

APPROVAL OF THE MINUTES FROM JUNE 20, 2011 MEETING

CDIAC Meeting Staff Report

MINUTES

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION MEETING

June 20, 2011

1:30 PM

**Jesse M. Unruh State Office Building
915 Capitol Mall, Room 587
Sacramento, California 95814**

1. ROLL CALL

Katie Carroll called the meeting to order at 1:34 PM. Members present at the time included: Katie Carroll, representative for Treasurer Bill Lockyer; Pedro Reyes, representative for Director of Finance Ana Matosantos; Terry McGuire, representative for State Controller John Chaing; Assemblymember Henry Perea; and Jay Goldstone, Chief Operating Officer for the City of San Diego. After roll call was taken, Katie Carroll declared a quorum was present and extended a welcome to all the new members and designees present at the Commission meeting.

2. APPROVAL OF THE MINUTES FROM JULY 15, 2010 MEETING (ACTION ITEM)

Ms. Carroll asked if members had any changes, questions or comments to the minutes from the July 15, 2010 California Debt and Investment Advisory Commission (CDIAC) meeting. Hearing none, Mr. Perea motioned to adopt the minutes; Mr. Reyes seconded the motion. The minutes were unanimously approved by roll call vote. Katie Carroll: Aye; Jay Goldstone: Aye; Terry McGuire: Aye.

Ms. Carroll states for the record that at 1:36 pm, Gabrielle Jackson, representative for Senator Sam Blakeslee, joined the Commission meeting.

3. EXECUTIVE DIRECTOR'S REPORT (INFORMATION ITEM)

Ms. Carroll introduced Mark Campbell as CDIAC's new Executive Director.

Ms. Carroll stated for the record that at 1:38 PM Senator Carol Liu and Assemblymember Mike Eng joined the Commission meeting.

Mr. Campbell presented the Executive Director's report for fiscal year FY 2011-12, noting a modest increase (less than one percent) in the budget to \$2.9 million. He presented CDIAC's fund condition and explained that CDIAC generates revenue through fees paid on the debt issued by California public entities. Mr. Campbell presented three years of fund data: actual figures for FY 2009-10; estimated figures for FY 2010-11; and projected figures for FY 2011-12. He noted that CDIAC's reserve fund included the \$2 million loan to the state's General Fund -- CDIAC is collecting interest on this amount.

Mr. Campbell provided an overview of CDIAC's revenue, projected expenditures, and the condition of the fund balance; which was projected to continue to decline over the next couple years. To project revenues, CDIAC used economic data from two national economic forecasts to project fee revenues, which estimated declines in public debt issuance over the next two

years of 44 percent and 37 percent respectively. Mr. Campbell reiterated that debt issuance in California, had experienced a year-to-year decrease closer to 70 percent of volume. He noted that because of the substantial decline in debt issuance CDIAC revenues will fall.

4. COMMISSION STAFF REPORT (INFORMATION ITEM)

Mr. Campbell presented reports on each of CDIAC's three principal program areas. Mr. Campbell provided a brief explanation of the Data Collection and Analysis Unit stating that all debt issuance by California public entities must provide a report to CDIAC at the time the debt is proposed as well as at the time the debt is sold. Statute mandates that CDIAC collect data on debt issuance and *provide* this data on a regular basis. CDIAC operates an extensive database to house the collected data. CDIAC is currently undertaking a comprehensive review of its database in line with the changes in the municipal market. In addition, Mr. Campbell stated that CDIAC will communicate with its stakeholders and debt issuers on how to improve the process of collecting information and using this information for quantitative analysis or policy research. He also mentioned that there is a nationwide effort in regards to disclosure on debt issuance being carried out by the Municipal Securities Rule Making Board (MSRB) through a platform called EMMA (Electronic Municipal Market Access). The MSRB requires all issuers of public debt to now disclose their issuance, annual reports, and several other event notifications regarding their debt. He would like CDIAC to collaborate with EMMA to reduce the duplication of efforts by issuers as well as to maximize the California database. Additionally, CDIAC is trying to make its processes more efficient by increasing the online submission of debt data through the internet. Mr. Campbell stated that the response so far has been positive but improvement is required to allow CDIAC to minimize some of the work flow processes and data entry work that the staff is currently undertaking. He also mentioned that CDIAC has re-classified existing staff positions that applied to only four staff members, and that the current positions now fall under the standardized SSA/ AGPA classification.

Mr. Reyes asked what the CDIAC database would do differently than the EMMA database. Mr. Campbell stated that CDIAC's objective was to look at California's unique structures, such as land secured financings and JPA financings to ensure a better understanding of the participating entities and the rationale behind the selection of different financing structures. He added that CDIAC's database provides precise summary data with regard to volume, rates, financing team participants, purposes and source of repayment. Mr. Campbell added that he would like CDIAC to be able to align a number of different factors such as market rates, program objectives, and any underlying conditions at the municipality to the issuance of debt, a task that can only be accomplished with an enhanced database. Furthermore, eliminating duplicative procedures, such as the collection of the bond offering documents will improve efficiency and minimize that burden on those who file these documents with CDIAC. Mr. Campbell concluded by saying that although he is generalizing, CDIAC could look specifically at what is of value to the California market place apart from what EMMA is collecting currently. However, CDIAC can utilize EMMA in a way that might enhance CDIAC's research and help to handle questions that might arise with regard to California debt issuance.

Mr. Reyes asked about debt issuance being 72 percent lower compared to the same period, January to April. Ms. Carroll responded that she believed that information was probably as of the end of May and confirmed that nationwide issuance is down about 50 percent, but here in California debt issuance is down largely because the state has not been issuing.

Ms. Carroll questioned CDIAC's time period in regards to integrating or upgrading the database or if it is just a goal of CDIAC's for the year. Mr. Campbell stated that there are two elements to the program, the content and the operating system. He believed that CDIAC could address

some of the content questions and possibly utilize the existing system to make some changes in what CDIAC currently does. He further stated CDIAC expects there to be a possible system change which can take up to two years to complete. However, CDIAC was currently operating on an Oracle platform and it is a good system for accomplishing its current objectives.

Mr. Campbell went on to say CDIAC has focused on the education and outreach over the past year, but with the limitation on local agency budgets, enrollment in CDIAC's educational programs has declined. Travel and training budgets have been reduced and as a response CDIAC is seeing less people at its classroom-based seminars. CDIAC intends to address these factors by collaborating with other public finance organizations and piggy-back on their annual conferences to provide training as well as to recruit and market CDIAC programs. Some of these shared opportunities have been very successful over the past year such as those with California Society for Municipal Finance Officers (CSMFO) and the California Municipal Treasurer's Association (CMTA). In addition, CDIAC has had an on-going relationship with *The Bond Buyer* who hosts its California Public Finance Conference annually in California. In addition, CDIAC is looking at utilizing the internet as a tool to train and disseminate information both for educational and informational purposes. CDIAC had plans to enter into an agreement with the Department of General Services to distribute a web-based training program allowing CDIAC to be more responsive to topics and issues within the marketplace.

Mr. Campbell went on to point out that the municipal marketplace is transforming as a result of the Dodd-Frank Act as well as on-going activities at the Municipal Securities Rulemaking Board (MSRB), Securities and Exchange Commission (SEC), and the Government Accounting Office (GAO). CDIAC's research unit is striving to stay abreast and respond to these changes. CDIAC is also beginning to look at issuer disclosure within the State of California as a result of a nationwide analysis which reported problems with continuing disclosure.

Mr. Campbell reported that since CDIAC is aware of the fiscal pressure local governments are under it has undertaken a historical review of default rates within California looking not at issuers, but at the types of issues, and the historical background behind those issues. In addition, CDIAC published an article in its monthly newsletter, *Debt Line*, concerning the common responses by local governments to budget shortfalls or limits. The research unit also conducted a comprehensive analysis of the Doyle Drive P3 project. The objective was to look at the various analyses that were done of the project.

Mr. Campbell noted that in last year's Commission meeting CDIAC reported that in 2009 it entered into a contract with the Center for Government Studies at CSU Sacramento for academic research. One project was near completion and funds remained to undertake other academic research in the future. The research project nearing completion was a comprehensive review of national debt loads and debt burden. The project also looked at how California compared to other states, how California may have changed particularly during the recession, and whether the position that California held has changed between 2007 and 2010.

Mr. Eng asked if there would be any attempt on CDIAC's part or anyone else's to inform the Commission or the Legislature as to the implications of Dodd-Frank reforms on California investment policies, procedures, and requirements, and the specific impact on the way businesses or public agencies do business. Mr. Campbell responded by stating that CDIAC has offered training on regulatory reform and the impact on local governments and their investment portfolios. But that CDIAC has not yet developed anything specific for the Legislature or other state entities but expects to have publications in the future that would follow along that line.

Mr. Eng thanked Mr. Campbell and mentioned it would be very helpful if CDIAC kept local entities informed of the regulatory reforms being implemented by Congress. Ms. Carroll thanked Mr. Eng for his input and stated that a future goal of CDIAC's is to present a few more programs to other state agencies as well as legislative staff members. Mr. Campbell went on to point out that CDIAC's monthly newsletter does contain a small column that addresses the current developments under the Dodd-Frank Act.

Mr. Campbell then provided a legislative update to the Commission:

Assembly Constitutional Amendment (ACA) 16 which would have required the State Treasurer and State Controller to develop an estimate of state revenues for the purposes of developing the Governor's budget proposal.

AB 506 dealing with local bankruptcy and the opportunities for local agencies to file for bankruptcy under chapter 9, involves CDIAC as a neutral third party providing technical assistance in the review and evaluation process.

SB 449 was part of a package of State Controller's bills. This bill, which passed out of the Senate and referred to the Assembly Committee on Local Government, would create a financial review committee composed of specified members including the State Treasurer. Mr. Campbell noted this because there is an aspect to the bill that would allow for local governments to receive assistance from a financial recovery team that may be called to respond to local governments facing fiscal crisis.

SB 907 would create a master plan for infrastructure finance and development. This bill was introduced last year in the Assembly and, at that time, CDIAC was to provide part of the funding for the Infrastructure Financing and Development Commission that would carry out most aspects of the bill. The scope of this new commission was more fully developed in SB 907 and would require CDIAC to prepare and submit a plan for statewide infrastructure development and finance. CDIAC was expected to be a part of that process as well as the funding.

Ms. Carroll thanked Mr. Campbell.

Mr. Reyes then asked to move to Item 5 or any action item on the agenda and then go back to discussions on Item 4 and other informational items. Mr. Goldstone mentioned he had some questions on the specific item just discussed, but agreed to move forward and then return to his questions. Ms. Carroll agreed to return to the item of Mr. Goldstone questions, unless one of the legislative members had questions on the current item.

5. RESOLUTION 11-01: CONTRACT DELEGATION AUTHORITY (ACTION ITEM)

Government Code section 8857 allows the Commission to delegate to the Executive Director the authority to enter into contracts. Last year the State Treasurer's Office (STO) legal office determined that *contracts* include service orders and purchase orders. As a consequence, the contract authority was most of the CDIAC's Operating Expense & Equipment (OE&E) budget. On July 15, 2010, the Commission approved contract authority under resolution 10-01 including restrictions on individual contracts in any fiscal year in excess of \$300,000 and a limit on the interagency agreement for administrative services between CDIAC and STO to a maximum of \$450,000. That resolution set the total contract amount at \$1.5 million, an increase from \$1.1 million in FY 2009-10. The increase of \$400,000 was to cover potential expenditures related to AB 2579 under which CDIAC would have needed to commission a plan for infrastructure finance and development. AB 2579 died.

As of May 30th of this year, CDIAC had expenditures of \$715,000 under its OE&E budget. CDIAC projected OE&E expenditures of \$800,000 for FY 2010-11, including operating expenses for June and \$60,000 in anticipated expenditures for a customized database training program and webinar hosting services. As an example of potential expenditures, Mr. Campbell discussed costs associated with SB 1293 under which CDIAC would have an ongoing obligation to pay the (SCO) up to \$200,000 per year for audits services through June 30th 2012. Although SB 1293 was vetoed, CDIAC and the State Controller's Office did enter into an interagency agreement to conduct audits of specific joint powers authorities, purposes similar to those under SB 1293. CDIAC received the results from the audit and expended the funds, but there is no continuing obligation to SCO under that agreement.

CDIAC respectfully requested the Commission to delegate contract authority in the amount of \$1.1 million by adopting resolution 11-01.

Mr. Perea motioned to adopt resolution 11-01. Mr. Reyes seconded the motion.

Mr. McGuire then asked Mr. Campbell if SB 907 passed would there be a need again for funds during this upcoming fiscal year. Mr. Campbell stated that if the bill passed and was chaptered the additional expenditures were not reflected in the current budget. Therefore, CDIAC would need to come back to the Commission to ask for the authority to expend the needed funds. Mr. McGuire asked for clarification, noting that SB 907 was incorporated into the prior year budget even though it was uncertain whether it would pass, but it is not being incorporated in this year's budget. Mr. Campbell responded by stating that Mr. McGuire was right and that CDIAC would need to request the authority to expend funds under SB 907. Ms. Carroll mentioned that at that point CDIAC would have a more thorough understanding of the bill.

Ms. Carroll asked for further questions or public comment, hearing none, the resolution was unanimously approved by roll call vote. Katie Carroll: Aye; Terry McGuire: Aye; Mike Eng: Aye; Jay Goldstone: Aye; Carol Liu: Aye.

Resolution 11-01 was unanimously approved.

Mr. Goldstone asked for a definition of PLP? Mr. Campbell responded by saying it's the Personal Leave Program.

Mr. Goldstone asked if the \$2 million loan that was earlier mentioned was to the state's General Fund or to the Treasurer's Office general fund portion. Mr. Campbell clarifies it is to the state's General Fund. Mr. Goldstone then asked if the loan was scheduled to be repaid or if CDIAC was just being paid interest? Mr. Campbell responded by stating there was budget wording which requires it to be returned it to CDIAC in 2013. However, CDIAC does have the opportunity to call it on a 30-day notice.

Mr. Goldstone stated he noticed in CDIAC's projections that it has a budget of about \$2.9 million for FY 2011-12 and yet CDIAC has not really started the year yet. He then added he's assuming CDIAC is not going to spend all that money and that's why CDIAC built in a different number under its estimated expenditures for 2011-12. Mr. Campbell reiterated that CDIAC has a budget authority of \$2.9 million, but estimated expenditures to be \$2.6, almost \$2.7 million dollars. Mr. Goldstone then asked Mr. Campbell if he was concerned that CDIAC's expenditures were running significantly higher than its revenues. Mr. Campbell responded by stating that it is a concern and that CDIAC has undertaken some analyses using national projections on debt issuance and had itself done a very expansive sensitivity analysis. What CDIAC looked at was a five-year projection, 2011-12 to 2015-16, and based its analysis on various scenarios such as taking the highest one-year revenues collected to a decrease in issuance of five percent per

year under the 2010 level. In one of the seven scenarios CDIAC ran a deficit. As a result of this analysis, CDIAC believed it had sufficient funding for FY 2011-12 and the next couple years but it will continue to track revenues against expenditures. Mr. Goldstone asked if CDIAC gets any money from the state's budget. Mr. Campbell confirmed that CDIAC is special funded. Mr. Goldstone then mentioned that the state's repayment of the \$2 million loan is already factored into CDIAC's figures. Therefore, CDIAC's fund balance would not increase, only cash would increase. Mr. Campbell confirmed that CDIAC's fund balance includes the loan to the General Fund.

Mr. Goldstone pointed out some concerns he had on one of CDIAC's positions, namely AB 506. Stating that as a representative of local government he did not see a need for negotiating, mediating, or providing guidelines on bankruptcy to local government and believes this provides limited benefit to local agencies. Ms. Carroll stated that CDIAC does not yet have a clear understanding of this particular bill although CDIAC and the State Treasurer have been in communication with the author's office. Ms. Carroll also stated that the bill, in its current form as she understood it, may require a type of mediation process and asked Mr. Campbell if he's had any further discussions with the author's office. Mr. Campbell stated he had not. The last version he reviewed had the Commission adopting policies under which mediations would occur, but it remained uncertain how this would be carried out.

Mr. Goldstone asked for clarification if local governments would voluntarily or mandatorily utilize CDIAC in the mediation process. Mr. Campbell stated local governments are required to go through this process and receive certification from the arbitrator not a mediator and do so in good faith prior to filing for chapter 9. Local governments are not permitted to file under chapter 9 until they have pursued this process. Ms. Carroll added that the mediation process only includes the Commission if the local government requests assistance from the Commission. Mr. Goldstone then pointed out, as a representative of local government, that he did not like the legislation, but that he did not see that the Commission would be the channel to voice the concerns of local agencies.

Mr. Reyes stated his concern with taking a position on this legislation was that the Commission meets so infrequently. He further stated that as there are many amendments that have yet to move through committee and that a position taken by the Commission today may not apply to the bill in a future form. Mr. Goldstone reiterated his concern about impacts of the bill on the CDIAC staff. Ms. Carroll states that CDIAC will need to determine if it is able to perform the tasks assigned to it by the bill or if it will need additional expertise.

Ms. Carroll asked if there were any public questions or comments, hearing none, she motioned to move forward to the Commission staff report. Ms. Liu excused herself from the meeting and thanked the Commission for including her in it. She left the meeting at 2:26 pm.

Mr. McGuire asked to take up Item 6, CDIAC's Fee Structure, as he also needed to leave the meeting. Ms. Carroll responded affirmatively.

6. CDIAC FEE SCHEDULE (INFORMATION ITEM)

Mr. Campbell explained that the purpose of this item is to address CDIAC's fee structure. Government Code Section 8856 authorizes CDIAC to charge a fee up to \$5,000 on public debt issuance reported to CDIAC. That fee is paid by the lead underwriter or the purchaser of the debt. Resolution 10-03 approved on July 15, 2010 established a fee schedule below the statutory limit: long-term debt is charged 1/40 of 1 percent of the issuance amount, the principal, up to a maximum of \$3,000; short-term debt is charged \$150. CDIAC's projected fund balance

for 2011-12 was \$5.6 million but was expected to decline. CDIAC believed that that fund balance was sufficient to meet its program's needs for FY 2011-12 even with the decline. CDIAC requested to maintain the current fee schedule. Resolution 10-03 included language that allowed the fee schedule to stay in place until the Commission voted to change it. Therefore, the Commission was not required to take action on the fee schedule.

Ms. Carroll asked for any further questions or comments, hearing none the meeting continued to the discussion related to Item 4 – Commission Staff Report.

7. COMMISSION STAFF REPORTS (CONTINUED FROM ITEM 4 ABOVE)

Mr. Campbell proceeded with the FY 2010-2011 updates for each CDIAC unit. For the Data Unit, topics discussed in the report were revenues and the types of reports published. The FY 2010-2011 overview for the Education Unit summarized the types of programs offered, marketing strategies, fee restructuring, and attendee profile and volume. Mr. Campbell pointed out that attendance to CDIAC's seminars had grown year over year by 87 percent. Lastly, Mr. Campbell summarized the Research Unit activities providing updates on current reports, analysis work, and projects, specifically forensic research on the City of Bell and Vernon, the Public Enterprise Bond Report, and updated Local Agency Investment Guidelines.

8. PUBLIC COMMENT

Ms. Carroll asked for any questions or comments prior to adjourning. None were presented.

9. ADJOURNMENT

There being no further business, the meeting was adjourned at 2:39 pm.