). This conservative projection of fee revenue for FY 2017-18 is consistent with the SIFMA 2017 US Municipal Issuance Survey which forecasted a 1.5 percent decrease in US long-term debt issuance. The CDIAC issuance fee, given the exceptions under CCR Title 4, Section 6030, applies only to long-term debt. The SIFMA survey is a compilation of forecasts from six firms engaged in underwriting and/or analyzing the US municipal bond market.
2. FY 2015-16 interest includes earnings on CDIAC's Fund Balance and \$362,027 in interest earned on CDIAC's \$2 million loan to the General Fund (repaid July 15, 2015).
3. The prorata expenditure in FY 2015-16 is included in State Operations as the amount was included in the budget appropriation, not drawn from Fund Balance as an adjustment.
4. Nine months of actual data combined with an Apr-June estimate for revenues and expenditures.

UNIT REPORTS

Data Collection and Analysis Unit

DEBT ISSUANCE DATABASE REVIEW AND DEVELOPMENT PROJECT
 CDIAC has undertaken an extensive analysis of the database to identify improvements in functionality, performance, and utility. As a result of this effort, CDIAC has developed a detailed vision that reflects current and future uses, the capture of third-party data, and the potential to embrace new technologies to achieve expanded program and policy goals. Over the next twelve months, CDIAC in conjunction with ITD will be working to develop and deploy the next generation database that will provide an integrated solution to address CDIAC's need to collect, manage and report on debt issuance in California.

IMPROVED DATA SOURCING. Working with ITD, CDIAC staff will explore opportunities to expand the scope of data now collected. CDIAC's vision for the improved database will add over one hundred new data elements to the system, a 33 percent increase. Staff believes that the value of the currently collected data will be enriched through the expansion of data elements.

ANNUAL DEBT TRANSPARENCY REPORTS. SB 1029, Hertzberg, (Chapter 307, Statutes of 2016), amended Government Code Section 8855 to place additional reporting obligations on issuers of public debt in California. The bill requires local issuers, who submit a report of proposed debt issuance on or after January 1, 2017, to certify that they have adopted a debt policy that conforms to certain criteria listed in Government Code section 8855(i). ITD updated the report of proposed debt issuance to capture the debt policy certification on January 1, 2017.

In addition, all public issuers in California who submit a report of final sale to CDIAC on or after January 21, 2017, will be required to submit an annual report on the status of that debt until the debt is no longer outstanding. CDIAC is currently teaming with ITD and the issuer community to develop and deploy the annual debt transparency report. CDIAC expects to release the electronic report no later than October 1, 2017, in time to receive the first wave of reports due no later than January 31, 2018. CDIAC will determine in the future whether it needs to create regulations to clarify these new reporting requirements.

Education and Outreach Unit

CURRICULUM AND PROGRAM DEVELOPMENT. CDIAC foresees two areas that will affect the educational needs of California's public agencies: a) educating new staff in public agencies and newly elected officials, and b) changes to the method and manner in which debt is issued in the municipal market. In response, CDIAC must continue to develop programming that addresses these two critical environmental forces. To do so, CDIAC is tailoring education for elected officials on debt financing and examining course offerings that address changes in debt management practices that impact California issuers. This includes the recommendation for all local debt issuers to create or update debt management policies that are compliant with SB 1029.

INTERNET-BASED ON DEMAND TRAINING. CDIAC will produce an online on-demand training course on debt issuance and administration that is tailored for elected officials. Through the use of an interactive learning management system, officials will receive a certificate after completing the online course. The system will also allow CDIAC to track registration and develop reports to monitor the effectiveness of the program in achieving the learning objectives and reaching the target audience.

TOOL-BASED TRAINING IN THE CLASSROOM. CDIAC will continue to enhance core educational curriculum to provide a more applied approach to training. In 2017, CDIAC will further its course offerings in public investments by offering Excel-based training.

OUTREACH AND COLLABORATION. CDIAC plans to continue its collaboration with local, state and national organizations such as the Government Finance Officers Association (GFOA) and the State Debt Management Network (SDMN). Staff will also attend regional and divisional association meetings and events to interface with professional groups to build networks and maintain a presence in the industry.

EXISTING PARTNERSHIPS. In 2017, CDIAC will continue its partnerships with the California Society of Municipal Analysts (CSMA) and The Bond Buyer. Building on the success of collaborative workshops held in 2015 and 2016, CDIAC will continue its partnership with the California Municipal Treasurer's Association (CMTA) to provide public investment training workshops for beginners and advanced practitioners.

DIRECT PROMOTION OF PROGRAMS. CDIAC will continue to promote its programs through its subscribed email list and newsletter emails with association groups, postings on association webpages and when necessary, through direct promotion of seminars through targeted mailing of printed brochures to local public agency officials. Social media, such as Twitter and LinkedIn, will continue to be used for focused promotion to followers of CDIAC and the Treasurer's Office.

STATE FINANCING BOARDS, COMMISSIONS, AND AUTHORITIES. CDIAC will continue to offer webinar services to meet the educational and outreach needs of the of state financing boards, commissions, and authorities.

Policy Research Unit Initiated Projects in Progress

UPDATE TO THE CALIFORNIA DEBT ISSUANCE PRIMER. As a result of the market crisis of 2008 and the resulting market reform, CDIAC will work with industry professionals to perform an update and redesign of the California Debt Issuance Primer, a nationally recognized resource for debt issuance information last updated in 2006.

UPDATE TO THE CALIFORNIA PUBLIC FUND INVESTMENT PRIMER. A needs assessment will be conducted on the current Investment Primer to determine the scope of the updates to the Primer.

Ongoing Activity

OUTREACH AND COLLABORATION WITH PUBLIC FINANCE ORGANIZATIONS. CDIAC continues to work with public finance organizations, public agencies and research organizations to identify and assess new forms of public debt and investments coming into the market. This collaboration helps to keep CDIAC informed of market trends and emerging products and practices to produce research that is timely and relevant.

DEBT AND INVESTMENT LEGISLATION AFFECTING STATE AND LOCAL GOVERNMENTS. CDIAC monitors the status and maintains an inventory of important state and federal legislation affecting public finance, municipal bond issuance, and public funds investing. Published periodically in Debt Line during the legislative session, the online inventory includes helpful links to the most current information on pending legislation.

DEBT LINE. CDIAC will continue to publish Debt Line, a monthly newsletter including issuance statistics and analysis, research articles penned by CDIAC staff, important dates and details arising from MSRB and SEC regulatory activities, and announcements of educational programming produced by CDIAC and allied organizations.

EDUCATION PROGRAM SUPPORT. The Research Unit will provide support to the Education Unit in their 2016-17 and 2017-18 programs.

TECHNICAL ASSISTANCE. The Research Unit will continue to provide technical assistance to local agencies and the general public on matters related to public debt and investments.

Proposed Projects and Activities

DISCLOSURE PRIMER. CDIAC will develop a concept to create a primer on municipal market disclosure. It is envisioned this primer would be a companion to the California Debt Issuance Primer and provide a detailed desk-reference for public finance officials on disclosure requirements and best practices.

RESEARCH RESOURCE DATABASE. CDIAC will develop a proposal to create a research resource database that will bring together municipal finance information from a variety of sources in a searchable, central repository to facilitate the development and enhancement of CDIAC's research, data analysis, and educational programming.

LEGISLATIVE UPDATE

AB 1510 (LIMON) would allow two or more small school districts to form a joint powers authority, pursuant to the Joint Exercise of Power Act, for the purpose of authorizing, issuing, selling bonds to raise money for specified purposes for the small school districts.

ACA 6 (HARPER) would eliminate the provision allowing school districts, community college districts, or county offices of education, to introduce a proposition to issue bonds subject to the approval of 55 percent of voters. In so doing, it would require all school bonds to be subject to a 2/3 voter approval threshold.

SB 7 (MOORLACH), a bill sponsored by State Treasurer Chiang, would require governing boards of school and community college districts when approving the purposes for which a proposed bond sale will be used to support those purposes with a facility master plan and cost estimate.

SB 742 (MOORLACH) would require city treasurers, if the city has issued bonds, to use a system of accounting and auditing that adheres to the general accepted accounting principles.