California State Treasurer
John Chiang

INTERSECTIONS

MAIN ST / WALL ST

A Monthly Go-To For Reliable Facts And Analysis About California's Debt, Investments and Economy

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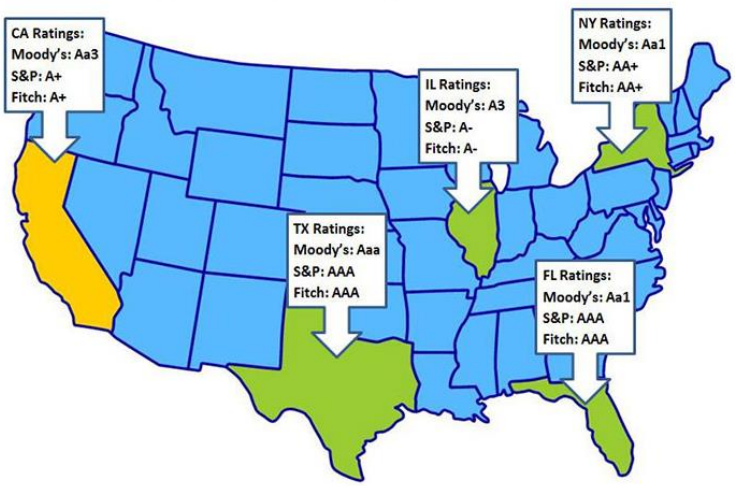
In This Edition

Other Resources

How Do California's Ratings Compare to Other Large States, And Why Does It Matter?



Where California Sits in the Ratings

	Prime	High Grade	Upper-Medium Grade	Lower-Medium Grade	Speculative
Moody's	Aaa	CA: Aa3			Ba1
S&P	AAA		CA: A+		BB+
Fitch	AAA		CA: A+		BB+

More Info

Debt Issuance
$22.7 Billion
During January-April 2015; All State and local issuances reported as of May 22
More Info

Investment Balance
$67.9 billion
Pooled Money Investment Account total as of April 30
More Info

Deposits
$110 Billion
Disbursements
$110 Billion
During April
More Info

Taxpayer Money Saved
$1.8 Billion
From six refinancings orchestrated by Treasurer Chiang during February-May
More Info

Average Effective Yield
0.283%
Pooled Money Investment Account as of April 30
More Info

Transactions Processed
7 Million
Checks and other items presented by banks in April
More Info

Latest News: Summary of Ratings, Borrowing Costs, Debt Issuance, Investments and Treasury Activities

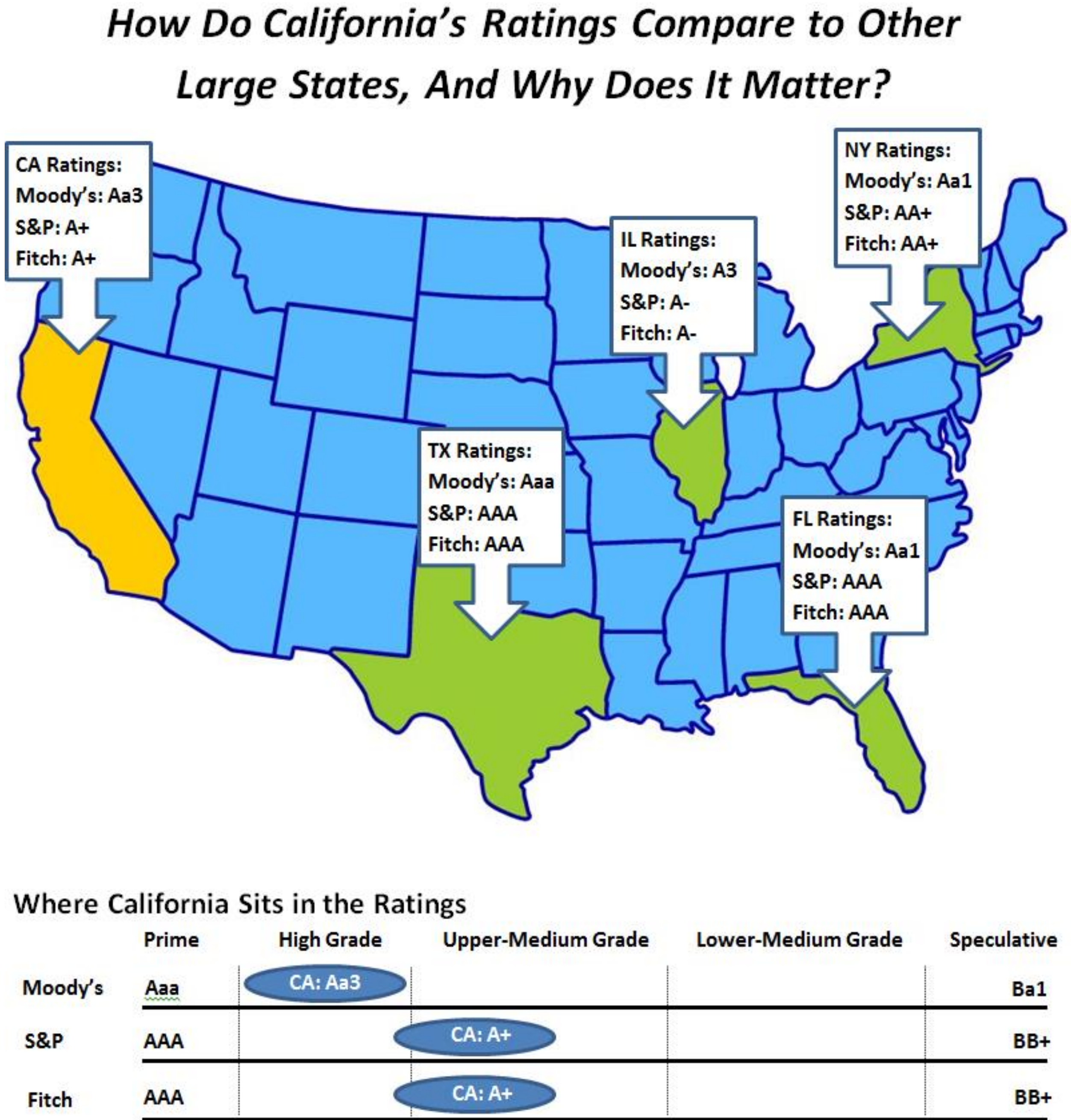
Of all states with general obligation bond ratings, California is at the low end of the rating range. For example, Figure 1 below shows the rating of the five most populous states in the nation. Not only does California have a rating lower than all of the top-five states except for Illinois, it is also in the category of having a “split-rating;” that is, California is rated as a “high grade” by one agency (Moody’s Investors Service), but as a “medium-grade” by two other agencies (Fitch and Standard & Poor’s). Illinois is rated lower than California largely because of its struggles to address long-term pension liability issues.

Second only to the general level of interest rates, ratings are a major driver of a state or local government’s borrowing costs. As ratings drop, investors demand higher yields -- with the result being many years of increased borrowing costs for those issuers at lower rating levels.

Assignment of credit ratings is determined after thorough evaluations of the issuer’s local economy, financial results, and management’s handling of changing circumstances of the first two factors. The good news is that California has made great progress on all three fronts in recent years. The differential in borrowing costs is the way investors “measure” the risk that any of these factors will change in a manner adverse to the bondholder. And, this measurement typically grows larger as the time to maturity increases. That’s why attaining -- and keeping -- the highest rating level is critical to good stewardship of the public’s money.

A discussion later in this issue compares California’s yields to those of New York and Florida, issuers with ratings closest to those of California.

Figure 1: Ratings Comparison



California's bond ratings remain lower than all but two rated states. Lower ratings provoke investors to demand higher yields, which translates into higher borrowing rates.

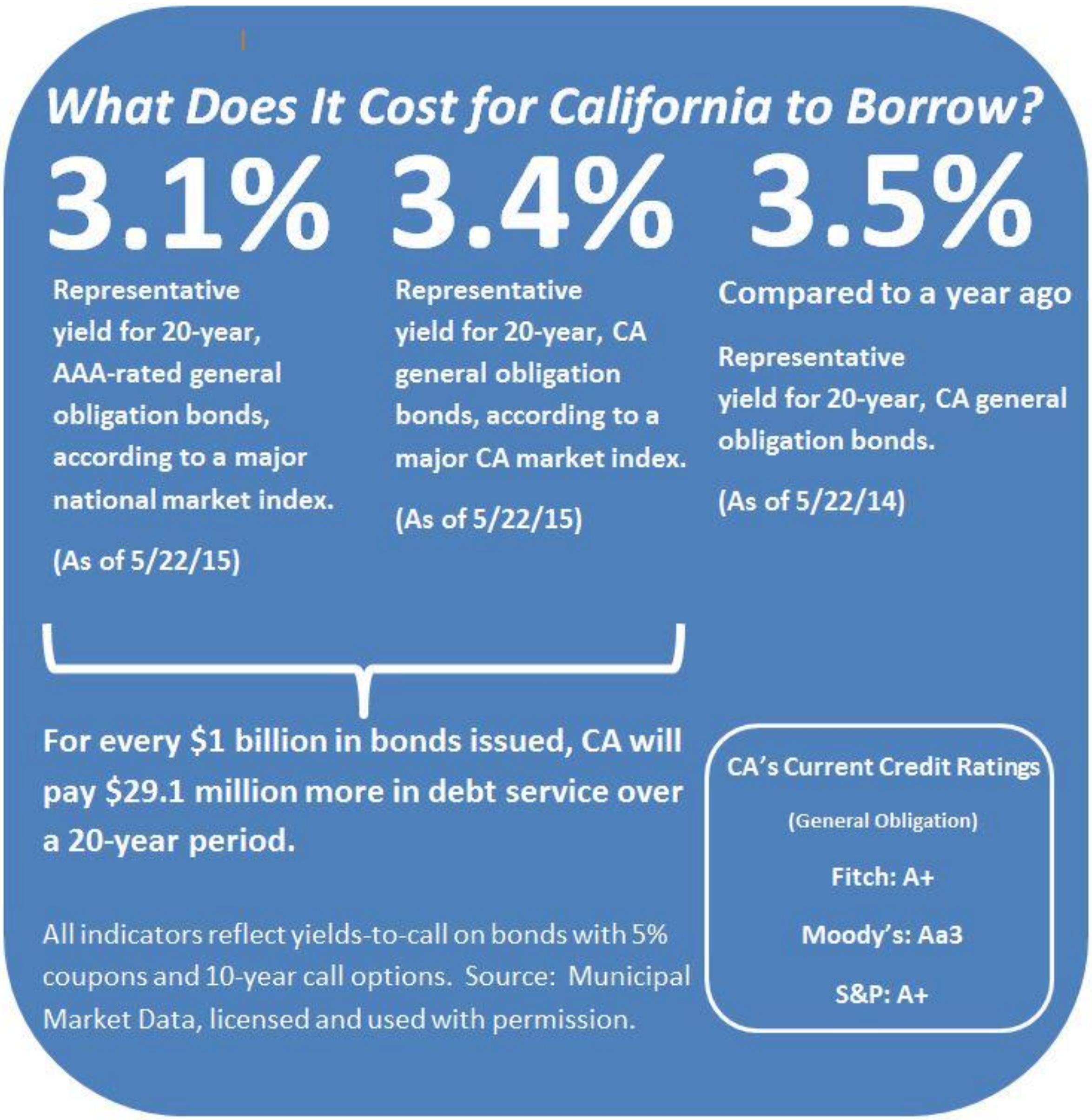
The State's recent 20-year yield sits at 3.39 percent, higher than the 3.06 percent yield on a national index of AAA-rated bonds, a difference of 0.33 percent. (See Figure 2.) The absolute yield on each index is higher by 0.03 percent over last month's data.

The difference between the two indices one year earlier was slightly wider: California's yield was 3.46 percent, while that same national index was at 3.05 percent, a difference of 0.41 percent.

The good news is that current yields demanded by investors in California bonds are lower than they were a year ago, which means that the State's borrowing costs are also lower.

California's lower borrowing costs over the past year are due, in part, to its improved financial condition. Standard & Poor's Rating Services recently announced that California's A+ rating had been placed on its CreditWatch list with "positive" implications. This is often indicative of a rating movement within a short period. Moreover, interest rates remain near historical lows.

Figure 2: Borrowing Costs



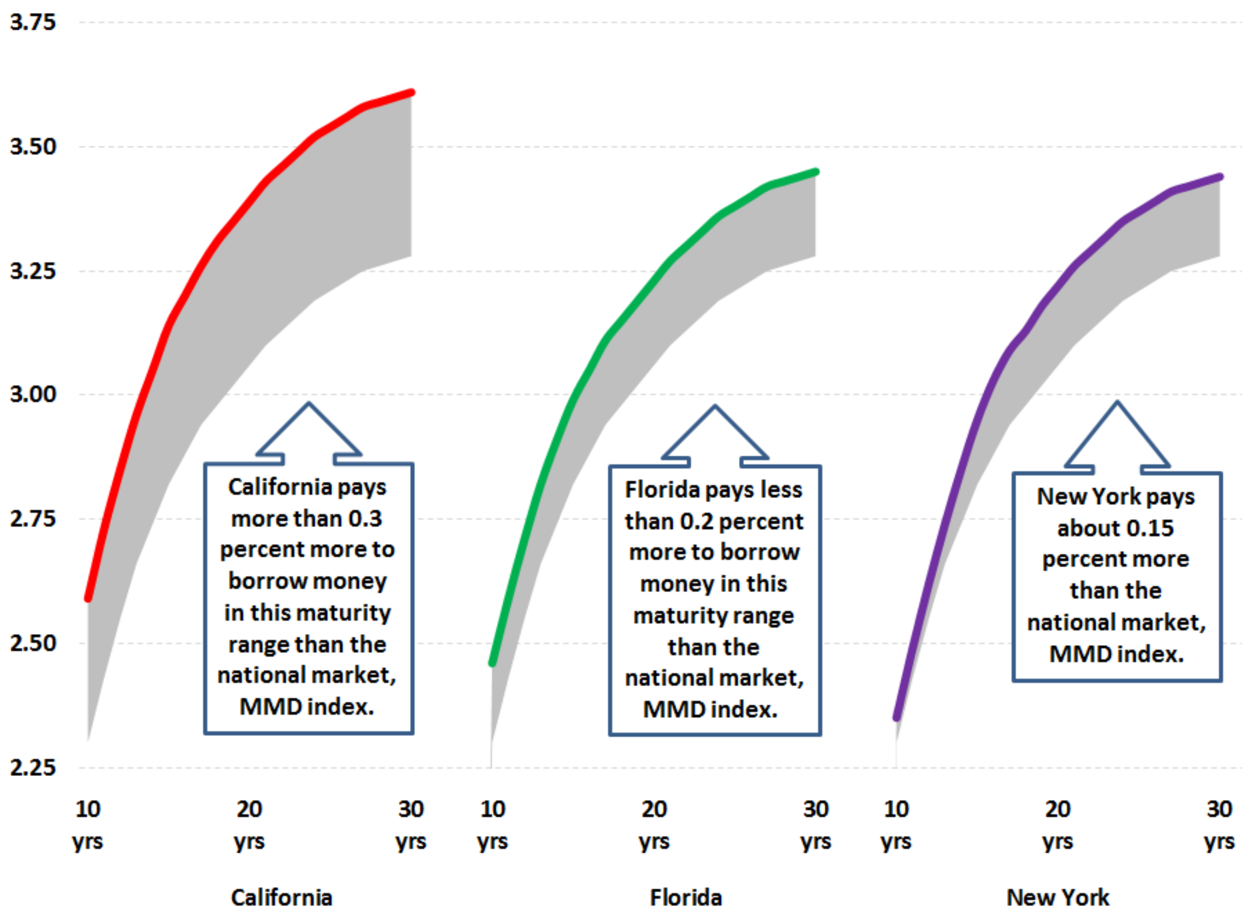
What does California's higher yield mean for taxpayers who pay the freight on those increased yields?

In general, for every $1 billion in bonds issued, the State will have to offer higher yields than those paid by other populous states with higher ratings.

Consider the case of a hypothetical issue of bonds for the states of Florida and New York, each of which is rated higher than California, but still not at the AAA level. Because of their higher ratings, these states enjoy lower borrowing costs than California, as shown in Figure 3.

For example, on a borrowing of $1 billion, California would pay an average of $1.4 million per year more than an issuer rated at the AAA level over a 30-year period. Compare that figure to the additional cost paid by Florida, which is less than half that difference at only $700,000 annually; and, it's almost three times as much as the additional cost incurred by New York at $556,000 per annum. The numbers mount up. On a typical 30-year borrowing for essential infrastructure that amounts to a "cost" to California of $43 million.

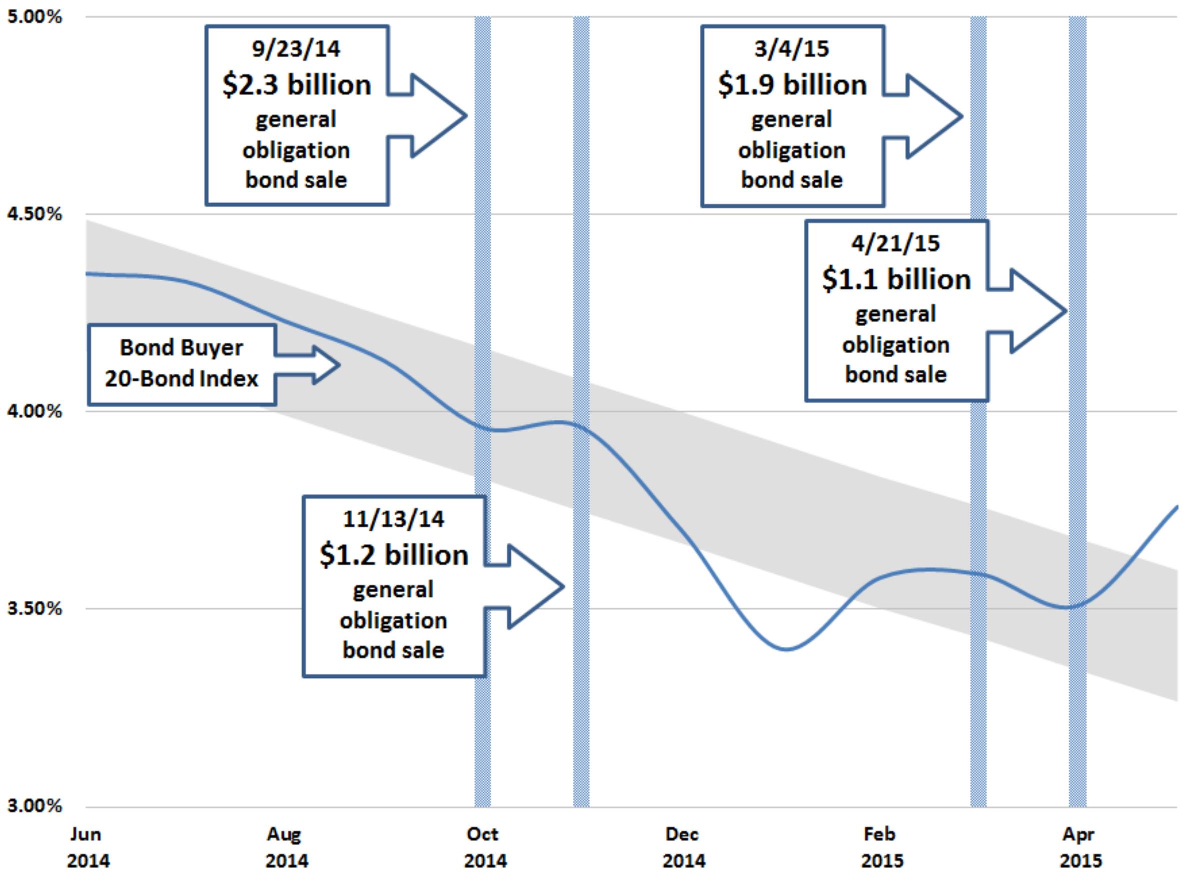
Figure 3: Comparing California's Borrowing Costs to Florida and New York



When it comes to understanding yields and borrowing costs, it helps to look at recent trends.

Figure 4, below, shows the one-year trend in another widely used index, the Bond Buyer 20-Bond Index, over the past year. The shaded area shows the trend of rates. Four recent California offerings are highlighted to display those borrowing points for reference.

Figure 4: One-Year Trend of Interest Rates, Recent California Borrowings Shown

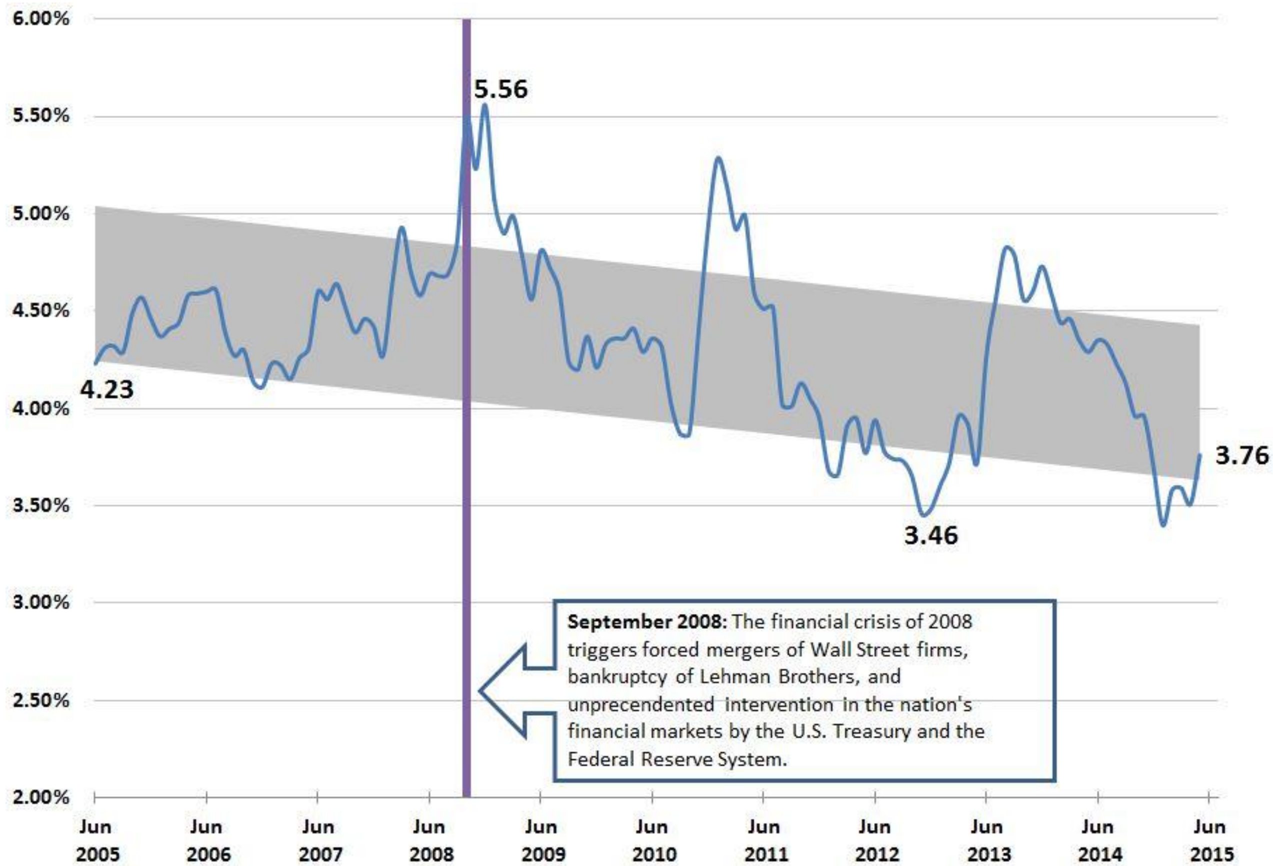


Source: Bond Buyer 20-Bond Index from Federal Reserve Bank of St. Louis

Note: California's September and March sales were negotiated, while the November and April sales were competitive.

Interest rates on state and local government bonds are lower than they were a decade ago. Figure 5 also shows the trend of the Bond Buyer 20-Bond Index, but over a longer 10-year period.

Figure 5: 10-Year Trend of Interest Rates on State and Local Government Bonds



Debt Issuance

California State and local governments issued a total of $22.7 billion in debt during the first four months of 2015, a 39.2 percent increase from the same period in 2014, when $16.3 billion in debt was issued, according to data received by the California Debt and Investment Advisory Commission (CDIAC) as of May 22.[1] (See Figure 6.)

This sharp increase was driven by continued refinancing activity. However, issues raising new money are also on the rise. It is possible this represents increased confidence by state and local governments that the U.S. economy is recovering. In addition, growing fears of a change in interest rates by the Federal Reserve may be provoking more issuers to accelerate their offerings before the rate change occurs.

A total of $5.6 billion in State and local debt issuance was reported for April 2015, a 17.8 percent increase from April 2014 ($4.8 billion). (See Figure 7.)This increase did not come without some market tribulation. Flows into and out of mutual funds have been mostly negative – meaning that these large investors have had less money to invest. The result of this is an increase in interest rates over the month.

Of the $5.6 billion issued, $3.0 billion was issued by the State and its agencies or related entities, while $2.6 billion was issued by local entities. (See Figure 8.)

So far in 2015, the Treasurer has carried out six different refinancings that will together save taxpayers more than $1.8 billion over the life of the bonds.

For the period from April 16 through May 15, a total of $6.8 billion in debt final sale reports were received by CDIAC. (See Figure 9.) These are the top five areas of volume within the reported final debt sales:

Taxpayer Money Saved

$1.8 Billion

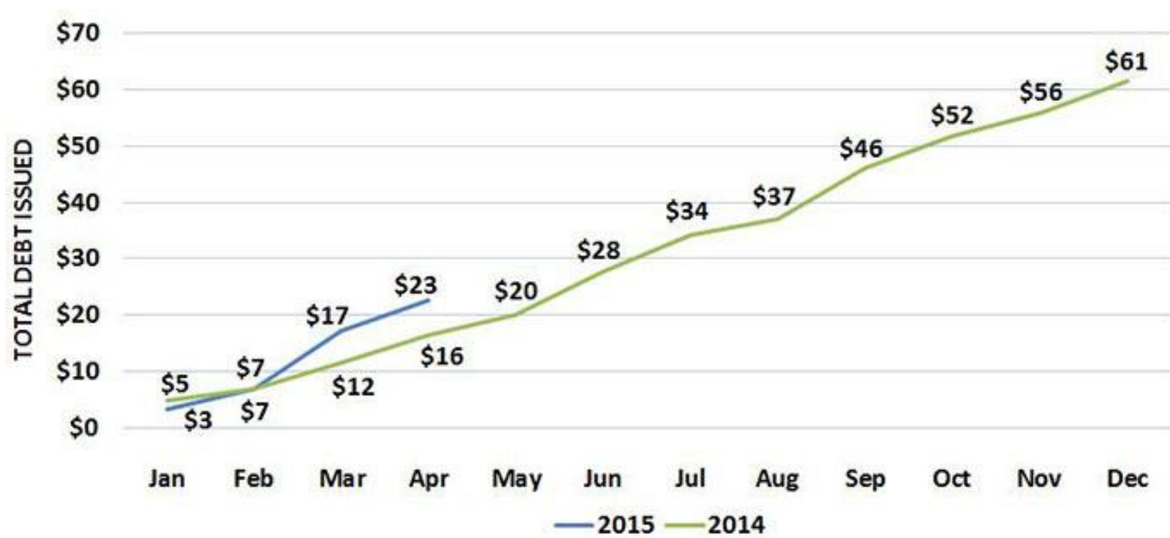
From six refinancings orchestrated by Treasurer Chiang during February-May

- K-12 School Facility: $2.0 billion
- Power Generation/Transmission: $1.3 billion
- Water Supply, Storage, Distribution: $644 million
- College, University Facility: $624 million
- Multiple Capital Improvements, Public Works: $347 million

Borrowing for school facilities remains the largest category. The power generation and transmission category is dominated by a major offering of debt securities for the California Department of Water Resources.

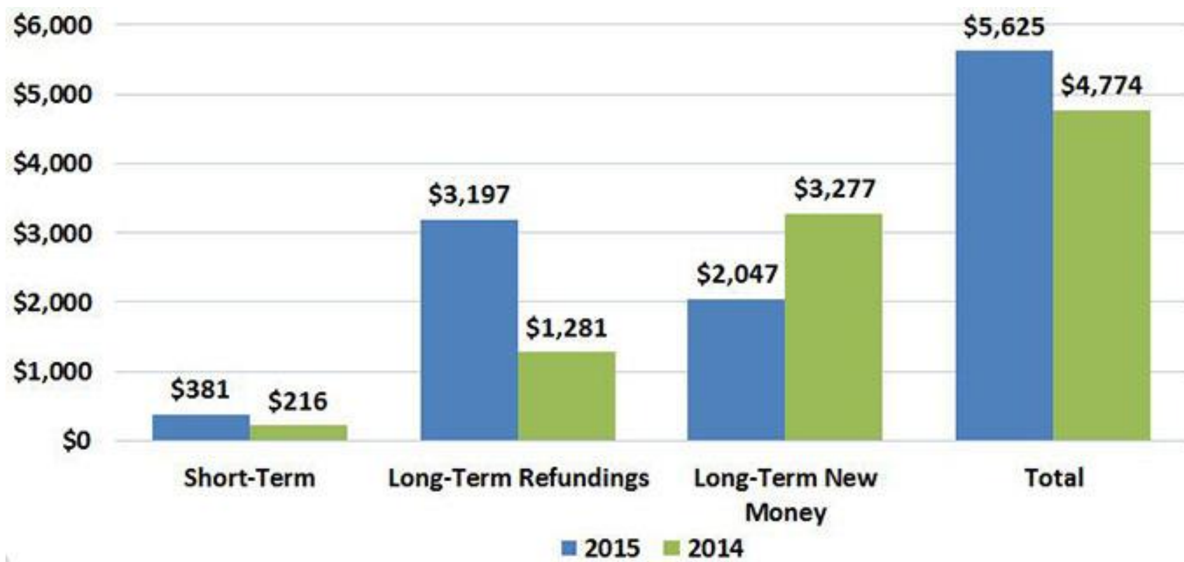
[1] Issuers have 21 days from sale of the debt to report issuances. Since some data is reported late, the Treasurer's Office regularly updates monthly totals as more information becomes available.

Figure 6: Cumulative California Public Debt Issuance (In Billions)



Source: California Debt and Investment Advisory Commission

Figure 7: California Public Debt Issuance, April (In Millions)



Source: California Debt and Investment Advisory Commission

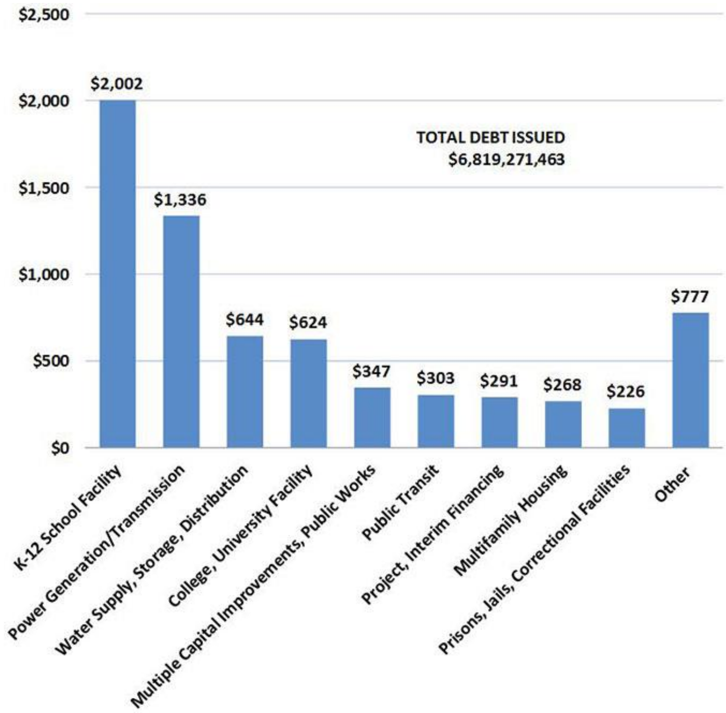
Figure 8: State* Vs. Local Debt Issuance, April (In Millions)

* State issuers include the State of California, its agencies, commissions, authorities, departments and The Student Loan Corporation.

Source: California Debt and Investment Advisory Commission

Figure 9: Total Reports of Final Sale Received

4/16/2015 Through 5/15/2015, By Purpose (In Millions)



Source: California Debt and Investment Advisory Commission

Read more about debt issued so far this year. See the calendar.

Investments

The Treasurer's Investments Division manages and invests the State's excess or idle cash through the Pooled Money Investment Account (PMIA).

This is a commingled pool with three primary sources of funds: the State's general fund, special funds held by State agencies, and money deposited by cities, counties and special districts in the Local Agency Investment Fund (LAIF).

As of April 30, the PMIA balance was $67.9 billion, with an average effective yield of 0.283 percent and an average life of 220 days. (See Figure 10.) The average daily PMIA balance was $61.7 billion as of April 30.

The Treasurer's Office anticipates that the investment returns for the PMIA will continue to follow the market as shown in Figure 11.

Because these funds may be required on very short notice, the investment objectives for the Pooled Money Investment Account are safety, liquidity and yield, in that order of importance.

The year-to-date earnings rate for the PMIA is 0.263 percent, which reflects the prudent investing of a short-term portfolio in this unprecedented low interest rate environment of the last seven years. As the Federal Reserve begins to raise interest rates, the PMIA is positioned to follow those moves.

Figure 10: Pooled Money Investment Account Stats as of April 30, 2015

Ending Portfolio

$67.9 billion (See Figure 12 for details.)

Average Workday Investment Activity

$1.548 billion

Average Effective Yield

0.283 percent

Average Investment Life

220 days

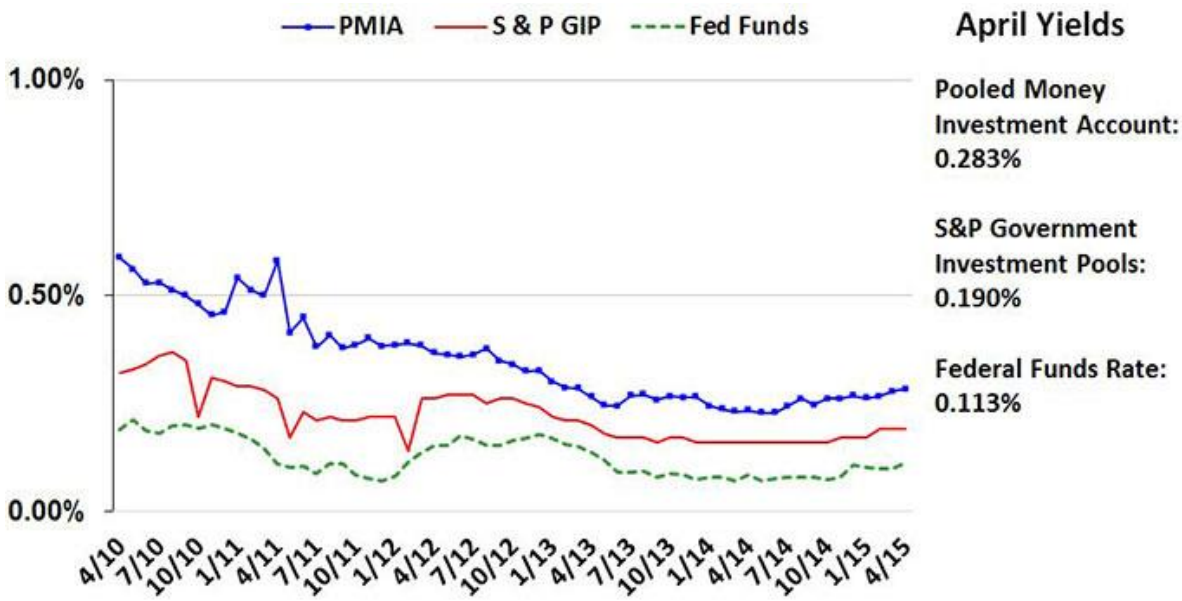
Local Agency Investment Fund Ending Portfolio

$21.2 billion (2,500 participating agencies) (See Figure 13 for details.)

Read more about the Pooled Money Investment Account

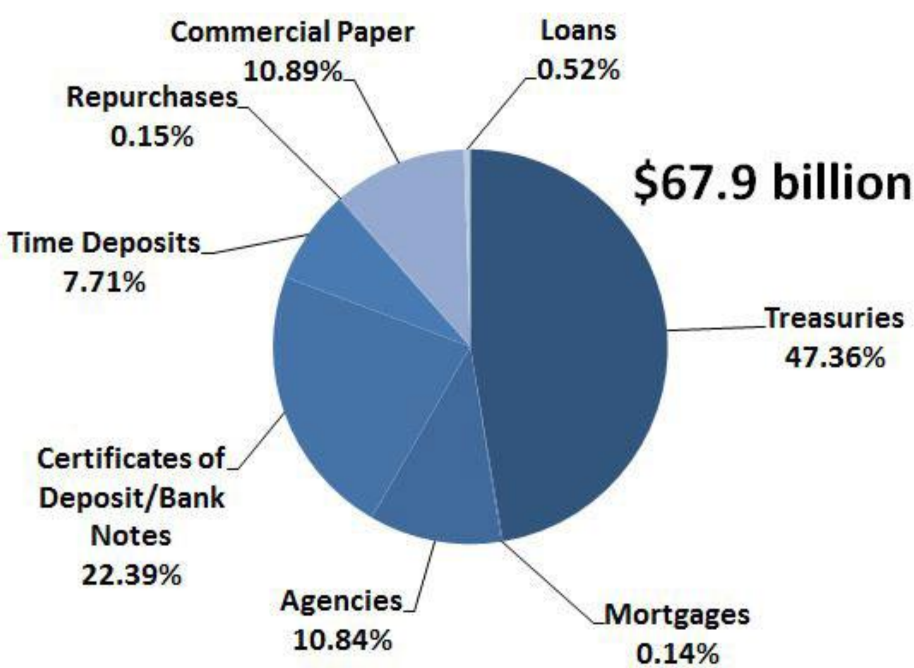
Figure 11: Average Monthly Yield Comparison

April 2010 Through April 2015



Source: State Treasurer's Office

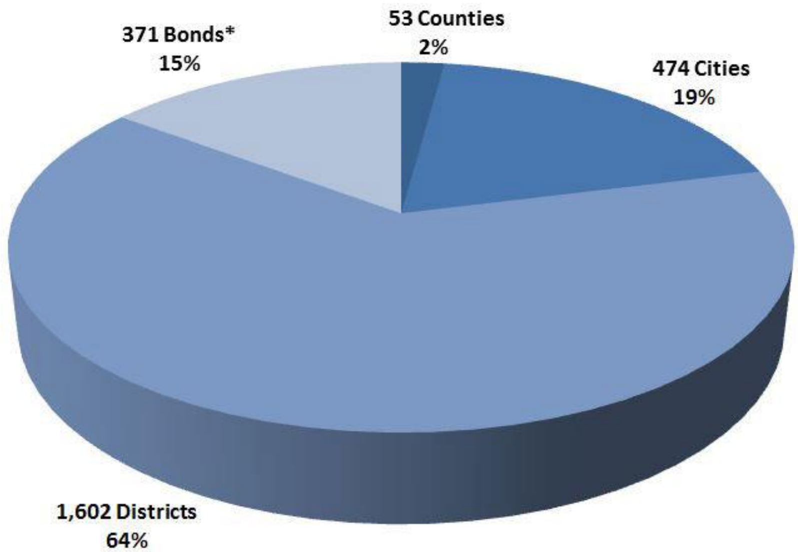
Figure 12: PMIA Portfolio Composition – 4/30/15



Source: State Treasurer's Office

Figure 13: Local Agency Investment Fund

Participation as of 4/30/15: 2,500 Agencies



Source: State Treasurer's Office

*Includes regular and trustee bond accounts.

Read more about the Local Agency Investment Fund.

Centralized State Treasury System Activities

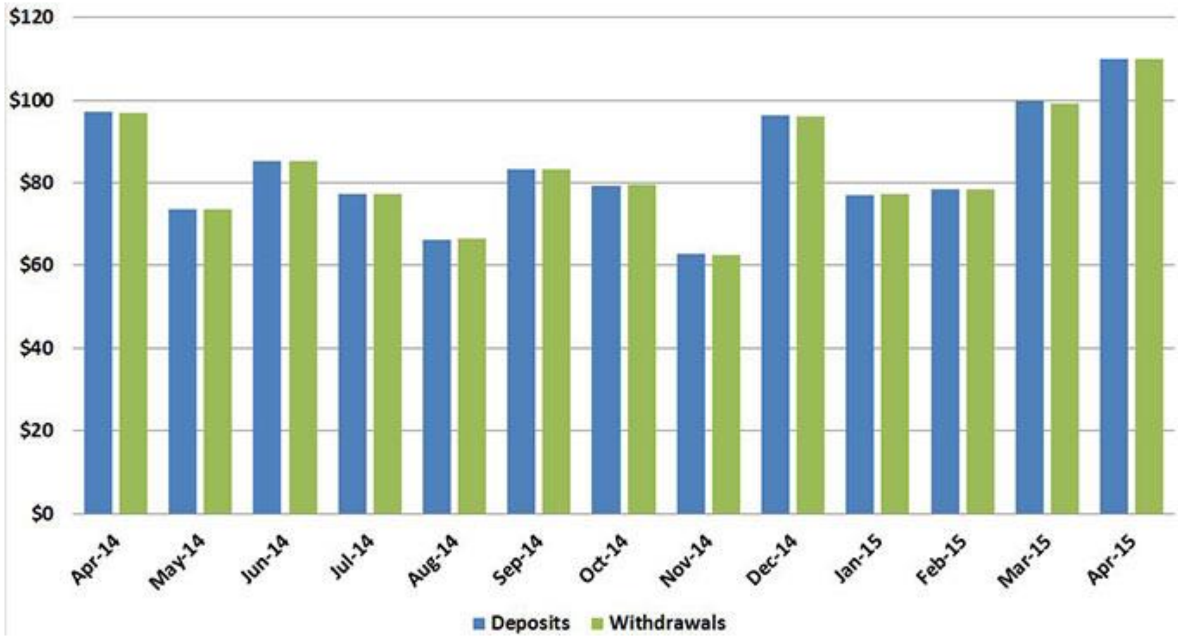
The Treasurer's Centralized State Treasury System provides banking services for the overwhelming majority of State departments and agencies.

The system handles the flow of more than $2 trillion per year in cash funds.

During April, deposits totaled $110 billion, while disbursements totaled $110 billion. (See Figure 14.)

These amounts include all federal, State and local funds flowing through the Centralized Treasury System.

Figure 14: Deposits and Withdrawals By Month, April 2014-April 2015 (In Billions)



The system also determines the amount of idle State funds available in the Pooled Money Investment Account for investment by the Treasurer's Investment Division. (These investments were discussed in the Investments section and are reflected in Figure 12.)

During April, total new and rollover investments reached $22.9 billion. (See Figure 15.)

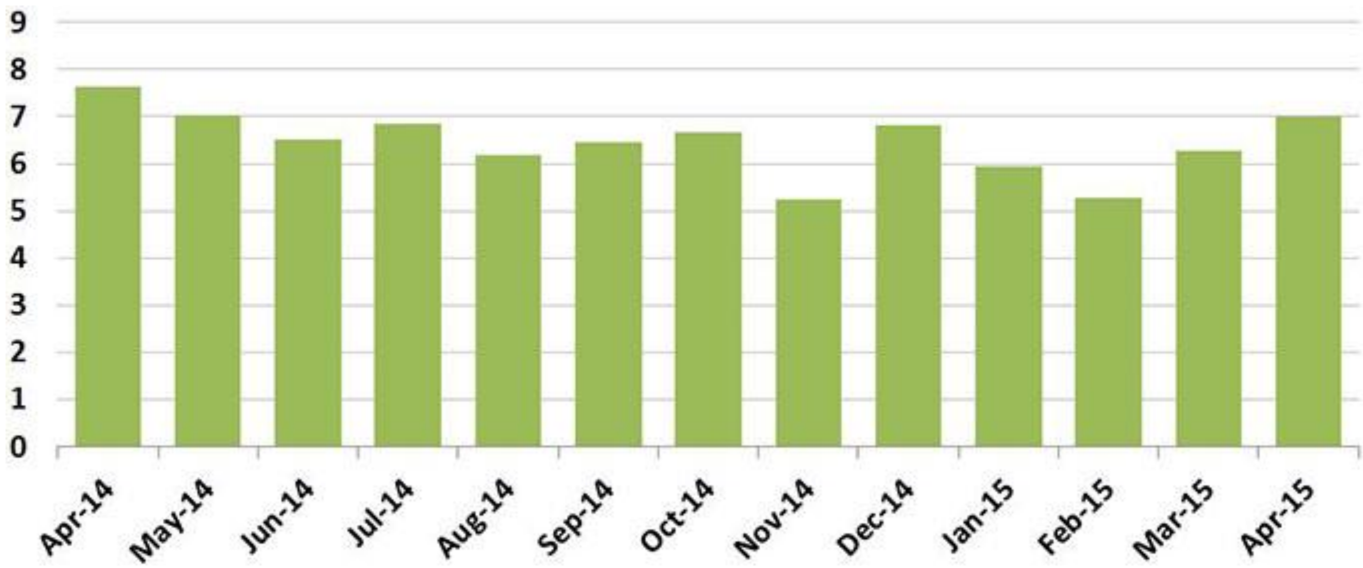
Figure 15: Total Investments By Month, April 2014-April 2015

Source: State Treasurer's Office

Each day, the system also processes hundreds of thousands of State transactions -- including department checks, State Controller's Office warrants, Women Infant Children (WIC) food instruments, Employment Development Department unemployment and disability checks - submitted by banks and other entities for payment.

During March, total items processed reached 7 million. (See Figure 16.)

Figure 16: Number of Items Processed, April 2014-April 2015 (In Millions)



Source: State Treasurer's Office

The CalCheck Report: Update on California's Economic Health

By Lynn Reaser

California's labor market continues to show robust and steady gains. The state scored another strong jobs report in April, featuring employment gains across most industries and a further reduction in the jobless rate.

Employers added 29,500 jobs to their payrolls, putting the year-over-year increase at 2.9 percent. This compared to a national gain of 2.2 percent and marked the 38th consecutive month that California has outperformed the nation. (See Figure 17.)

On a month-to-month basis, payrolls appear to have flattened out in such generally strong areas as construction, health care, and tourism after the government's estimates of normal seasonal influences. However, those adjustments are imperfect. On a year-over-year basis, California saw substantial gains in every major sector with only the relatively small mining and lumber industry posting a decrease. (See Figure 18.) This drop reflects the fall in oil and commodity prices over the past year.

California's unemployment rate fell to 6.3 percent in April from 6.5 percent in March and stands at the lowest level since February 2008. (See Figure 19.) The state's jobless rate is now about half of its peak of 12.2 percent reached in October 2010. California's jobless rate has also now dropped to less than 1.0 percentage point above the nation's 5.4 percent rate, representing the narrowest difference since September 2007.

Housing was a key force pushing the state into recession and making the downturn particularly severe. Its recovery is now a major factor boosting the state's economic prospects.

According to the California Association of Realtors (CAR), sales of existing single-family homes reached a seasonally adjusted annual rate of nearly 428,000 units in April. This was the first rise above the 400,000 mark since October 2013.

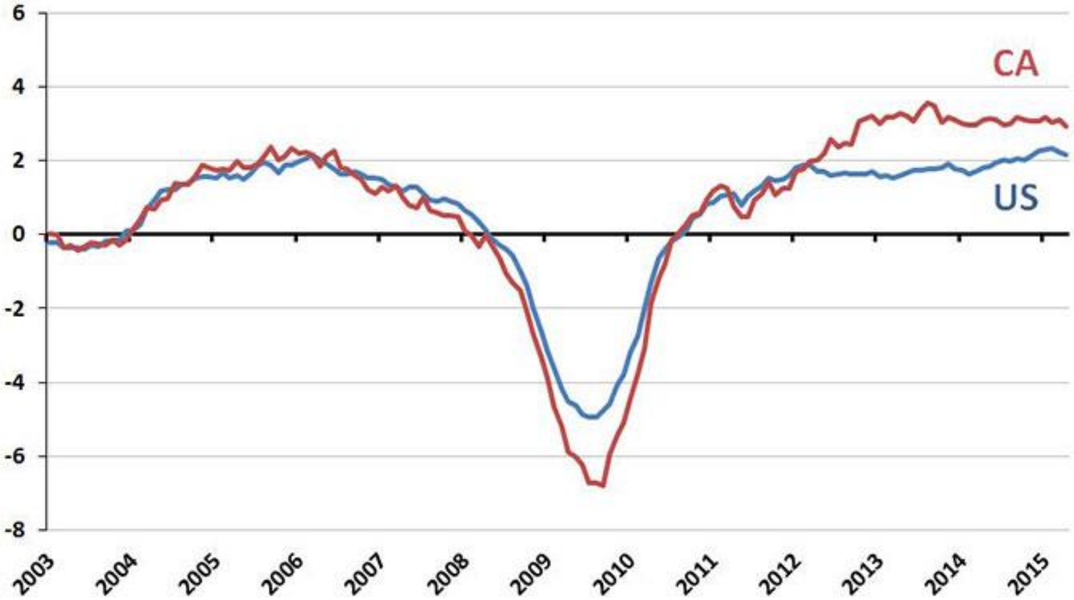
Compared with a year ago, sales of single-family homes throughout the state were up 9.3 percent. (See Figure 20.) Sales in the Inland Empire (Riverside and San Bernardino County) were up 10.4 percent. Sales throughout the Central Valley were up by 20 percent or more.

Sales are rising faster than the number of homes being put on the market. As a result, inventories are tight and prices are rising. As of April, houses were on the market for an average of only about 3.6 months versus a more typical six- to seven-month period. Prices were up an average of 9.2 percent across California.

California's housing recovery is driving a number of positive ripple effects. It is supporting activity in the real estate industry, new construction and home furnishings. Importantly, it is bolstering the financial standing of many households by boosting their home equity, a critical factor to the state's economic well-being.

Figure 17: California Outperforms the Nation

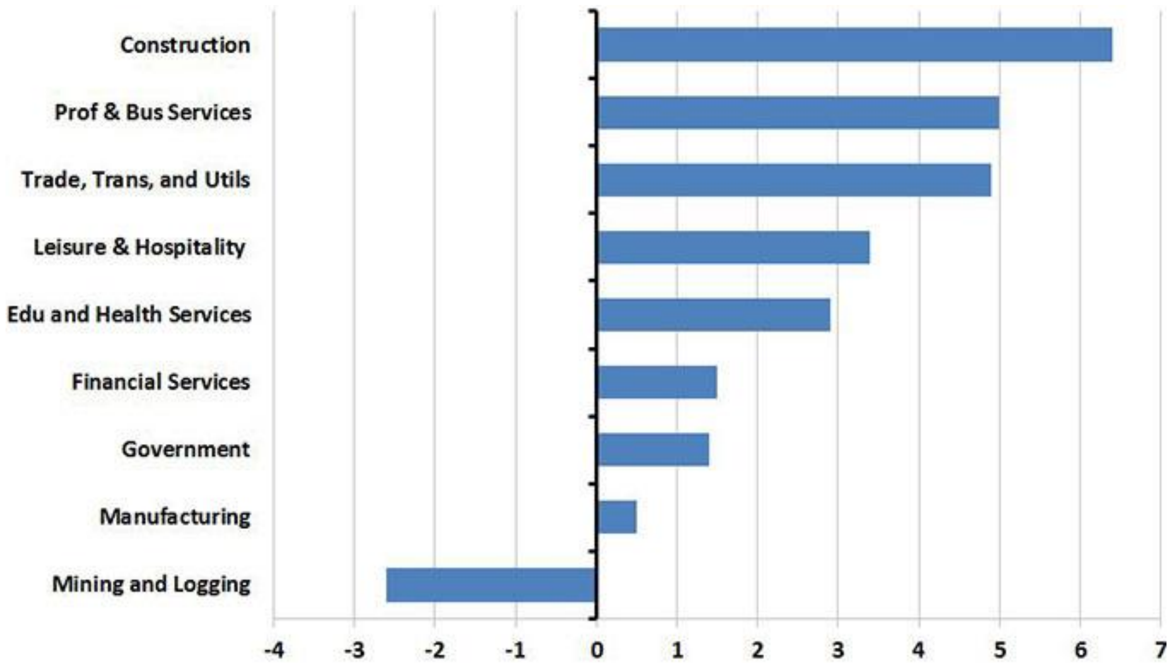
Nonfarm Employment, Percent Change Over Prior Year



Source: Fermanian Business and Economic Institute

Figure 18: Strong Jobs in All Major Sectors

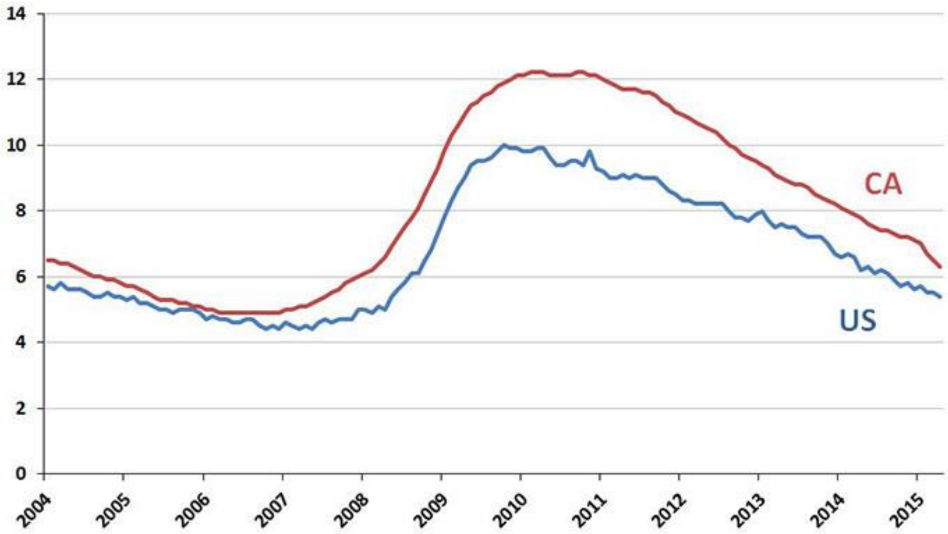
California Employment, April 2015, Percent Change Over Prior Year



Source: Fermanian Business and Economic Institute

Figure 19: California's Jobless Rate Declines

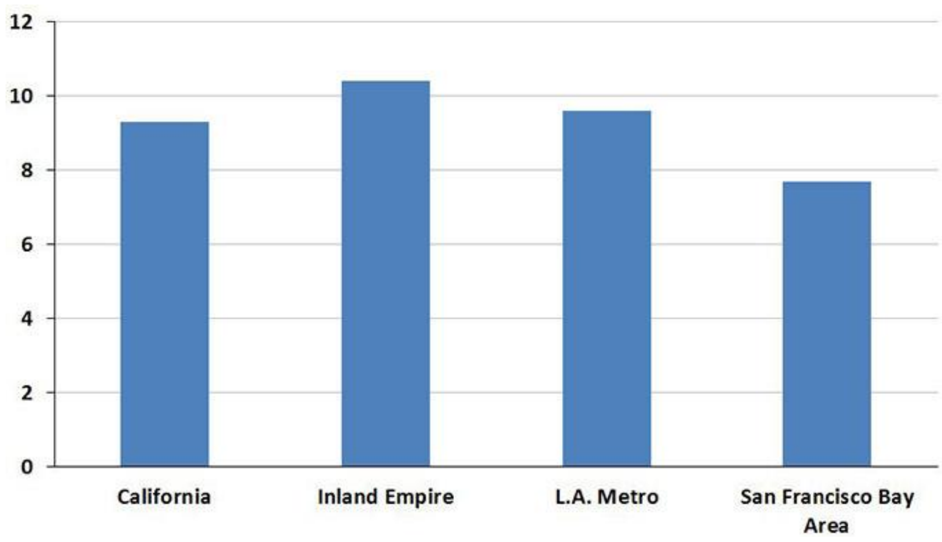
Percent, Seasonally Adjusted



Source: Fermanian Business and Economic Institute

Figure 20: California Housing Market Strong

Sales of Existing Single-Family Homes, Percent Change Over Prior Year



Source: Fermanian Business and Economic Institute

Lynn Reaser is chief of the Treasurer's Council of Economic Advisors and chief economist at the Fermanian Business and Economic Institute for Point Loma Nazarene University. The opinions in this article are presented in the spirit of spurring discussion and reflect those of the author and not necessarily the Treasurer, his office or the State of California.

California Job Tracker: 20 Metro Areas Recover Lost Jobs

By Lynn Reaser

Employment numbers show that 20 of the state’s 28 major metropolitan areas have recovered jobs lost during the Recession.

In February 2014, California's job picture recovered to the pre-Recession peak seen in July 2007. Eight more metro areas joined in the recovery trend during 2014.

The large Santa Ana-Anaheim-Irvine metropolitan division (Orange County) was the latest region to catch up with its prior high in March of this year.

The 20 areas that have fully recovered their pre-Recession highs account for 84 percent of California’s current nonfarm payrolls. The Santa Cruz-Watsonville metropolitan statistical area (MSA) was briefly in the “recovery club” in March, but dropped out with a job decline in April.

The 20 metropolitan areas include a diverse group. San Francisco, San Jose and San Diego represent the impact of the surge in technology. The membership of Santa Barbara and San Luis Obispo demonstrates the rebound in prime coastal locations. The recovery of Los Angeles County and the Inland Empire (Riverside-San Bernardino) shows the diversity of the recovery among various industries, while Orange County’s rebound underscores the comeback in housing and real estate.

Despite the ongoing constraints of the drought, some of the state’s key agricultural areas have also recovered. These include El Centro, Fresno, Merced, Modesto, Salinas, Napa and Bakersfield. Bakersfield (Kern County) has also been boosted by the surge in oil exploration and development, although the precipitous drop in oil prices is already starting to weigh on the area’s job performance.

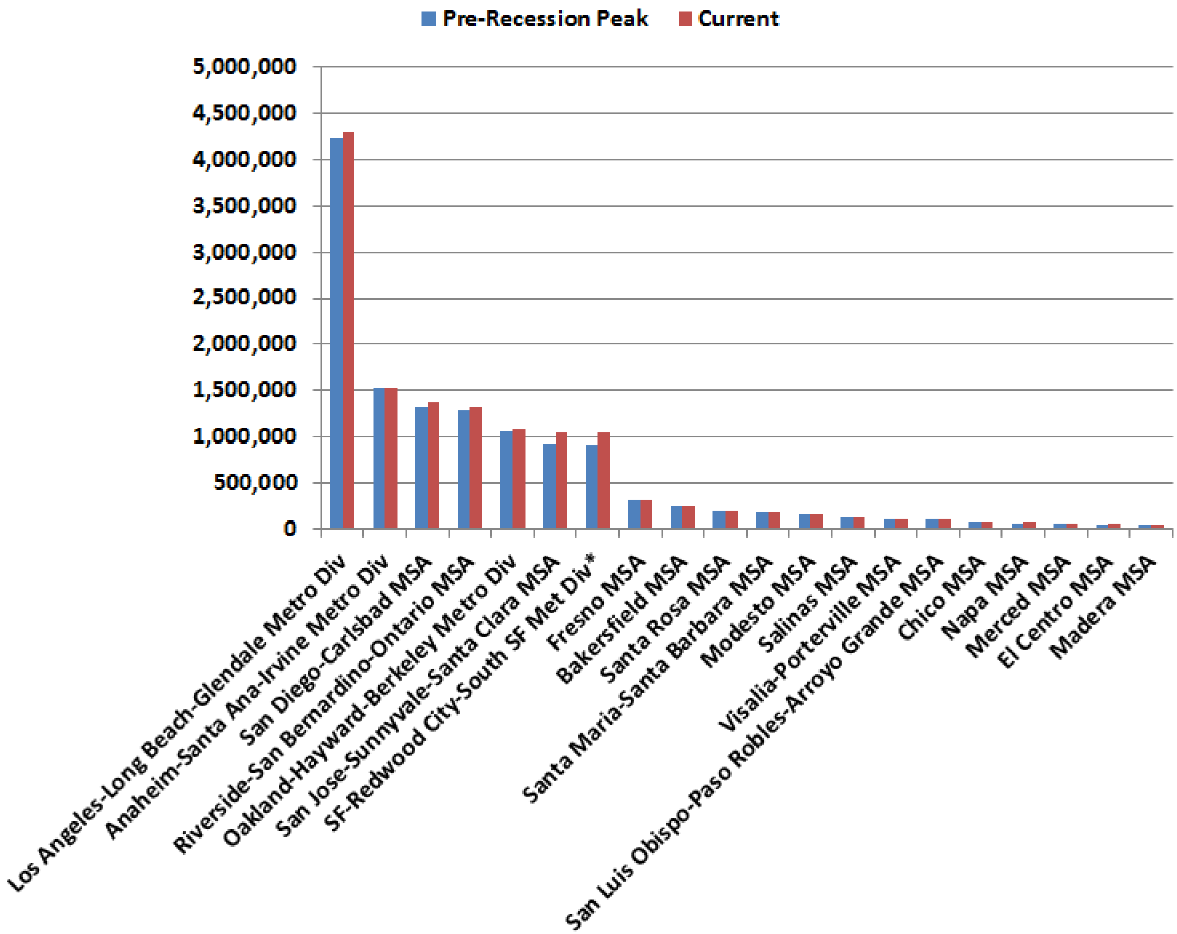
The dates of the pre-Recession peaks varied across the 2006-08 timeframe. Collectively, the 20 metropolitan areas have now added 488,000 jobs relative to their prior employment highs. The San Francisco-Redwood City-South San Francisco area has led with a job gain of about 132,000. San Jose has followed with a net growth of 124,000 positions.

Certain parts of the state still have not caught up with their pre-Recession highs. The Sacramento metropolitan statistical area (MSA) is still off by about 14,000 jobs from its prior peak. It will take about eight months for that region to regain its prior high assuming job growth equal to the average of the past 12 months. Other lagging areas include the Oxnard-Thousand Oaks-Ventura MSA (Ventura County), Yuba City, Vallejo, Stockton, Hanford, Redding and Santa Cruz-Watsonville.

It should be noted that just catching up to the pre-Recession peaks is by no means sufficient as most areas have experienced further gains in their populations over the past several years and therefore need even more job gains. Nevertheless, these recovery benchmarks are important to California and illustrate the diversification of its upswing.

Figure 21: Regions Where Job Recovery Has Met Pre-Recession Peak

(Nonfarm Employment, Seasonally Adjusted)



*Data for the San Francisco-Redwood City-South San Francisco Met Div is not seasonally adjusted.

Sources: U.S. Bureau of Labor Statistics, California Employment Development Department, Fermanian Business and Economic Institute

See raw data: Employment numbers by region.

Lynn Reaser is chief of the Treasurer's Council of Economic Advisors and chief economist at the Fermanian Business and Economic Institute for Point Loma Nazarene University. The opinions in this article are presented in the spirit of spurring discussion and reflect those of the author and not necessarily the Treasurer, his office or the State of California.

Connecting the Dots: Global and National Forces Impacting California

By Lynn Reaser

Global Factors

International forces continue to impact California companies and households. This year has already seen sizable swings with notable developments in China, Europe, the oil market and the dollar.

China is struggling to achieve its 7.0 percent growth target for real gross domestic product (GDP) this year, which is necessary to keep unemployment from rising. This effort comes at a time of persistent concerns over excess capacity in building and other industries and troubled loans in the banking system. At this point, China's central bank has chosen to inject more funds into the economy and support financial institutions in order to spur economic growth. A growing Chinese economy will be positive for California exporters to the region.

Europe appears to be faring better than expected. The standoff between Greece and creditors of the Eurozone and the International Monetary Fund persists. An eventual compromise is likely as opposed to a Greek exit from the common-currency union. Meanwhile, Eurozone real GDP growth equaled 1.6 percent in the first quarter, the best showing in nearly two years. For the first time since the first half of 2010, all four of the major countries in the Eurozone -- Germany, France, Italy, and Spain -- shared in the gains. Although France and Italy have yet to make major structural reforms, Europe's economy should continue to grow this year. This will be vital to the health of the world economy as well as that of California.

Oil prices have continued to strengthen from the lows reached in the first quarter. After peaking at around $107 a barrel in June 2014, oil prices in terms of the West Texas Intermediate (WTI) benchmark spent much of the first quarter at $50 a barrel or below. By the end of May, they had climbed to around $60 a barrel. (See Figure 22.) Companies have been cutting back oil exploration and development budgets, especially for higher cost or riskier ventures. Downward adjustments of future supply forecasts may nudge oil prices toward around $65 a barrel by year-end. Gasoline prices in California have also moved higher on stronger demand, although they should remain below their prior highs through the balance of the year.

The U.S. dollar has soared much of this year as the American economy outperforms others. (See Figure 23.) The Federal Reserve appears likely to tighten monetary policy while most other central banks either ease further or maintain highly expansionary trends. Although recent softer U.S. data has brought the dollar down slightly, it is up 12 percent from a year ago versus currencies of America's primary trading partners. The stronger dollar will make it more difficult to sell into many foreign markets, raise competition from imports and hinder foreign tourism. At the same time, a stronger dollar will benefit many California companies dependent on imports for products, parts and supplies.

National Drivers

The U.S. economy began 2015 on shaky footing, with real GDP actually declining. (See Figure 24.) Spring thawing and a resumption of port activity have yet to generate a strong rebound in the overall economy. Early second quarter reports have shown lackluster retail sales and manufacturing activity. Job growth, however, is strong, the unemployment rate continues to move down and April housing starts were strong. Oil prices appear to have bottomed out and the dollar's rise has slowed.

While real GDP growth during the second quarter could remain below an annualized 2.5 percent, growth in the second half should improve to a pace averaging 3.0 percent or somewhat higher. Households should be in a stronger financial condition, helped by pay-downs on debt and increases in stock and home prices. Commercial and home construction should bounce considerably higher. Major cutbacks in capital spending in the energy sector should ease, while firms in other industries invest more to bolster productivity. Finally, the refilling of tax coffers should promote higher government spending at state and local levels.

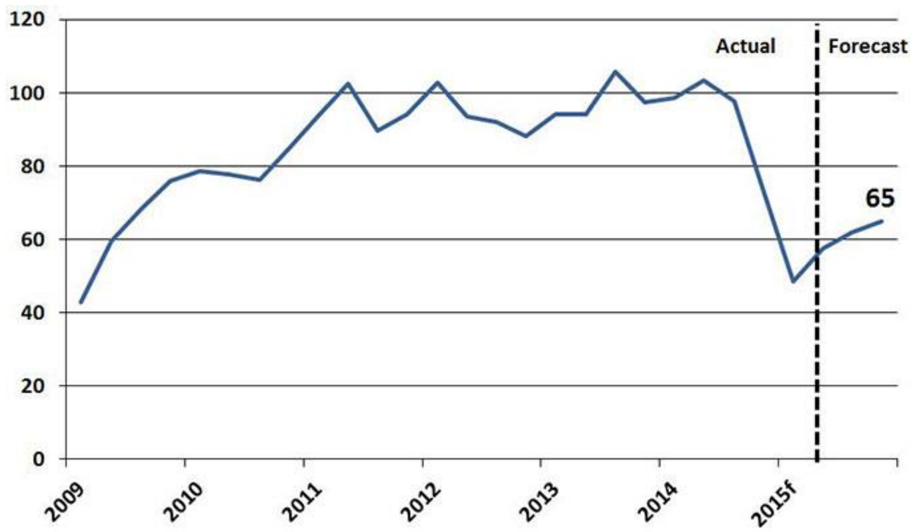
A resumption of faster economic growth will not be enough to totally erase the damage of the first quarter, putting growth for the total year at only around 2.1 percent. Sizable job growth should continue, pushing the unemployment rate down to around 5.0 percent or slightly below by year-end from its April level of 5.4 percent. This tightening of the job market should finally yield stronger pay raises closer to 2.5 percent in contrast to the recent more moderate trend of around 2.0 percent.

Inflation should remain benign with the Consumer Price Index ending the year up less than 1.0 percent from a year ago. (See Figure 25.) Excluding the volatile food and energy components, “core” prices are likely to be up closer to the 2.0 percent target the Federal Reserve sees as necessary for economic and financial stability. Price increases in the services sector -- including rent, health care and education -- will lead the overall rise in core inflation. Inflation should remain low, but appears likely to gradually move higher instead of moving to a state of deflation.

Overall, the nation should provide a firmer economic pull in the latter half of 2015 for California¸ which should add to the state’s underlying current momentum.

Figure 22: Oil Prices Recovering

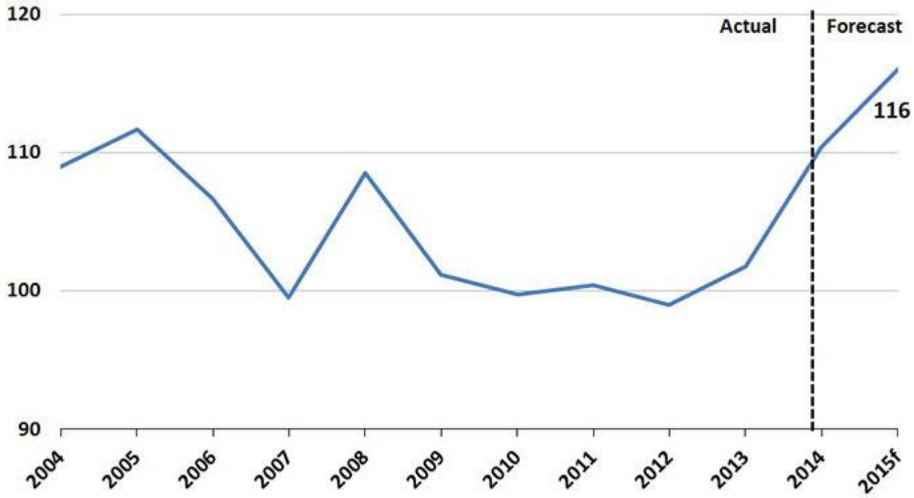
WTI Crude Oil, Dollars Per Barrel, Quarterly Average



Source: The Fermanian Business & Economic Institute

Figure 23: Greenback Still in Demand

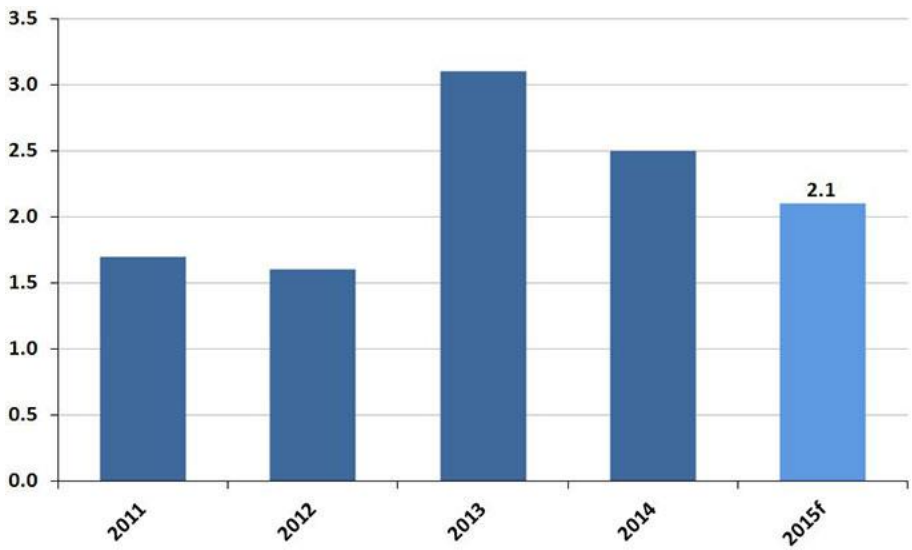
Broad Trade-Weighted Index, Jan. 1997=100, Dec. Average



Source: The Fermanian Business & Economic Institute

Figure 24: U.S. Real GDP Growth Remains Moderate

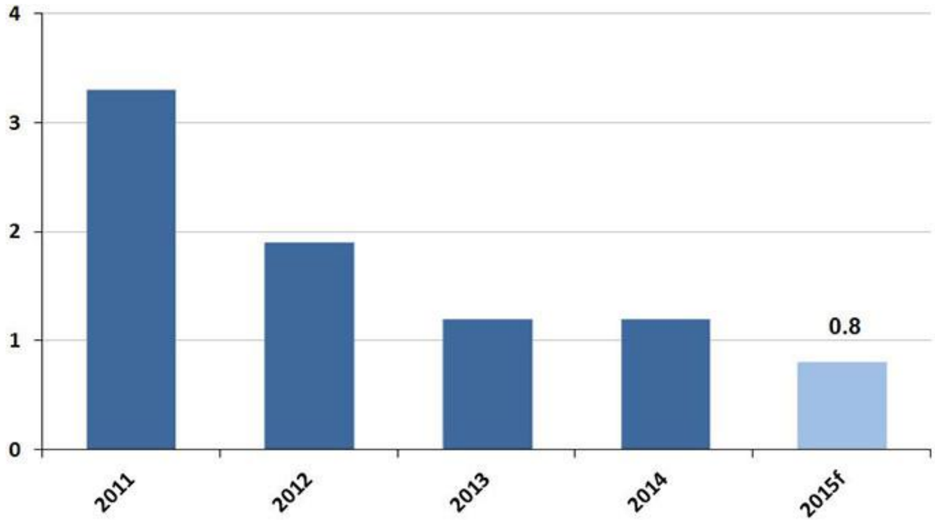
4th Quarter, Percent Change Over Prior Year



Source: The Fermanian Business & Economic Institute

Figure 25: Consumer Prices Tepid

4th Quarter, Percent Change Over Prior Year



Source: The Fermanian Business & Economic Institute

Lynn Reaser is chief of the Treasurer's Council of Economic Advisors and chief economist at the Fermanian Business and Economic Institute for Point Loma Nazarene University. The opinions in this article are presented in the spirit of spurring discussion and reflect those of the author and not necessarily the Treasurer, his office or the State of California.

Guest Column

Providing Secure Housing to Homeless Can Cut Public-Service Expenses

By Lynn Reaser

The homeless continue to represent a major social and economic problem for both California and the nation. Various approaches have been attempted, with varying degrees of success. A pilot program launched four years ago in San Diego has produced impressive results.

The study, named Project 25, focused on chronically homeless individuals who were among the most intensive users of public facilities in the San Diego metropolitan area, such as emergency rooms, jails and hospitals. The program followed the approach of Housing First, which is based on the premise that individuals need to be placed in affordable, permanent housing as quickly as possible and then offered a comprehensive set of services. This contrasts with the more traditional approach of requiring the long-term homeless to first qualify for permanent housing, such as by achieving sobriety or entering treatment, before they can secure housing.

Funded by United Way and managed principally by St. Vincent de Paul Village (SVdPV), the study and extensive data collection were conducted over a three-year period, from 2011-13. The Fermanian Business & Economic Institute at Point Loma Nazarene University was responsible for analysis of the study's results and conclusions.

Homelessness in San Diego and the Project 25 Program

San Diego has the fifth largest homeless population in the nation and is only surpassed by the metropolitan areas of New York City, Los Angeles, Seattle and Las Vegas. Project 25 was designed to determine if the provision of secure housing, combined with intensive case management and a comprehensive offering of primary and behavioral health care, could significantly reduce the use and cost of various public programs by their most intensive homeless users.

A total of 36 individuals were enrolled in the program over the study period of 2011-2012. A total of 28 individuals were both enrolled in the program and placed in permanent housing by the beginning of 2012 and remained in the program through 2013. Because of the focus on assessing the impact of providing housing security, this was the sample analyzed in this report.

Data on the use of various public services -- including the cost and incidence of ambulance transportation, arrests, emergency room (ER) visits and hospitalizations -- was collected for the base year of 2010. Quarterly data was then collected for 2011 through 2013 to assess the impact of Project 25. Because of quarterly variations, this study analyzes the two full calendar years of 2012 and 2013 after all 28 individuals were housed in their own apartments.

Selection of the Participants

Project 25 selected homeless individuals who were the most intensive or frequent users of public services, including emergency rooms, hospitals, jails and ambulances. Participants had to have utilized two of the three service categories below:

- Jails
- Emergency rooms, ambulances, hospitalization
- County behavioral health services

From a list of 71 names ranked by costs, the top users were selected to be part of the Project 25 study.

Demographics of the Participants

The preponderance of the 28 individuals was male, with only four, or 14 percent, of them female. Twenty-two were white, five were black, and one was Native American. Two of the total were Hispanic. The individuals studied ranged in age from 22 to 61. The median age was 47. Five of the total group were veterans.

All of the individuals had some form of physical or mental disability. Every individual in the program was afflicted either with mental illness or substance abuse. Three of the individuals, or 11 percent, were victims of domestic violence.

Results

The results of Project 25 are impressive. In the base year 2010, the expenses of all public services used by the 28 individuals totaled approximately $3.5 million. Hospitalization accounted for more than three-fifths of the total at $2.2 million.

In the first full year of participation, 2012 saw these costs cut by more than half, or 56 percent, to $1.5 million. In 2013, there was a further 25 percent reduction to $1.1 million. The program thus showed a dramatic reduction of 67 percent in total costs comparing the base year of 2010 to 2013. The expense of all major categories -- including ambulance transportation, arrests, ER visits, hospitalizations and incarcerations -- fell by more than 60 percent to nearly 80 percent.

The average expense per person fell from more than $124,000 in 2010 to about $41,000 in 2013. The drop in the median expense was even more dramatic. Compared with a starting point of nearly $111,000 in 2010, the median expense in 2013 was only about one-tenth of that amount at less than $12,000.

A better picture of the true savings from Project 25 is obtained by extrapolating what the expense of various services would have been without the program's intervention. Assuming that expenses only kept pace with inflation and exhibited no change in usage intensity, the total in 2013 would have climbed to $4.0 million. (Health-related expenses were adjusted using the Consumer Price Index for hospital services; other expenses were adjusted using the Personal Consumption Expenditures Price Index.) The costs of the Project 25 program were also taken into account to determine the net savings realized. These costs encompassed both the provision of housing and all of the various services provided to the program's participants.

Subtracting the cost of the Project 25 program from the reduction in extrapolated public outlays for hospital and other services yielded a net savings of approximately $1.6 million in 2012 and $2.1 million in 2013. The net return on dollars spent for Project 25 was a dramatic 207 percent in 2012 and 262 percent in 2013.

Usage Rates

The usage rate of various public services fell sharply between 2010, the base period, and 2012-13 when the 28 individuals were situated in stable and permanent housing. In 2010, the average number of hospitalizations for medical or psychiatric care was 10, while the average amount of time spent in hospitals averaged 46 days. Ambulance rides averaged 22 that year per individual studied and ER visits averaged 42. There were a total of 82 arrests in 2010, while the average individual spent 28 days in jail. Usage of other services (including Crisis House, detox centers, homeless shelters, legal assistance, and Psychiatric Emergency Response, or PERT) totaled 151 for the 28-member group.

After the first full year of the program, usage rates of all of these services generally dropped by between 60 percent and 70 percent. Further declines generally in the range of 30 percent to 50 percent followed in 2013.

Only two categories experienced increases in 2013. The number of hospital days rose because of the illness of one individual, while the frequency of legal assistance (shown as a part of “Other”) also increased.

Between 2010 and 2013, all categories of public services exhibited notable reductions. The average number of hospitalizations per year dropped from 10 to two, or 80 percent. The average number of days spent in the hospital fell from 46 to 17, a decrease of 63 percent.

Ambulance rides averaged five per individual in 2013, less than one-fourth the 2010 figure. Emergency room visits fell to an average of 10 during the year from 42 in 2010, a cut of 76 percent. The total number of arrests across the group plummeted from 82 to 18, or 78 percent, while the average amount of jail time was cut almost by a third from 28 days to 10 days. The total usage of all other services was pared by nearly a third from more than 150 to less than 100.

Current Status of Project 25’s Participants

Of the 36 total number of individuals enrolled in Project 25 during 2011-12, all but three are still in the program. (Three have passed away from natural causes.) The 33 Project 25 individuals all were housed in their own apartments, have acquired health care insurance, and are receiving necessary health care on an ongoing basis.

Although 21 of the Project 25 participants have been forced to move at least once because of behavioral issues, all but two have been successful in their second unit. Efforts are under way to secure new housing for these individuals.

Conclusions

Providing chronically homeless frequent users with stable and secure housing, combined with a comprehensive and unified set of health and social services, can yield a dramatic reduction in the use and expense of various public services. This has been the conclusion of Project 25 as it engaged the participation of some of the most intensive users of hospitals, emergency rooms, ambulances and jails in San Diego County.

While caution is warranted in inferring too much from the small sample of individuals covered in the Project and in this report, the results are encouraging and compelling. They also give weight to the Housing First approach, which emphasizes that the homeless can be treated much more effectively after they have been situated in a more permanent home. Secure and safe housing also provides an environment that can protect individuals from further risk of trauma, and damage to physical and mental health.

Read the full report.

Lynn Reaser is chief of the Treasurer’s Council of Economic Advisors and chief economist at the Fermanian Business and Economic Institute for Point Loma Nazarene University. The opinions in this article are presented in the spirit of spurring discussion and reflect those of the author and not necessarily the Treasurer, his office or the State of California.

Top 10 Upcoming Bond Sales

(Ranked by Size)

Proposed Sale Date*	Issuer	Debt Type	Purpose	Principal*
6/10/2015	Los Angeles Community College District	General obligation bond	College, University Facility	$310,480,000.00
6/10/2015	Riverside County	Tax and revenue anticipation note	Cash Flow, Interim Financing	$275,000,000.00
6/17/2015	California Municipal Finance Authority	Public enterprise revenue bond	Power Generation/Transmission	$240,000,000.00
6/23/2015	California Statewide Communities Development Authority	Conduit revenue bond	Hospital	$230,000,000.00
6/25/2015	Hayward Unified School District	General obligation bond	K-12 School Facility	$201,400,000.00
6/26/2015	California Health Facilities Financing Authority	Conduit revenue bond	Health Care Facilities	$175,000,000.00
6/10/2015	San Bernardino County	Tax and revenue anticipation note	Cash Flow, Interim Financing	$150,000,000.00
6/10/2015	Yosemite Community College District	General obligation bond	College, University Facility	$143,000,000.00
6/9/2015	San Francisco City & County	Certificates of participation/leases	Public Building	$140,000,000.00
6/23/2015	Los Angeles	General obligation bond	Multiple Capital Improvements, Public Works	$125,000,000.00

* Subject to change; the ultimate amounts and sale dates can be affected by legal, market and other factors.

More info:

- California Debt and Investment Advisory Commission Calendar
- Public Finance Division Upcoming Bond Sales Calendar

Significant Financings

Treasurer John Chiang oversees several boards, commissions and authorities that award financing, tax credits, grants, loans, and other benefits aimed at promoting school projects, health care facilities, sustainable economic development and housing. Below is a summary of significant projects approved in May 2015.

Education

Approval Date	Recipient Name	Type	Amount	City	Authority*
5/18/2015	Aspire ERES Academy	2011 Lottery Funding Round	$15,180,306	Oakland	CSFA
5/18/2015	Higher Learning Academy	Proposition 1D Funding Round	$5,875,297	Sacramento	CSFA
5/28/15	University of the Pacific	Bond Financing	$69,000,000	Stockton	CEFA

Health

Approval Date	Recipient Name	Type	Amount	City	Authority*
5/28/2015	California-Nevada Methodist Homes	Bond Financing	$35,000,000	Oakland	CHFFA
5/28/2015	Mentally and Educationally Retarded Citizens, Inc.	Help II Loan Program	$900,000	Monterey Park	CHFFA
5/28/2015	Stanford Health Care	Bond Financing	$175,000,000	Stanford	CHFFA
5/28/2015	Kids & Families Together	Help II Loan Program	$515,000	Camarillo	CHFFA

Sustainability and Economic Development

Approval Date	Recipient Name	Type	Amount	City	Authority*
5/19/2015	Silevo, Inc.	Sales and Use Tax Eclusion (STE)	$8,971,610	Fremont	CAEATFA
5/19/2015	California Waste Solutions, Inc. and/or its Affiliates	Tax-Exempt Bond Allocation	$25,335,000	Oakland/San Jose	CPCFA

Housing					
Approval Date	**Recipient Name**	**Type**	**Amount**	**City**	**Authority***
5/20/2015	Downtown Hayward Senior Apartments	Private Activity Bond Allocation	$17,500,000	Hayward	CDLAC
5/20/2015	Park Village Apartments	Private Activity Bond Allocation	$6,100,000	Los Angeles	CDLAC
5/20/2015	Summit Rose Apartments	Private Activity Bond Allocation	$9,100,000	San Diego	CDLAC
5/20/2015	Mendota Village and Firebaugh Garden Apartments	Private Activity Bond Allocation	$3,850,000	Mendota & Firebaugh	CDLAC
5/20/2015	Amberwood Apartments I & II	Tax-Exempt Bond Project	$233,891	Hanford	CTCAC
5/20/2015	Park Plaza Apartments	Private Activity Bond Allocation	$950,000	Los Angeles	CDLAC
5/20/2015	PATH Metro Villas I Apartments	Private Activity Bond Allocation	$14,000,000	Los Angeles	CDLAC
5/20/2015	Skid Row Southeast 1 Apartments (Scattered Site)	Private Activity Bond Allocation	$8,786,918	Los Angeles	CDLAC
5/20/2015	T. Bailey Manor Apartments	Private Activity Bond Allocation	$10,000,000	Los Angeles	CDLAC
5/20/2015	St. Timothy's Tower and Manor Apartments	Private Activity Bond Allocation	$16,000,000	Compton	CDLAC
5/20/2015	Avenida Crossing Apartments	Private Activity Bond Allocation	$9,000,000	Lancaster	CDLAC
5/20/2015	Brethren Manor Apartments	Private Activity Bond Allocation	$19,000,000	Long Beach	CDLAC
5/20/2015	Pilgrim Tower Apartments	Private Activity Bond Allocation	$17,800,000	Los Angeles	CDLAC
5/20/2015	Beverly Terrace Apartments	Private Activity Bond	$10,500,000	Los Angeles	CDLAC

Housing					
Approval Date	**Recipient Name**	**Type**	**Amount**	**City**	**Authority***
		Allocation			
5/20/2015	Samoa Avenue Apartments	Private Activity Bond Allocation	$10,000,000	Tujunga	CDLAC
5/20/2015	St. Timothy's Tower and Manor Apartments	Tax-Exempt Bond Project	$744,670	Compton	CTCAC
5/20/2015	Brethren Manor Apartments	Tax-Exempt Bond Project	$897,816	Long Beach	CTCAC
5/20/2015	Pilgrim Tower Apartments	Tax-Exempt Bond Project	$1,122,721	Los Angeles	CTCAC
5/20/2015	Leaster Apartments	Tax-Exempt Bond Project	$785,390	Los Angeles	CTCAC
5/20/2015	Beverly Terrace Apartments	Tax-Exempt Bond Project	$677,475	Los Angeles	CTCAC
5/20/2015	Samoa Avenue Apartments	Tax-Exempt Bond Project	$515,189	Los Angeles	CTCAC
5/20/2015	Avenida Crossing Apartments	Tax-Exempt Bond Project	$375,884	Lancaster	CTCAC
5/20/2015	Vintage Aliso Apartments	Private Activity Bond Allocation	$27,000,000	Aliso Viejo	CDLAC
5/20/2015	Lemon Grove Apartments	Private Activity Bond Allocation	$15,371,923	Orange	CDLAC
5/20/2015	815 N Harbor Apartments	Private Activity Bond Allocation	$15,185,948	Santa Ana	CDLAC
5/20/2015	Garden Grove United Methodist Church Apartments	Private Activity Bond Allocation	$12,000,000	Garden Grove	CDLAC
5/20/2015	815 N Harbor Apartments	Tax-Exempt Bond Project	$645,226	Santa Ana	CTCAC

Housing					
Approval Date	**Recipient Name**	**Type**	**Amount**	**City**	**Authority***
5/20/2015	Lemon Grove Apartments	Tax-Exempt Bond Project	$797,693	Orange	CTCAC
5/20/2015	Garden Grove United Methodist Church Project	Tax-Exempt Bond Project	$568,610	Garden Grove	CTCAC
5/20/2015	Vintage Aliso Apartments	Tax-Exempt Bond Project	$1,282,413	Aliso Viejo	CTCAC
5/20/2015	Mutual Housing at Foothill Farms Apartments	Private Activity Bond Allocation	$14,000,000	Sacramento	CDLAC
5/20/2015	Horizons at Yucaipa Apartments	Private Activity Bond Allocation	$8,200,000	Yucaipa	CDLAC
5/20/2015	Virginia Terrace Apartments	Private Activity Bond Allocation	$5,600,000	Barstow	CDLAC
5/20/2015	Horizons at Yucaipa Apartments	Tax-Exempt Bond Project	$600,350	Yucaipa	CTCAC
5/20/2015	College Park II	Tax-Exempt Bond Project	$1,500,891	Chino	CTCAC
5/20/2015	Virginia Terrace Apartments	Tax-Exempt Bond Project	$293,205	Barstow	CTCAC
5/20/2015	Mayberry Apartments	Private Activity Bond Allocation	$9,959,732	San Diego	CDLAC
5/20/2015	Trolley Residential Apartments	Private Activity Bond Allocation	$15,000,000	San Diego	CDLAC
5/20/2015	Cypress Cove Apartments	Private Activity Bond Allocation	$337,000,000	Escondido	CDLAC
5/20/2015	Trolley Residential Apartments	Tax-Exempt Bond Project	$845,124	San Diego	CTCAC
5/20/2015	John Burton Foundation Housing Complex	Private Activity Bond Allocation	$15,000,000	San Francisco	CDLAC

Housing					
Approval Date	**Recipient Name**	**Type**	**Amount**	**City**	**Authority***
5/20/2015	John Burton Foundation Housing Complex	Tax-Exempt Bond Project	$996,022	San Francisco	CTCAC
5/20/2015	Villa La Esperanza Apartments	Private Activity Bond Allocation	$25,544,496	Goleta	CDLAC
5/20/2015	Villa La Esperanza Apartments	Tax-Exempt Bond Project	$1,059,590	Goleta	CTCAC
5/20/2015	Monterra Redwoods Wheeler Apartments	Private Activity Bond Allocation	$23,000,000	Gilroy	CDLAC
5/20/2015	Dinuba Village Apartments	Private Activity Bond Allocation	$5,676,523	Dinuba	CDLAC
5/20/2015	Seasons at Simi Valley Apartments	Private Activity Bond Allocation	$6,320,000	Simi Valley	CDLAC
5/20/2015	Springville Apartments	Private Activity Bond Allocation	$10,883,139	Camarillo	CDLAC
5/20/2015	Seasons at Simi Valley Apartments	Tax-Exempt Bond Project	$278,298	Simi Valley	CTCAC
5/20/2015	Springville at Camarillo	Tax-Exempt Bond Project	$730,601	Camarillo	CTCAC
5/20/2015	Housing Authority of the County of Marin	Mortgage Credit Certificate Program	$2,009,342	Various	CDLAC

*Authorities which the State Treasurer chairs: California Health Facilities Finance Authority (CHFFA), California Schools Finance Authority (CSFA), California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA), California Industrial Development Financing Advisory Commission (CIDFAC), California Tax Credit Allocation Committee (CTCAC), and California Debt Limit Allocation Committee (CDLAC).

See raw data: Financing numbers broken out by state legislative district

In Case You Missed It

Just in case you missed it, here's a summary of recent news from the Treasurer's Office:

May 21: Treasurer Comments on S&P's Most Recent Statement on California's Credit

Treasurer John Chiang issued a statement about Standard and Poor's positive findings regarding California's credit. Read the news release in English and Spanish.

May 21: Treasurer's Bond Accountability Task Force Meets

Treasurer John Chiang's Bond Accountability Task Force met in Los Angeles. Read more about the Treasurer's efforts to increase transparency and ensure that monies raised through the sale of government bonds are safe from fraud, abuse, and mismanagement.

Treasurer John Chiang attends the May 19 ribbon cutting of Studio 819, a complex of affordable housing units in Mountain View.

May 14: Treasurer Bars HSBC From Time Deposit Program

HSBC USA Inc., which faces allegations of wrongdoing, was barred by Treasurer John Chiang from participating in California's Time Deposit Program. Read the Treasurer's letter to HSBC.

Top News Clips:

- CalSTRS Cashes Out of Rifle-Maker Stake After Two-Year Quest
  The Wall Street Journal
  June 5, 2015
- California teachers pension fund to drop assault weapons maker
  Reuters
  June 5, 2015
- Banking: Chiang makes his point with HSBC
  Euromoney
  June 2015
- California Drops HSBC From Deposit Program
  The Wall Street Journal
  May 20, 2015
- Opciones para ahorrar para la universidad de tus hijos
  Univision 19
  May 17, 2015
- Above the Bottom Line
  Comstock's
  May 15, 2015
- ScholarShare 529 Day on Comunidad del Valle
  NBC Bay Area
  May 10, 2015

- Diversify Your Board
  Comstock’s
  May 8, 2015