

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

Executive Director's Report June 10, 2014

2014-15 BUDGET PROPOSAL

CDIAC's proposed budget for the Fiscal Year (FY) 2014-15 is \$3,043,000. The baseline budget was increased for statewide increases in employee compensation and retirement contributions, but decreased for a reduction in pro rata statewide administrative costs. The total adjustment led to an overall reduction of 1.3 percent from the \$3,084,000 budgeted for CDIAC in FY 2013-14. Of the amount budgeted for FY 2014-15, \$2,863,000 is derived from CDIAC's Fund while the remaining \$180,000 is expected to be derived from reimbursements. CDIAC is supported by fees paid by issuers of public debt in California and reimbursements resulting from seminar fees and the sale of CDIAC publications. In FY 2014-15, CDIAC is authorized for 20 full-time staff, a retired annuitant, and a student assistant. The following chart provides a three year overview of CDIAC's authorized budget.

CDIAC BUDGET APPROPRIATION WITH ADJUSTMENTS (THOUSAND \$)

	FISCAL YEAR 2012-13 BUDGETED	FISCAL YEAR 2013-14 BUDGETED	FISCAL YEAR 2014-15 PROPOSED
Authorized Positions	20	20	20
Personal Services	\$1,594	\$1,710	\$1,744
Operating Expenses & Equipment	1,403	1,339	1,305
BUDGET ACT APPROPRIATION ^a	\$2,997	\$3,049	\$3,049
Adjustments ^b	(38)	35	(6)
GRAND TOTAL	\$2,959	\$3,084	\$3,043

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

^b Includes appropriation increases (Budget Act: 9800 Items) for employee compensation and retirement rate increases. In FY 12-13 and FY 14-15, the increase is net of an appropriation reduction for lower prorata state administrative costs allocated to CDIAC and other special funds.

CDIAC FUND CONDITION (THOUSAND \$)

	2012-13 ACTUAL	2013-14 ESTIMATED ^b	2014-15 PROJECTED ^c
RESERVES, ADJUSTED	\$6,868	\$6,532	\$5,805
REVENUE			
Fees	\$1,976	\$1,838	\$1,840
Interest Earned	13	11	10
Reimbursements (seminars)	0	74	70
TOTAL REVENUES	\$1,989	\$1,923	\$1,920
EXPENDITURES			
State Operation	\$2,307	\$2,635	\$2,912
Adjustments (Dept. of Finance)	18	15	15
TOTAL EXPENDITURES	\$2,325	\$2,650	\$2,927
FUND BALANCE ^a	\$6,532	\$5,805	\$4,798

^a The Fund Balance includes a \$2 million loan by CDIAC to the General Fund made in FY 2008-2009. The loan earns interest calculated at the rate earned on the Pool Money Investment Account at the time of transfer. CDIAC may request repayment of part or the entirety of the loan with a thirty-day written notice to the Department of Finance documenting the need for repayment. The FY 2010-11 Budget Act extended the scheduled repayment of the loan from June 30, 2011 to July 15, 2013. The FY 2013-14 Budget Act extends the repayment date to July 15, 2015.

^b Nine months of actual data combined with an April-June estimate for revenues and expenditures.

^c FY 2014-15 fee revenue is based on a projection of debt issuance in California at nearly the same level as in FY 2013-14. This projection considers the SIFMA 2014 *US Municipal Issuance Survey*, 12/10/2013 which predicted a 1.0% decrease in US long term debt issuance. Ninety-three percent of CDIAC's fee revenue is derived from long-term debt issuance. The SIFMA survey is a compilation of forecasts from analysts representing eleven firms engaged in underwriting and/or analyzing the US municipal bond market.

UNIT REPORTS

Data Collection and Analysis Unit

CLARIFICATION OF REPORTING OBLIGATIONS OF ISSUERS. State Treasurer Lockyer has asked Assemblymember Richard Gordon to sponsor legislation amending CDIAC's authorizing statutes. Assembly Bill 2274, introduced on February 21, 2014, would make technical changes to Government Code Section 8855 to better align CDIAC's debt information collection process with current municipal financing practices. Specifically, AB 2274 would allow CDIAC to capture reports of debt issuance and collect issuance fees on traditional financing structures as well as new and emerging structures that public entities may employ in the future, including direct loans.

INCORPORATING CURRENT POLICY ISSUES INTO DATABASE. Since 1981, CDIAC has received reports from California public entities issuing both long- and short-term debt. It publishes this data in a number

of annual and monthly reports. To better respond to emerging issues regarding the use of debt, CDIAC is constantly enhancing the database to incorporate new types of data. In FY 13-14, CDIAC implemented several changes, including:

- A. Borrower Counsel (Loan) – added this data field to identify participants in direct loan financings and capture the fees associates with the deal;
- B. Rate Reductions Savings – added this field to capture new issuer reporting requirements as a result of Assembly Bill 850 (Chapter 636, Statutes of 2013) which took effect on January 1, 2014 ;
- C. Utility Project Charges – added this field to capture this new source of repayment associated with the passage of Assembly Bill 850;
- D. Loan – added this field to identify this type of debt instrument;

CAPTURING PROCESS EFFICIENCIES. CDIAC continues to liaison with the State Treasurer’s Office (STO) Information Technology Division (ITD) to improve the timeliness and accuracy of the data collected and the ease with which data is made available to system users, including policy makers, finance professionals, and the public. Although ITD has not completed its development of a “fillable” Report of Final Sale, they are currently developing a web-based report of proposed debt issuance and report of final sale for Tax and Revenue Anticipation Note financings. The Unit currently has to manually enter these reports into the database. The development of the electronic reports should greatly decrease the time needed to enter these deals into our database. With the assistance of ITD, we have also made updates to our existing reports in response to requests by our customers to clarify the data being requested. With the release of these forms and the updates to our current forms, CDIAC hopes to achieve a long-standing goal of reducing “paper” submissions to less than five percent.

Education and Outreach Unit

EXPANDING EDUCATIONAL OPPORTUNITIES THROUGH THE INTERNET. In FY 2013-14, CDIAC continued to utilize web-based training to complement classroom training opportunities for state and local government officials. Using the webinar format, CDIAC honed in on a few topical areas, including an in-depth discussion of alternative public investment products, an update on swaps, and refunding redevelopment debt. Web-based training provides CDIAC the flexibility to launch hot topic or skill-based training in a timely manner. Upcoming webinars will address debt management policies, green bonds, alternative investment products, and training based on the soon-to-be-released CDIAC *California Debt Issuance Primer*. In addition, CDIAC’s webinars provided a platform for

other STO organizations, including the Local Agency Investment Fund, to broadcast programming to their constituents.

OUTREACH AND COLLABORATION WITH PUBLIC FINANCE ORGANIZATIONS. The Education Unit continues to collaborate with allied providers of public finance training to deliver fundamental debt and investment and policy-oriented programming. These organizations included the Municipal Securities Rulemaking Board, *The Bond Buyer*, The California Municipal Society of Analysts, the California Municipal Treasurer's Association, the California Society of Municipal Officer's Association and the University of California Extension program. CDIAC plans to further expand its outreach through collaborative programming in FY 2013-14.

TRANSFORMING THE MARKET THROUGH EDUCATION. CDIAC has embraced the use of symposiums and forums to advance the public policy discussion on several fronts. In FY 2013-14, CDIAC hosted a program, as part of the 2013 *Bond Buyer* California Public Finance Conference, on the Municipal Securities Rule G-17 considering the rule's newly required disclosures to be made by underwriters to issuers. Discussion panels considered the purpose of the revised interpretive rule and the dynamic between underwriters and issuers. Continuing this strategy, CDIAC is developing a program for the 2014 *Bond Buyer* California Public Finance Conference that will consider the practice of direct lending in the market and the considerations issuers must give to direct loans that may not apply to the traditional financings, such as bonds.

In addition, the CDIAC Education Unit works to build a quality pool of public and private representatives who are considered thought leaders in the market. This enables CDIAC to provide high level policy oriented discussion through education. In addition, including nationally recognized representatives from constituent organizations enriches the collaborative educational effort.

Policy Research Unit

DIRECT LENDING BY PUBLIC AGENCIES IN CALIFORNIA. In response to the increased use of directly placed loans by public agencies, CDIAC has undertaken a study of this emerging financing option. Best practices suggest that public agencies entering into direct lending obligations should disclose these obligations to the market. The study is designed to help CDIAC understand direct lending practices, identify the characteristics of these financings and provide guidance on prudent debt practices for direct lending.

UPDATE TO THE DEBT ISSUANCE PRIMER. As a result of the market crisis of 2008 and the resulting market reform, CDIAC contracted with Nixon Peabody LLP to perform an update and redesign of the Debt Issuance

Primer. The Debt Issuance Primer, a nationally recognized resource for debt issuance information, was last updated in 2006. To date, Nixon Peabody LLP has completed (and CDIAC has approved) the table of contents for the Update to the Primer outlining the structure of the updated Primer. Drafts of the Preface and Chapter 1 are in progress. The final Primer is scheduled to be completed in FY 2014-15.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION SCHOOL BONDS. CDIAC is continuing to review the data reported by in January 2014 that California local education agencies have \$38 billion in outstanding bond authority. The goal of this analysis is to understand how the authority corresponds to the need for facilities and the capacity of these agencies to issue debt to finance new schools or to modernize existing facilities.

DISCLOSURE OF MARKET CONDITIONS BY CONDUIT ISSUERS IN CALIFORNIA. CDIAC will examine the content and form of disclosures made by conduit issuers with regard to policy, economic, or social changes affecting the ability of obligated parties to meet their financial obligations to bondholders. The analysis may provide best practice guidance with regard to timely and complete disclosure of conditions that may present future repayment risks to investors.

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

LEGISLATIVE UPDATE

In addition to AB 2274 (Gordon), the 2014 Legislative Session includes several proposals that impact CDIAC directly or indirectly.

AB 621 (Wagner) would prohibit a local agency from contracting with a financial advisor, bond counsel, or underwriter if that firm or an individual from that firm has contributed to a campaign in support of the bond.

AB 2280 (Alejo) would authorize certain local agencies to form a community revitalization authority within a community revitalization and investment area, to carry out provisions of the Community Redevelopment Law with regard to infrastructure, affordable housing, and economic revitalization. The bill would authorize the use of tax increment to finance these projects.

ACA 8 (Blumenfeld) would lower the voter threshold for exceeding the 1 percent limit on ad valorem taxation from 2/3rd majority vote to 55

percent. It would similarly lower to 55 percent the voter-approval threshold for a city, county, or city and county to issue general obligation bonds to fund specified public improvements and facilities, or buildings used primarily to provide sheriff, police, or fire protection services.

SB 1129 (Steinberg) would, in part, authorize a successor agency to utilize the proceeds of bonds issued during the 2011 calendar year by a redevelopment agency prior to its dissolution. The authority would be subject to the approval of the oversight board if it determines that the use of the bond proceeds is consistent with the sustainable communities strategy adopted by the metropolitan planning organization.

SCA 4 (Liu) would lower the voter threshold to impose, extend, or increase a special tax by a local government to finance local transportation projects to 55 percent if the proposition proposing the tax includes certain requirements.