

CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

SESSION ONE: INITIAL DISCLOSURE

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Sacramento, California

Timeline of Federal Securities Laws

- **1929: Great Depression**
- **1933/1934: '33 Act and '34 Act**
- **1975: New York City crisis**
- **1975: MSRB established**
- **1978: Cleveland loan defaults**
- **1983: WPPSS defaults**
- **1989: Rule 15c2-12 (initial disclosure)**
- **1994: Orange County, CA bankruptcy**
- **1994: Rule 15c2-12 amendment (continuing disclosure)**
- **2008: EMMA**
- **2008: SEC complaint in San Diego**
- **2010: SEC complaint in New Jersey**
- **2010: Dodd–Frank Reforms**
- **2014: SEC Enforcement Division: MCDC Initiative**

Why Is Disclosure Necessary?

- ▶ **Government entities issue securities in the public capital markets**
- ▶ **Investors in municipal securities have rights under federal securities laws**
- ▶ **All “material” information must be disclosed**

**Securities Act of 1933
('33 Act)**

**Securities Exchange Act
of 1934 ('34 Act)**

SEC Rule 10b-5

SEC Rule 15c2-12

Dodd-Frank reforms

The Securities Act Of 1933

- ▶ 1933 Act has two substantive rules:
 - Registration requirement
 - Antifraud rule
- ▶ Municipal securities are exempt from the registration requirement, but are subject to antifraud rule
- ▶ Two standards of culpability:
Negligence (Section 17(a)) vs.
Recklessness or Willful intent to defraud
(Rule 10b-5)

Securities Exchange Act Of 1934

Rule 10b-5

- ▶ The 1934 Act creates ongoing disclosure requirements for public companies
- ▶ Regulates brokers and dealers such as underwriters of municipal financings
- ▶ Also contains antifraud provisions
- ▶ 1975 amendments to the 1934 Act make it clear that antifraud provisions apply to government issuers

Rule 10b-5

“It shall be unlawful for any person . . .

- a) To employ any device, scheme or artifice to defraud,
- b) To make any untrue statement of a *material* fact or to omit to state a *material* fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading”

The “Materiality” Standard

- ▶ “[w]hether or not there is a substantial likelihood that a reasonable investor or prospective investor would consider the information important in deciding whether or not to invest.”
- ▶ Materiality is determined in context of all the facts and circumstances, but usually on a retroactive basis
- ▶ Guidance comes primarily from court decisions and SEC enforcement cases

Levels Of Culpability

- ▶ **Negligence**
- ▶ **Recklessness**
- ▶ **Intent to defraud (“scienter”)**

What Should Be Disclosed?

- ▶ Unlike corporate securities, there is no “line item” set of rules for what goes into an Official Statement (“OS”)
- ▶ Starting in 1975, leaders in the municipal market created a set of guidelines for OS content
- ▶ Other groups have suggested disclosure for particular market segments
- ▶ Look at practices in the industry; recent developments (e.g. New Jersey, Pension, Continuing Disclosure Compliance)
- ▶ In the end, the Issuer must use its own good judgment

When Do Disclosure Rules Apply?

- ▶ New offerings
- ▶ Annual Report under Rule 15c2-12
- ▶ Any other circumstance where an Issuer is “speaking to the market”
 - Public statements by officials – whether this will be considered “speaking to the market” will depend on the broader context, the official making the statement and the audience.
 - Investor website
 - At this time, securities law does not impose a requirement to update or correct any statement previously made, if there is no other reason to be making a statement to the market.

Rule 15c2-12

▶ Initial Disclosure

- Defines “Official Statement” and permitted omissions from Preliminary Official Statement
- Requires statement of prior failures to materially comply with continuing disclosure

▶ Continuing Disclosure

- Annual reporting
- Listed event reporting

THE OFFICIAL STATEMENT

- ▶ Official Statement is offering document to investors
 - Equivalent to prospectus
- ▶ Must contain all material information for the particular bond sale
- ▶ **Official Statement is the Issuer's document**
- ▶ Underwriters, financial advisers and lawyers can help develop the Official Statement but the Issuer is ultimately responsible for content
- ▶ Official Statement must disclose any material failures of the Issuer to comply with Rule 15c2-12 in the previous 5 years

Form of Official Statement

State of California GO Bonds

Official Statement - Cover

NEW ISSUE—BOOK-ENTRY ONLY

Ratings:
Moody's: Aa3
S&P: A+
Fitch: A+
(See "RATINGS" herein)

Tax-Exempt Bonds: *In the opinion of Bond Counsel to the State of California (the "State"), interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is exempt from State personal income taxes. See "TAX MATTERS—Tax-Exempt Bonds."*

Taxable Bonds: *In the opinion of Bond Counsel to the State, interest on the Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code, but is exempt from State personal income taxes, all as further discussed in "TAX MATTERS—Taxable Bonds."*

\$1,092,355,000	
STATE OF CALIFORNIA	
VARIOUS PURPOSE	
GENERAL OBLIGATION BONDS	
\$105,355,000	\$987,000,000
FEDERALLY TAXABLE	TAX-EXEMPT
VARIOUS PURPOSE	VARIOUS PURPOSE
GENERAL OBLIGATION	GENERAL OBLIGATION
BONDS	REFUNDING BONDS

Dated: Date of Delivery

Due: as shown on inside front cover

The State of California is issuing \$105,355,000 Federally Taxable Various Purpose General Obligation Bonds (the "Taxable Bonds") and \$987,000,000 Tax-Exempt Various Purpose General Obligation Refunding Bonds (the "Tax-Exempt Bonds"). The Tax-Exempt Bonds and the Taxable Bonds collectively are referred to herein as the "Bonds."

Interest on the Taxable Bonds is payable on April 1 and October 1 of each year, commencing October 1, 2015, at the respective rates per annum set forth on the inside front cover hereof. Interest on the Tax-Exempt Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2015. The Bonds may be purchased in principal amounts of \$5,000 or any integral multiple thereof in book-entry form only. See "THE BONDS—General" and APPENDIX B— "THE BOOK-ENTRY ONLY SYSTEM."

Certain of the Tax-Exempt Bonds are subject to redemption prior to their stated maturities as described herein. See "THE BONDS—Redemption."

The Bonds are general obligations of the State to which the full faith and credit of the State are pledged. The principal of and interest on all State general obligation bonds, including the Bonds, are payable from any moneys in the General Fund of the State, subject under State law only to the prior application of such moneys to the support of the public school system and public institutions of higher education. See "AUTHORIZATION OF AND SECURITY FOR THE BONDS."

This cover page contains certain information for general reference only. It is not a summary of the security or terms of the Bonds. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES OR YIELDS AND CUSIPs (See Inside Front Cover)

The Bonds are offered when, as and if issued by the State and received by the initial purchaser(s), subject to the approval of validity by the Honorable Kamala D. Harris, Attorney General of the State of California, and by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State. Orrick, Herrington & Sutcliffe LLP and Curtis Barnting P.C. are serving as Co-Disclosure Counsel to the State with respect to the Bonds. Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson & Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A. Public Resources Advisory Group is serving as the Financial Advisor to the State with respect to the Bonds. The Bonds are expected to be available for delivery through the facilities of The Depository Trust Company on or about April 29, 2015.

HONORABLE JOHN CHIANG
Treasurer of the State of California

**THE BONDS WERE SOLD AT COMPETITIVE BIDS ON APRIL 21, 2015.
INITIAL OFFERING YIELDS HAVE BEEN SET BY THE RESPECTIVE INITIAL PURCHASERS.**

Official Statement Dated: April 21, 2015

Form of Official Statement

State of California GO Bonds

Official Statement – Description of the Bonds

THE BONDS

General

The Bonds will be registered in the name of a nominee of DTC, which will act as securities depository for the Bonds. Beneficial interests in the Bonds may be purchased in book-entry form only in denominations of \$5,000 or any integral multiple thereof. See APPENDIX B— “THE BOOK-ENTRY ONLY SYSTEM.” The information in APPENDIX B— “THE BOOK-ENTRY ONLY SYSTEM” has been furnished by DTC. No representation is made by the State as to the accuracy or completeness of such information.

The Bonds will be dated and accrue interest from the date of their delivery, and will mature on the dates and in the amounts set forth on the inside front cover hereof. Interest on the Taxable Bonds is payable on April 1 and October 1 in each year, commencing on October 1, 2015, at the rates shown on the inside front cover hereof. Interest on the Tax-Exempt Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2015, at the rates shown on the inside front cover hereof. Interest on the Bonds will be calculated on the basis of a 360-day year comprising twelve 30-day months. If any payment on the Bonds is due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and no interest will accrue as a result. “Business Day” means any day other than a Saturday, a Sunday, a State holiday or any other day determined not to constitute a Business Day pursuant to the book-entry only system of DTC. Certain State holidays may fall on days that are not banking holidays, and can vary from year to year.

Principal and interest (including the redemption price, if any) are payable directly to DTC by the State Treasurer. Upon receipt of payments of principal and interest, DTC is to in turn remit such principal and interest to the Direct Participants in DTC for disbursement by the Participants to the Beneficial Owners of the Bonds. The record date for the payment of interest on the Bonds is the close of business on the 15th day of the month immediately preceding an interest payment date, whether or not the record date falls on a Business Day.

The State Treasurer can give no assurance that DTC will distribute to Direct Participants, or that Participants or others will distribute to the Beneficial Owners, payment of principal of and interest on the Bonds paid or any redemption or other notices or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. The State Treasurer is not responsible or liable for the failure of DTC or any Direct Participant or Indirect Participant to make any payments or to give any notice to a Beneficial Owner with respect to the Bonds or for any error or delay relating thereto.

Except as otherwise expressly set forth herein, the terms of each series of Bonds are substantially identical. The State may assign each maturity of the Bonds to one or more Bond Acts, rather than having all of the Bonds mature proportionally by Bond Act across the entire maturity schedule.

Form of Official Statement

State of California GO Bonds

Official Statement – Description of the security for the Bonds

AUTHORIZATION OF AND SECURITY FOR THE BONDS

Authorization

The issuance of each series of Bonds is authorized by the related Bond Act identified under "THE BONDS—Identification, Authorization and Purposes of the Bonds" approved by the voters of the State and by the related Resolution. Each Bond Act and the State General Obligation Bond Law in Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the California Government Code, as incorporated by reference into each Bond Act, provide for the authorization, sale, issuance, use of proceeds, repayment and refunding of the related series of Bonds.

Security

The Bonds are general obligations of the State, and each series of the Bonds is payable in accordance with the related Bond Act and Resolution out of the General Fund, subject under State law only to the prior application of moneys in the General Fund to the support of the public school system and public institutions of higher education. Each of the Bond Acts provides that the State will collect

annually in the same manner and at the same time as it collects other State revenue an amount sufficient to pay principal of and interest on the related series of Bonds in that year. Each of the Bond Acts also contains a continuing appropriation from the General Fund of the sum annually necessary to pay the principal of and interest on the related series of Bonds as they become due and payable. No further appropriation by the Legislature is required to pay the principal of and interest on the Bonds. Under the State Constitution, the appropriation to pay the principal of and interest on the Bonds as set forth in the Bond Acts cannot be repealed until the principal of and interest on the related Bonds are paid and discharged.

Each of the Bond Acts provides that the bonds issued thereunder "shall be and constitute a valid and binding obligation of the State of California, and the full faith and credit of the State is hereby pledged for the punctual payment of the principal of, and interest on, the bonds as the principal and interest become due and payable." The pledge of the full faith and credit of the State alone does not create a lien on any particular moneys in the General Fund or any other assets of the State, but is an undertaking by the State to be irrevocably obligated in good faith to use its taxing powers as may be required for the full and prompt payment of the principal of and interest on all general obligation bonds as they become due. The only provision of the State Constitution that creates a higher priority for any State fiscal obligation is a provision directing that from all State revenues there will first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. In the past when cash resources in the General Fund have been constrained, State officials have worked within their powers granted by State law to manage cash resources to ensure that payments to schools and universities and for general obligation debt service would be made. On any debt service payment date, all general obligation bonds have an equal claim on moneys in the General Fund on that date for payment of debt service. See APPENDIX A— "THE STATE OF CALIFORNIA—STATE INDEBTEDNESS AND OTHER OBLIGATIONS—Capital Facilities Financing—General Obligation Bonds," "—CASH MANAGEMENT" and "—STATE FINANCES—State Warrants."

Form of Official Statement



April 21, 2015

Note: Since the date of the Preliminary Official Statement, certain information has been updated, shown in italics on the following pages: A-7, A-95, A-137 and A-147.

State Financial Condition

The following paragraphs present an extremely abbreviated summary of certain fiscal issues relating to the State, all of which are described in more detail in APPENDIX A. All cross-references are to sections of APPENDIX A—“THE STATE OF CALIFORNIA.” Investors should review the whole of APPENDIX A.

During the recent recession, which officially ended in 2009, the State experienced the most significant economic downturn since the Great Depression of the 1930s. As a result, State tax revenues declined precipitously, resulting in large budget gaps and occasional cash shortfalls in the period from 2008 through 2011, which were addressed largely through various spending cuts and payment deferrals.

Voters approved Proposition 30 in 2012, providing increased revenues through the next several fiscal years. Prior to the termination of the temporary additional personal income tax rates under Proposition 30 on December 31, 2018, the Administration’s plan is to pay off most of the unprecedented level of budgetary borrowings, debts and deferrals which were accumulated in order to balance budgets largely over the past decade. As of the 2015-16 Governor’s Budget, the State’s budget is projected to remain balanced through fiscal year 2018-19 with a positive budget reserve balance at the end of every year. See APPENDIX A—“THE STATE OF CALIFORNIA—DEBTS AND LIABILITIES UNDER PROPOSITION 2” and “—PROPOSED FISCAL YEAR 2015-16 BUDGET—Multi-Year Budget Projections.”

Voters also approved Proposition 2 in November 2014, which directs specified revenues towards increasing reserves in the State’s rainy day fund and paying down specified debts. See APPENDIX A—“THE STATE OF CALIFORNIA—STATE FINANCES—Budget Reserves.” This mechanism will save money for the next recession and pay down the State’s debts and liabilities. By the end of fiscal year 2015-16, the State’s rainy day fund is projected to have a balance of \$2.8 billion. Under the Proposition 2 requirements, the 2015-16 Governor’s Budget also proposes an additional \$1.2 billion to pay off loans from special funds and past liabilities from Proposition 98.

In addition, the 2015-16 Governor’s Budget repays the remaining \$1 billion in budgetary deferrals to schools and community colleges, discharges the last of the \$15 billion in Economic Recovery Bonds that were issued to cover budget deficits from as far back as 2002, and repays local governments \$533 million in mandated reimbursements.

Despite the recent significant budgetary improvements as well as the progress in paying down certain liabilities, there remain a number of major risks and pressures that threaten the State’s financial condition, including the need to continue to pay remaining obligations which were deferred to balance budgets during the economic downturn, as well as significant unfunded liabilities of the two main retirement systems managed by State entities, CalPERS and CalSTRS.

In recent years, the State has committed significant increases in annual payments to these systems to reduce the unfunded liabilities. See APPENDIX A—“THE STATE OF CALIFORNIA—DEBTS AND LIABILITIES UNDER PROPOSITION 2”, “—CURRENT STATE BUDGET—Budget Risks” and “—STATE FINANCES—Retiree Health Care Costs.” In addition, the State’s revenues (particularly the personal income tax) can be volatile and correlate to overall economic conditions. There can be no assurances that the State will not face fiscal stress and cash pressures again, or that other changes in the State or national economies will not materially adversely affect the financial condition of the State.

Form of Official Statement

State of California GO Bonds

Official Statement – Summary of Bond- related legal issues

LEGAL MATTERS

The opinion of the Honorable Kamala D. Harris, Attorney General of the State (the “Attorney General”), approving the validity of the Bonds will be delivered concurrently with the issuance of the Bonds. The opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the State (“Bond Counsel”), approving the validity of the Bonds and addressing certain tax matters will be delivered concurrently with the issuance of the Bonds. The proposed forms of such legal opinions are set forth in APPENDIX D—“PROPOSED FORMS OF LEGAL OPINIONS.” Orrick, Herrington & Sutcliffe LLP and Curis Bartling P.C., are serving as Co-Disclosure Counsel to the State with respect to the Bonds (“Bond Co-Disclosure Counsel”). Orrick, Herrington & Sutcliffe LLP and Stradling Yocca Carlson and Rauth, a Professional Corporation, are serving as Co-Disclosure Counsel to the State regarding Appendix A (“Appendix A Co-Disclosure Counsel”).

The Attorney General, Bond Counsel, Bond Co-Disclosure Counsel and Appendix A Co-Disclosure Counsel, respectively, undertake no responsibility for the accuracy, completeness or fairness of this Official Statement.

TAX MATTERS

Tax-Exempt Bonds

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Code and is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Tax-Exempt Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in APPENDIX D—“PROPOSED FORMS OF LEGAL OPINIONS.”

To the extent the issue price of any maturity of the Tax-Exempt Bonds is less than the amount to be paid at maturity of such Tax-Exempt Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Tax-Exempt Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Tax-Exempt Bonds which is excluded from gross income for federal income tax purposes and exempt from State of California personal income taxes. For this purpose, the issue price of a particular maturity of the Tax-Exempt Bonds is the first price at which a substantial amount of such maturity of the Tax-Exempt Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Tax-Exempt Bonds accrues daily over the term to maturity of such Tax-Exempt Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Tax-Exempt Bonds to determine taxable gain or loss upon disposition

Form of Official Statement

State of California GO Bonds

Official Statement – Summary of Litigation

LITIGATION

There is not now pending (with service of process on the State having been accomplished) or threatened any litigation seeking to restrain or enjoin the sale, issuance, execution or delivery of the Bonds or challenging the validity of the Bonds or any proceedings of the State taken with respect to the foregoing.

There are numerous litigation matters pending against the State, which could, if determined adversely to the State, affect the State's expenditures and, in some cases, its revenues and cash flow. While there can be no assurances as to the ultimate resolution and fiscal impact of such litigation, the State believes that the resolutions of such litigation are unlikely to adversely affect the ability of the State to pay the principal of and interest on the Bonds when due. See APPENDIX A—"THE STATE OF CALIFORNIA—LITIGATION."

Form of Official Statement

State of California GO Bonds

Official Statement – Summary of Sales information; audited financial statements

The Taxable Bonds were sold at a competitive sale on April 21, 2015, and awarded to Wells Fargo Bank, National Association (the “Taxable Bonds Initial Purchaser,” and together with the Tax-Exempt Initial Purchaser, the “Initial Purchasers,” and each, an “Initial Purchaser”). The Taxable Bonds Initial Purchaser has agreed to purchase the Taxable Bonds at a price of \$105,879,667.90, representing the principal amount of the Taxable Bonds, plus original issue premium of \$594,202.20, less a Taxable Bonds Initial Purchaser’s discount of \$69,534.30.

The Tax-Exempt Bonds identified as Bid Group B (which consists of the Tax-Exempt Bonds maturing on August 1, 2015 and bearing an interest rate of 2.00% and all of the Tax-Exempt Bonds maturing from August 1, 2016 to August 1, 2024, inclusive) were sold at a competitive sale on April 21, 2015, and awarded to J.P. Morgan Securities LLC (the “Tax-Exempt Bonds Bid Group B Initial Purchaser”). The Tax-Exempt Bonds Bid Group B Initial Purchaser has agreed to purchase the Bid Group B Tax-Exempt Bonds at a price of \$448,758,512.21 representing the principal amount of the Bid Group B Tax-Exempt Bonds (i.e., \$407,025,000), plus original issue premium of \$42,091,206.20, less a Tax-Exempt Bonds Bid Group B Initial Purchaser’s discount of \$357,693.99.

The Tax-Exempt Bonds identified as Bid Group C (which consists of the Tax-Exempt Bonds maturing on August 1, 2015 and bearing an interest rate of 1.00% and all of the Tax-Exempt Bonds maturing on and after August 1, 2026) were sold at a competitive sale on April 21, 2015, and awarded to Morgan Stanley & Co. LLC (the “Tax-Exempt Bonds Bid Group C Initial Purchaser”). The Tax-Exempt Bonds Bid Group C Initial Purchaser has agreed to purchase the Bid Group C Tax-Exempt Bonds at a price of \$664,504,859.65, representing the principal amount of the Bid Group C Tax-Exempt Bonds (i.e., \$579,975,000), plus original issue premium of \$87,078,591.10, less a Tax-Exempt Bonds Bid Group C Initial Purchaser’s discount of \$2,548,731.45.

The Notice of Sale provides that the Taxable Bonds Initial Purchaser will purchase all of the Taxable Bonds, if any Taxable Bonds are purchased. The Notice of Sale further provides that the Tax-Exempt Bonds Bid Group B Initial Purchaser will purchase all of the Bid Group B Tax-Exempt Bonds, if any Bid Group B Tax-Exempt Bonds are purchased. The Notice of Sale further provides that the Tax-Exempt Bonds Bid Group C Initial Purchaser will purchase all of the Bid Group C Tax-Exempt Bonds, if any Bid Group C Tax-Exempt Bonds are purchased. The obligations to make such purchases are subject to certain terms and conditions set forth in the Notice of Sale, the approval of certain legal matters by counsel and certain other conditions. The obligation of each Initial Purchaser to purchase the Taxable Bonds or the Tax-Exempt Bonds, as applicable, and the obligation of the State to sell such Bonds is independent of such obligations with respect to the other Initial Purchasers.

Prior to the delivery of the Bonds, each Initial Purchaser will execute and deliver to the State Treasurer a certificate to the effect that such Initial Purchaser of the applicable series and Bid Group of Bonds has provided to the State Treasurer the initial reoffering prices or yields on such Bonds as set forth on the inside front cover hereof. Each Initial Purchaser may offer and sell the Taxable Bonds or Tax-Exempt Bonds, as applicable, to certain dealers and others at prices lower than the offering prices stated on the inside front cover hereof. The public offering prices stated may be changed from time to time by the Initial Purchasers.

FINANCIAL STATEMENTS

The Audited Basic Financial Statements of the State of California for the Year Ended June 30, 2014 (the “Financial Statements”) are included as APPENDIX E to this Official Statement. These Financial Statements have been examined by the State Auditor to the extent indicated in her report.

Certain unaudited financial information for the period of July 1, 2014 through March 31, 2015 is included as Exhibit 1 to Appendix A to this Official Statement. See APPENDIX A—“THE STATE OF CALIFORNIA—FINANCIAL STATEMENTS.”

Form of Official Statement

State of California GO Bonds

Official Statement – Description of ratings

RATINGS

All of the Bonds have received ratings of “Aa3” by Moody’s Investors Service, “A+” by Standard & Poor’s Rating Services and “A+” by Fitch Ratings. An explanation of the significance and status of such credit ratings may be obtained from the rating agencies furnishing the same. There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by any such rating agencies if, in their respective judgments, circumstances so warrant. Any revision or withdrawal of a credit rating could have an effect on the market prices and marketability of the Bonds. The State cannot predict the timing or impact of future actions by the rating agencies.

Form of Official Statement

State of California GO Bonds

Official Statement – Description of 5-year compliance with continuing disclosure undertakings

Continuing Disclosure

The State Treasurer will agree on behalf of the State to provide annually certain financial information and operating data relating to the State by not later than April 1 of each year in which any Bonds are outstanding (the “Annual Report”), commencing with the report to be filed on or before April 1, 2016, containing 2014-2015 Fiscal Year financial information, and to provide notice of the occurrence of certain enumerated events. The specific nature of the information to be contained in the Annual Report and the notices of events and certain other terms of the continuing disclosure obligation are set forth in APPENDIX C— “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” The State Treasurer has adopted policies and procedures designed to ensure compliance with these undertakings.

The State’s Annual Reports and other required reports relating to the Bonds are available from the Electronic Municipal Market Access (“EMMA”) website (www.emma.msrb.org) operated by the Municipal Securities Rulemaking Board (“MSRB”) or on such other website as may be designated by the MSRB or the Securities and Exchange Commission. The information contained on any such website is not part of this Official Statement and is not incorporated herein.

Disclosure Principles

- ▶ **Provide main points but do not overwhelm readers with detail**
- ▶ **Highlight important developments “up front”**
- ▶ **Determine appropriate level of importance for any particular event or budgetary item**
- ▶ **Bringing all these factors together into final product is ongoing process of give and take**

Case Study: SFO

▶ Roles

- Disclosure coordinator, subject matter experts
- Professionals (counsel, advisors, etc.)

▶ Process

- Early meeting to consider “big picture”
- Gather and update information
- Due Diligence meeting or call
- Development of investor presentation concurrent with finalizing POS
- Final review and sign-off

Process

- ▶ **Obtain input from involved departments**
- ▶ **Empower staff at all levels to raise issues**
- ▶ **While Issuer coordinates, counsel helps pull information together and maintains document**
- ▶ **Drafts reviewed by working group**
- ▶ **“Due diligence” meeting before distribution of Preliminary Official Statement**

Disclosure Considerations

- ▶ Tomorrow's "hot topic" may be different than today's
- ▶ Disclosure must evolve to reflect changing circumstances
- ▶ Read the disclosure with "fresh eyes"
- ▶ If you think something may be a concern, raise the issue with colleagues and the working group
- ▶ There are no "stupid questions"
- ▶ Political sensitivity and confidentiality considerations are not exceptions to disclosure

Disclosure Policy and Training

- ▶ **Adopt or update your disclosure policy, ideally before initiating bond disclosure**
 - **Process for update, review and sign-off**
 - **Documents internal controls over disclosure development and sign-off**
 - **Follow the disclosure policy**
 - **Make the policy a “living” document that can be revised and refined over time.**
- ▶ **Provide periodic training to Issuer officials and board members on disclosure**

Lessons Learned from SEC Actions

- **Orange County**
 - Emphasized that disclosure is Issuer's responsibility; Reliance on professionals must be reasonable
- **San Diego**
 - Focus on lack of disclosure procedures and excessive reliance on outside professionals
 - Some individuals paid fines from their own pocket
- **Incomplete or Misleading Pension Disclosures**
 - States of New Jersey, Illinois and Kansas --first SEC actions against a State
 - Reinforced lessons of San Diego; importance of disclosure policies and training
- **Harrisburg**
 - Speaking to the market
- **Miami**
 - Substantial financial penalties

Investor Communications

- ▶ No obligation to communicate with investors individually
- ▶ Tension between market (and SEC) desire for transparency and potential Issuer liability
- ▶ No corollary to Regulation FD (requiring public companies to disseminate specified information once provided to any investor)
- ▶ Establish a single point of contact
- ▶ Consider voluntary dissemination of information provided to specific investors
- ▶ Review the OS with likely investor questions, topics of interest in mind

Summary

- ▶ **Have the right people involved – make sure that the personnel involved in disclosure preparation can reasonably be expected to know material information**
- ▶ **Empower everyone in the organization**
- ▶ **Give the investors all the material facts, and let them decide**
- ▶ **Full and transparent disclosure is essential**
- ▶ **Investors must be provided all material information when making their investment decision**
- ▶ **Officials participating in the disclosure process must be in a position to know material information (i.e., “the right people must be in the room”)**
- ▶ **Vigorous disclosure program requires buy-in and encouragement from top levels**
- ▶ **The Issuer must have a robust disclosure process, and must continue to be vigilant in training involved officials and maintaining rigorous disclosure practices**
- ▶ **Have formal policies and procedures and follow them**