

AGENDA ITEM 4 (INFORMATION ITEM) COMMISSION STAFF REPORT

CDIAC Staff Report June 6, 2012

DATA COLLECTION AND ANALYSIS UNIT

California Government Code requires CDIAC to collect, maintain, and provide comprehensive information on all state and local debt authorization and issuance and serve as a statistical clearinghouse for all state and local debt issues. CDIAC's Data Collection and Analysis Unit (Data Unit) carries out these statutory responsibilities.

The Data Unit collects data at the time of issuance as well as annual fiscal status reports for Mello-Roos and Mark-Roos bonds and maintains this information in CDIAC's Debt Issuance Database (Database), a portion of which can be accessed on CDIAC's website.² The Database contains information from 1984 to the present and is updated on a daily basis by Data Unit staff. As of December 31, 2011 the Database contained more than forty-six thousand records.

For calendar year 2011, the Data Unit received and processed 5,315 reports including Reports of Proposed Debt Issuance (RPDIs)³, Reports of Final Sale (RFSs)⁴, Marks-Roos Yearly Fiscal Status Reports (MKR YFS), Mello-Roos Yearly Fiscal Status Reports (MLR YFS), and Mello-Roos/ Marks-Roos Draw on Reserve/Default/Replenishment Filings (DFD). Figure 1 contains a breakdown of the reports processed by the Data Unit during calendar year 2011.

² The Data Unit receives annual fiscal status reports for Mello-Roos and Marks-Roos bonds issued after January 1, 1993 and January 1, 1996, respectively.

³ Per Government Code Section 8855(i) issuers of proposed new debt must give notice no later than 30 days prior to the sale date.

⁴ Per Government Code Section 8855(j) issuers must submit reports of final sale no later than 45 days after the signing of the bond purchase agreement or acceptance of bid.

FIGURE 1

REPORTS PROCESSED CALENDAR YEAR 2011

TYPE OF REPORT	TOTAL
Reports of Proposed Debt Issuance	1,405
Reports of Final Sale	1,537
Mello-Roos Yearly Fiscal Status Reports	1,194
Marks-Roos Yearly Fiscal Status Reports	1,145
Mello-Roos/Marks-Roos Draw on Reserve/Default/Replenishment Filings	33

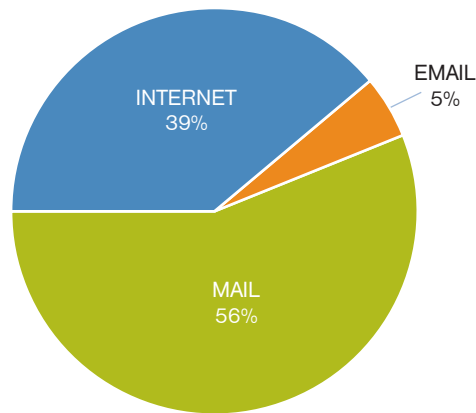
Since 2008, the Data Unit has been transitioning to electronic submission of data and reports. Electronic submission enhances data collection efficiencies and helps to ensure reporting accuracy. Currently, public agency issuers can submit reports using CDIAC’s web-based forms, by email, or traditional mail.

In 2011, on-line submission of RPDIs accounted for 39 percent of all submissions, an increase from 24 percent in 2010. Fifty-six percent of the 1,405 RPDIs received for the year were sent in by mail—these reports must be entered manually by staff.

Figure 2 displays the methods used to submit RPDIs in 2011.

FIGURE 2

STATE AND LOCAL ISSUANCE, METHODS OF SUBMITTAL, RPDIs
JANUARY 1, 2011 - DECEMBER 31, 2011

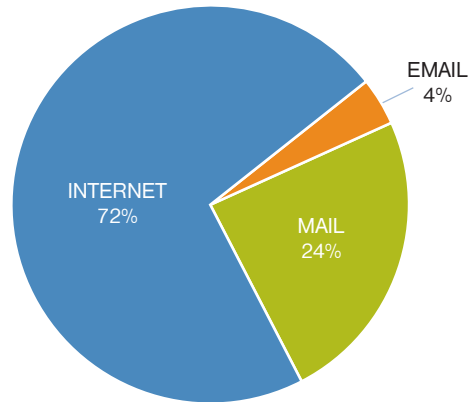


TOTAL REPORTS RECEIVED: 1405

When all types of CDIAC reports are considered, the ratio of type of submission changes dramatically. Approximately 72 percent of all reports are submitted using CDIAC's online forms (Figure 3). Reports received by traditional mail fell to 24 percent.⁵

FIGURE 3

STATE AND LOCAL ISSUANCE, METHODS OF SUBMITTAL, ALL REPORTS*
JANUARY 1, 2011 - DECEMBER 31, 2011



TOTAL REPORTS RECEIVED: 3776

*Excludes Reports of Final Sale.

CDIAC continues to explore ways to increase online submissions, including conducting customer outreach to determine the reasons for hardcopy submissions and resolving any issues that may be impeding the use of online forms. In the coming year, CDIAC hopes to automate the submission of Tax and Revenue Anticipation Note (TRAN) Pools. Electronic submission of these reports should greatly increase the online submission rate.

Debt Issuance Fees

A critical function of the Data Unit is the collection of CDIAC debt issuance fees, the main revenue source through which CDIAC funds its operation. CDIAC's reporting fees are assessed based on the amount of principal issued, the length of maturity (long-term versus short term) and the type of issuance. In general, the reporting fee for short-term maturities (eighteen months or less) is \$150 and for long-term maturi-

⁵ Because each CDIAC issuance only shows one method of delivery, we cannot determine an accurate count of delivery methods of RPDIs versus RFSs. Only the method of submittal for RPDIs is reflected in the Database.

ties (greater than eighteen months) the fee is equal to 1.5 basis points (0.00015) not to exceed \$3,000. A detailed fee schedule is available on CDAIC’s website.⁶

For 2011 the Data Unit issued 1,070 invoices totaling approximately \$1.8 million. Of these six were cancelled and one remains uncollected. Figure 4 reflects the breakdown of fees assessed for state and local agencies in 2011.

FIGURE 4
FEES ASSESSED IN CALENDAR YEAR 2011 – STATE VS. LOCAL

	FEES ASSESSED	# OF INVOICES
STATE		
Long-Term Debt	\$147,546	73
Short-Term Debt	1,800	14
LOCAL		
Long-Term Debt	\$1,564,646	836
Short-Term Debt	48,600	147
TOTAL	\$1,762,591	1070

Public Access to Data

CDIAC makes available the information submitted by public agencies through the CDIAC website. Users may access data in a variety of forms, including:

- **ONLINE TABLES.** The Data Unit posts monthly California state and local debt issuance data to CDIAC’s website in the form of tables. Data is summarized by year and the type of debt issued or the purpose for which it was issued.
- **SEARCHABLE DATABASE.** State and local debt issuance data is available through a searchable database that contains information from 1984 through the present on all debt issuance reported to CDIAC. The on-line database was accessed more than 3,900 times during 2011.

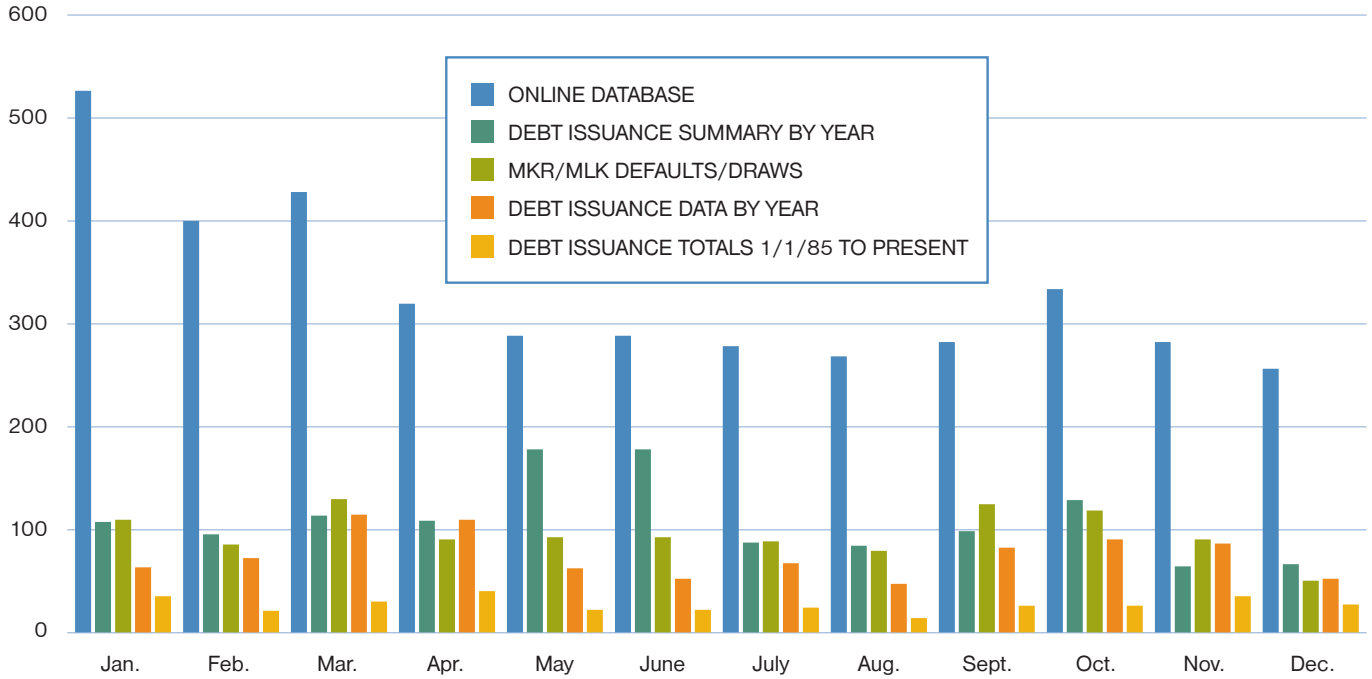
Figure 5 displays the number of “hits” or inquiries on CDIAC’s online data sources received during 2011.

REPORTS. CDIAC publishes a number of reports summarizing data reported throughout the year. The Marks-Roos and Mello-Roos Yearly

⁶ Long-term maturities are issues for which the length of final maturity is greater than 18 months. Short-term maturities are issues for which the length of final maturity is 18 months or less.

FIGURE 5

ON-LINE DEBT ISSUANCE INFORMATION, NUMBER OF HITS, CALENDAR YEAR 2011



Fiscal Status Reports received by the Data Unit during the fiscal year (July 1 through June 30) are the basis for CDIAC’s Marks-Roos Yearly Fiscal Status Report and the Mello-Roos Community Facility District Yearly Fiscal Status Report.⁷ The Marks-Roos Bond Pooling Act Participants Yearly Fiscal Year Status Report was last produced for fiscal year 2001-2002. Staff is currently compiling and verifying data for the intervening fiscal years and expects to post the reports to the CDIAC website in the summer of 2012. Staff is currently reviewing and verifying the Mello-Roos Community Facilities District Yearly Fiscal Status Report, covering the period of July 1, 2009 through June 30, 2010 and July 1, 2010 through June 30, 2011 and expects to post these report in the coming months.

Yearly data is summarized in three report forms:

1. CALENDAR OF PUBLIC DEBT ISSUANCE. This annual report lists details of each public debt bond issue sold in California. Each listing includes the name of the issuer, the county, the type and purpose of the issue, the date of the sale, the principal amount

⁷ Pursuant to Government Code Sections 6599.1(b) and 53359.5(b) issuers of Mark-Roos (after January 1, 1996) and Mello-Roos (after January 1, 1993) bonds must submit Yearly Fiscal Status Reports to CDIAC.

of the bonds, and whether or not the issue is a refunding. Each listing also shows the interest rate, the rating, credit enhancement information, the final maturity date, and the major participants in the financings. The report is organized chronologically by issuer, beginning with the State of California and its departments and agencies, then local agencies (further sorted by county, agencies within counties, and by the sale date of the issue) and student loan corporations.

2. **SUMMARY OF CALIFORNIA PUBLIC DEBT ISSUANCE.** This annual report provides aggregate summary information by issuer on major components of debt, such as long-term and short-term debt, tax-exempt and taxable debt, and refunding existing indebtedness. The value of this report for financing professionals and policymakers lies in its ability to answer questions concerning who issues the debt, how the debt is issued, and for what purpose it was issued.
3. **ANNUAL REPORT.** CDIAC's Annual Report provides more global analyses (as opposed to the "by issuer" structure of the previous two reports) of public debt issued in California for the calendar year. The analyses include comparisons to previous years' debt issuance levels; categories of issuance (such as, purpose of debt, competitive and negotiated, credit enhanced debt); and displays California's Mello-Roos and Marks-Roos issues, purpose, defaults and draws on reserves. (Mello-Roos and Marks-Roos are California's financing mechanisms for specified public improvements, and are generally backed by special *property tax assessments*.)

Other Projects

ELECTRONIC FILE STORAGE. In late 2009 the Data Unit began a project to reduce the amount of paper files stored on site by systematically reviewing, digitizing, and electronically storing all on-site paper files. As of December 31, 2011, the Data Unit had completed scanning all of the 2008 files and begun scanning the 2009 files.

MARKS-ROOS YEARLY FISCAL STATUS REPORTING. In 2011 the Data Unit completed a comprehensive review of the Marks-Roos reporting statute to determine if CDIAC's Data Unit staff was capturing all the reports required to be submitted by issuers of bonds under the Marks-Roos Bond Pooling Act.⁸ After review of the bond documents of more than 1,000 issues, staff discovered that due to a previous interpretation of the statute, many issuers had not been required to report to CDIAC. To

⁸ Pursuant to Government Code Sections 6599.1(b) issuers of Mark-Roos (after January 1, 1996) bonds must submit Yearly Fiscal Status Reports to CDIAC.

correct this, CDIAC updated its reporting procedure, online reporting instructions, and developed a new reporting form (the *Marks-Roos Yearly Fiscal Status Report for Loan Obligations*), and sent out several hundred letters to submitters alerting them to their reporting obligations. CDIAC expects that the new reporting form, which is currently available in hard-copy format only, will be available for electronic submission for the next reporting cycle.

DATABASE AND REPORTING FORMS UPDATE—DRAW ON RESERVE/DEFAULT/REPLENISHMENT. Issuers of Mello-Roos and Marks-Roos bonds are required to notify CDIAC within ten days of any draw on reserve to pay debt service or any default.⁹ While reviewing reports of draws on reserves and defaults on the MSRB’s Electronic Municipal Market Access (EMMA) website, Data Unit staff noticed that issuers were also posting notices of replenishment of draws on reserve. We revised our Draw on Reserve/Default report to give issuers the opportunity to voluntarily report these events to CDIAC. The new Draw on Reserve/Default/Replenishment form is currently available on our website as a mail-in form.¹⁰

DATABASE AND REPORTING FORMS UPDATE—REPORT OF FINAL SALE. CDIAC uses the date of the signing of the bond purchase contract or the acceptance of a bid as the “actual sale date” in our database.¹¹ This date is requested on our Report of Final Sale (RFS). When researching bond issuances using other sources, the “dated date” (the date interest begins to accrue) is normally used to identify an issue. To assist users of our online searchable database in correctly identifying bond sales, the Data Unit has added “dated date” as a field in the database. Issuers must now provide both the actual sale date and the dated date on their RFS. In addition, CDIAC is now requesting both true interest costs and net interest costs for all fixed rate debt. Finally, a “private placement” field has been added to the RFS to identify these issues.

⁹ Pursuant to Government Code Sections 6599.1(c) and 53359.5(c) issuers of Mark-Roos (after January 1, 1996) and Mello-Roos bonds must, regardless of when sold, must notify CDIAC within ten days if funds are withdrawn from a reserve fund or if issuer fails to pay principal and interest due on any scheduled payment date.

¹⁰ Located at: www.treasurer.ca.gov/cdiac/reporting.asp.

¹¹ Pursuant to Government Code Section 8855(j), this date is used to determine date of submittal of the report of final sale.

EDUCATION AND OUTREACH UNIT

Government Code Section 8855(h)(7) requires CDIAC to provide a continuing education program to municipal debt and investment professionals.

Seminar Enrollment

In FY 2011-12, 1,459 municipal professionals enrolled in educational opportunities offered by CDIAC, an increase of 123 percent over FY 2010-11, (Figure 6). The increase in enrollments can be attributed, in part, to the introduction of web-based training.

FIGURE 6

CDIAC SEMINAR ATTENDANCE, FY 2007-08 THROUGH FY 2011-12
(INCLUDES ALL SEMINARS, WEBINARS AND CO-SPONSORED EVENTS)

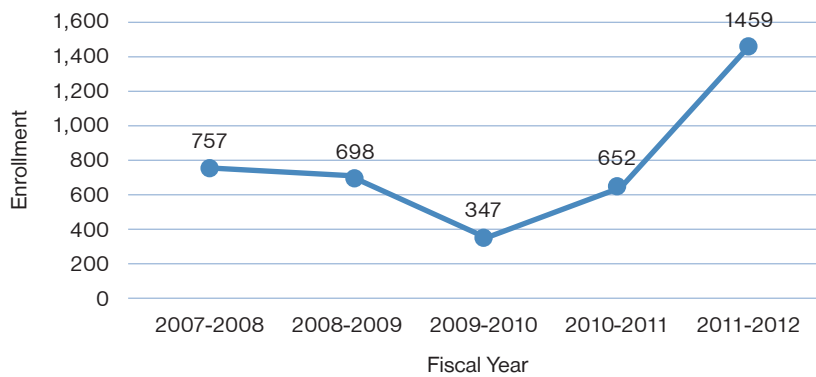
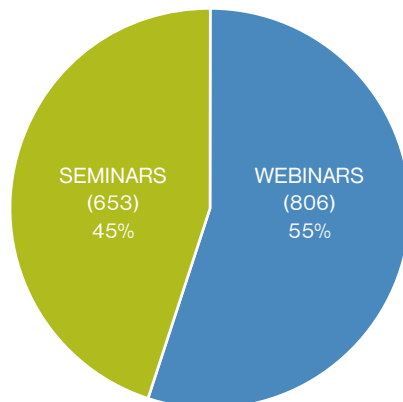


FIGURE 7

EDUCATION FORMAT: WEBINARS VS. SEMINARS, FY 2011-12



Webinars

In Fall 2011, CDIAC introduced web-based training to address one of the perceived contributors to low enrollment in CDIAC's 2010 seminars – limited travel budgets. Fifty-five percent of attendance in CDIAC's education programs was at webinars (Figure 7). Nearly all of the webinars offered in FY 2011-12 focused on technical and specialized topics to augment CDIAC's core seminar topics.

BOND MATH PART 1. In September 2011, CDIAC held the first installment of a two-part series on bond math. The webinar discussed components of a bond sizing, debt service amortization, gross and net debt service, basic bond structures, principal, interest, coupons and yields, and bond statistics (true interest costs, all-in true interest cost and arbitrage yield). This information will help issuers understand their future debt service costs as well as the output of the many pages of debt service "runs" that agencies receive from their financing team.

BOND MATH PART 2. In October 2011, CDIAC held the second installment of a two-part series on bond math. This webinar session focused on several concepts related to the economics of bond pricing including: yield curve dynamics, time value of money, accrued interest and bond redemption principles, callable bonds, capital appreciation bonds, and bond yield and pricing calculations.

ARBITRAGE MATH AND COMPLIANCE. In November 2011, CDIAC held a webinar focused on arbitrage math concepts – addressing how issuers could owe the IRS a rebate payment in the current interest rate environment. The webinar also covered IRS audit hot buttons, documentation, and SEC disclosures that will help issuers understand what they need to keep in the event of an audit and what to send to the MSRB's Electronic Municipal Market Access (EMMA) system.

SWAP MATH. In November 2011, CDIAC held a webinar focused on swap math and related concepts, including information on the swap market, valuation methodologies, swap dealers' pricing conventions, formulas and examples of pricing, and a review of variables affecting market prices.

AGENCY SECURITIES. In December 2011, CDIAC held a webinar focused on Government Sponsored Enterprise (GSEs) and other types of agencies that are investment options for state and local governments. Topics include the current market for GSEs after the U.S. ratings downgrade and considerations for investing in Farmer Mac (Federal Agriculture Mortgage Corporation), Supranationals, and Green Bonds.

MUNICIPAL MARKET OUTLOOK. In January 2012, CDIAC held a webinar to provide state and local government agencies with an anticipa-

tory look at market conditions for issuing debt in the coming year and included an analysis of the bond market (supply & demand, volume and trends for municipal securities, treasuries, corporates, etc.), status of tax-exempt municipal securities, and analysis of credit conditions in the 1st quarter of 2012.

INVESTMENT ANALYSIS: DURATION CALCULATION. In February 2012, CDIAC held a webinar to examine the concept of duration and the factors that are considered when applying it to a portfolio of investments, including securities' coupon rates, maturities, yields, and option features.

INVESTMENT STRUCTURES AND RISK MANAGEMENT OF PUBLIC INVESTMENT PORTFOLIOS. In March 2012, CDIAC held a webinar focused on the management of risk in a public investment portfolio, to assist local agency investment officers apply the concepts of risk management to structuring and managing their investment portfolios.

CDIAC Seminar Programs

CDIAC conducted four classroom based seminars during FY 2011-12:

PRIVATE ACTIVITY BOND WORKSHOP. In September 2011, CDIAC held a one-day seminar on private activity bonds that provided an update on industry trends, best practices, and recent federal and state regulatory actions.

STATE CONTROLLER'S OFFICE DEBT FINANCE TRAINING. In October and November 2011, CDIAC held two one-day training sessions, *Introduction to Debt Financing*, for the State Controller's Office. The training covered bond concepts, roles and responsibilities of issuers and industry professionals, short- and long-term financing options, and marketing and pricing of bonds. The seminar was attended by the audit unit of the State Controller's Office and included participation by some Legislative staff.

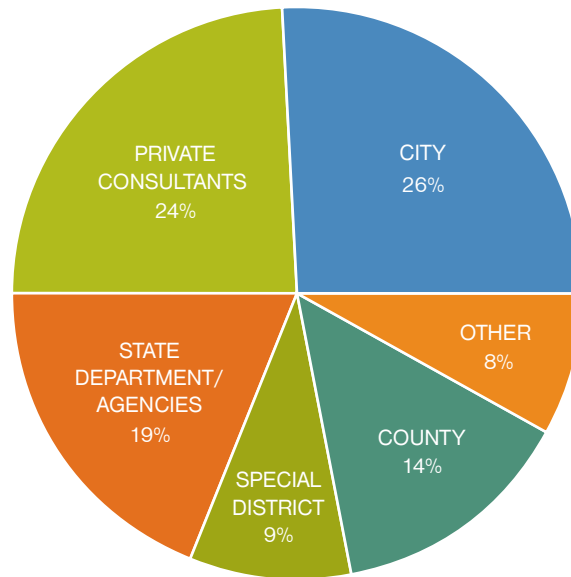
MUNICIPAL DEBT ESSENTIALS. In March 2012, CDIAC held three one-day seminars (collectively known as *Municipal Debt Essentials*). Participants were allowed to attend a single day or a combination of days. Day One: *Debt Basics* addressed the elements of debt financing; Day Two: *Accessing the Market* addressed the elements and processes of selling to the market; and Day Three: *Debt Administration* addressed the elements of debt administration post-issuance.

MUNICIPAL MARKET DISCLOSURE: APPLICATION TO PENSION DISCLOSURE. In May 2012, CDIAC held its one-day *Municipal Market Disclosure* class focused on public pension disclosure including pension mechanics and math, pension disclosure practices and issues, and disclosure reporting standards for pension obligations.

CDIAC continues to serve its core constituency, local public agencies, through its educational programs. Over the past twelve months, 57 percent of the attendees of CDIAC’s seminars have been representatives of cities, counties, special districts, and other local government entities (Figure 8).

FIGURE 8

**ENROLLMENT AT CDIAC SEMINARS BY AGENCY TYPE
JULY 2011 THROUGH JUNE 2012**



Educational Partnerships

In FY 2011-12, CDIAC extended three successful partnerships with *The Bond Buyer*, the County Association of County Treasurer’s and Tax-Collectors Association (CACTTC), and the California Society of Municipal Finance Officers Association (CSMFO).

BOND BUYER PRE-CONFERENCE. In September of 2011, CDIAC held a pre-conference, *Take Leadership of Your Financings* at *The Bond Buyer’s* Annual California Public Finance Conference. The program considered the impact of the recession, financial market collapse, and changes in the regulatory and enforcement environment on public agencies. This marked the tenth consecutive year that CDIAC has partnered with *The Bond Buyer* on the pre-conference.

CACTTC EDUCATION, LEGISLATION, AND BANKRUPTCY CONFERENCE (CDIAC SESSION). In October of 2011, CDIAC coordinated a 2-part session, *School Debt Financing: Practices Governing General Obligation Bonds and Certificates of Participation* for the California Association of County

Treasurers and Tax Collectors meeting. The program was aimed to provide county treasurer's with more in-depth understanding of school debt financing practices.

CSMFO PRE-CONFERENCE. In February 2012, CDIAC held a half-day pre-conference, *Stepping Forward: The Role of the Finance Officer in Today's Changing Market*, at the California Society of Municipal Finance Officers' Association Annual Conference. This program encouraged finance officers to take a leadership role in their public agency's finances and in their communications with the financial markets.

RESEARCH UNIT

Since the Commission's last meeting on June 11, 2011, CDIAC staff completed the following research assignments:

REVISED THE LOCAL AGENCY INVESTMENT GUIDELINES: UPDATE FOR 2010. This guideline was published in the second half of fiscal year 2010-2011. CDIAC staff worked with a group of private and public sector professionals to provide updates to this document.

MAKING SENSE OF PUBLIC PENSIONS. This Issue Brief provided an overview of public defined benefit plans with emphasis on plan funding, the discount rate, and the measurement of plan liabilities, as well as, discussing the pension accounting changes proposed by the Government Accounting Standards Board.

MUNICIPAL MARKET DISCLOSURE: COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FILINGS—A TEST OF COMPLIANCE AMONG CALIFORNIA ISSUERS. This research study was conducted by CDIAC to assess California state and local government issuer performance in meeting the Securities and Exchange Commission Rule 15c2-12 disclosure requirement to file annual financial information. *The Bond Buyer* published a summary of the study findings.

LOCAL AGENCY RESPONSE TO FISCAL STRESS. This article described the sources of fiscal stress experienced by local agencies over the past three years along with a discussion of the remedies employed by local agencies to mitigate shortfalls in the current and future years.

STRUCTURING A FIXED INCOME PORTFOLIO IN A RISING RATE ENVIRONMENT. This article provided local agency investment managers and staff with strategies to protect their fixed income portfolio against losses and underperformance during periods of increasing interest rates. The article described key concepts and components of interest rate risk, methods of measuring it, and an overview of common investment strategies and portfolio structures available to manage it.

DIGEST OF COUNTY OF LOS ANGELES SCHOOL DISTRICT GENERAL OBLIGATION BONDS-WHITE PAPER. This article presented an easy-to-understand analysis of the types of school financings questioned by the Los Angeles County Treasurer in his 2011 White Paper on school finance.

RESPONSE TO CALIFORNIA SB 867-PENSION FUND REPORTING. This report addressed a series of questions emerging from the legislation.

Forensic research on the City of Bell and Vernon, identifying and answering questions related to bond issuance and derivative financings.

A pamphlet on the new municipal disclosure rules under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

STATE AND LOCAL BOND AND TAX MEASURERS, NOVEMBER 2011 ELECTION RESULTS. After each statewide election, CDIAC summarizes and reviews all state and local bond and tax measures considered during a statewide election.

During 2010, CDIAC initiated academic research to evaluate the debt loads of state and local governments, analyzing growth of debt issuance within California, reviewing factors that influence debt issuance, and comparing California's debt profile to other states. CDIAC staff provided project management, review and analysis of the project. The resulting report, entitled *Debt Burdens of California State and Local Governments: Past, Present, and Future*, was published in 2011.

During the second half of calendar year 2011, CDIAC's Research Unit obtained city and county data from the State Controller's Office for the years 2000 to 2010. This data will be used to analyze and report on local agency fiscal status.

CDIAC published the monthly *Debt Line* newsletter throughout 2011, posting issuance statistics along with research articles authored by CDIAC staff and public finance professionals.

Future projects scheduled for completion during 2012 include:

- Design of information technology tools to interface with the CDIAC debt issuance database and outside data sources important to the Research Unit. These tools will provide a more standardized and efficient way to access large amounts of historical data for research and reporting.
- Complete a report chronicling the history of issuance within California over the past 30 years. This report will review bond issuance as a function of economic, political, demographic, and legislative events taking place within California and the U.S.

- Complete an analysis of school district general obligation bond financing methods along with the relationships between school districts and counties related to bond issuance.
- Examine the history of conduit financing, along with methods, costs and benefits, and current issues surrounding their use in California and throughout the U.S.
- Study the variables affecting school district general obligation issuance costs along with a comparison of school district issuance costs to general obligation bonds of non-school district issuers.
- Study school district disclosure policies and administrative procedures regarding secondary reporting requirements.
- Survey the availability, composition, and usage of a formal debt policy employed by local agencies within California.
- Work collaboratively with industry contacts, review changes to the local agency investment code, and attempt to clarify perceived ambiguity in the current statutes.