

## AGENDA ITEM 4 (INFORMATION ITEM) COMMISSION STAFF REPORT

### CDIAC Staff Report June 10, 2014

#### 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 is also authorized to charge a fee to the lead underwriter or purchaser of California's public debt. CDIAC's Data Collection and Analysis Unit (Data Unit) carries out these statutory responsibilities.

The Data Unit collects data when debt is authorized by the public agency and then again when it is issued. In addition, the Data Unit collects annual fiscal status reports for Mello-Roos and Mark-Roos bonds. This information is maintained in CDIAC's Debt Issuance Database (Database), a portion of which can be accessed on CDIAC's website.<sup>1</sup> The Database contains information from 1984 to the present and is updated on a daily basis by Data Unit staff. As of April 21, 2014 the Database contained more than 51,000 records.

For fiscal year (FY) 2013-14, the Data Unit received and processed 6,137 reports including Reports of Proposed Debt Issuance (RPDI)s<sup>2</sup>, Reports of Final Sale (RFS)s<sup>3</sup>, Marks-Roos Yearly Fiscal Status Reports (MKRYFSRs), Mello-Roos Yearly Fiscal Status Reports (MLR YFSRs), and Mello-Roos/Marks-Roos Draw on Reserve/Default/Replenishment Filings (DFDs).

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<sup>1</sup> 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.

<sup>2</sup> Per Government Code Section 8855(i) issuers of proposed new debt must give notice no later than 30 days prior to the sale date.

<sup>3</sup> 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\*, FISCAL YEAR 2013-14**

<b>TYPE OF REPORT</b>	<b>TOTAL</b>
Reports of Proposed Debt Issuance	1,374
Reports of Final Sale	1,482
Mello-Roos Yearly Fiscal Status Reports	1,389
Marks-Roos Yearly Fiscal Status Reports	1,855
Mello-Roos/Marks-Roos Draw on Reserve/ Default/Replenishment Filings	37

\*Totals as of April 21, 2014

Figure 1 contains a breakdown of the reports processed by the Data Unit during FY 2013-14.<sup>4</sup>

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. Our goal is to receive no less than 95 percent of all reports by electronic submission. The addition of a “fillable PDF” version of the RPDI created by the State Treasurer’s Office Information Technology Division (ITD) in 2012 gave public agency issuers the ability to submit reports using one of four methods: CDIAC’s web-based forms, fillable PDF RPDI, e-mail, or traditional mail. Figure 2 displays the methods used to submit RPDIs<sup>5</sup> and RFSs in FY 2013-14.

During FY 2013-14, a total of 2,856 RPDIs and RFSs were received using all submittal methods. Seventy-four (74 %) percent of RPDIs and RFSs were submitted online, while 26 percent were submitted in methods requiring manual entry by Data Unit staff. CDIAC continues to explore ways to increase online submissions, including conducting customer outreach to determine the reasons for hardcopy submissions and resolve any issues that may be impeding the use of online forms.

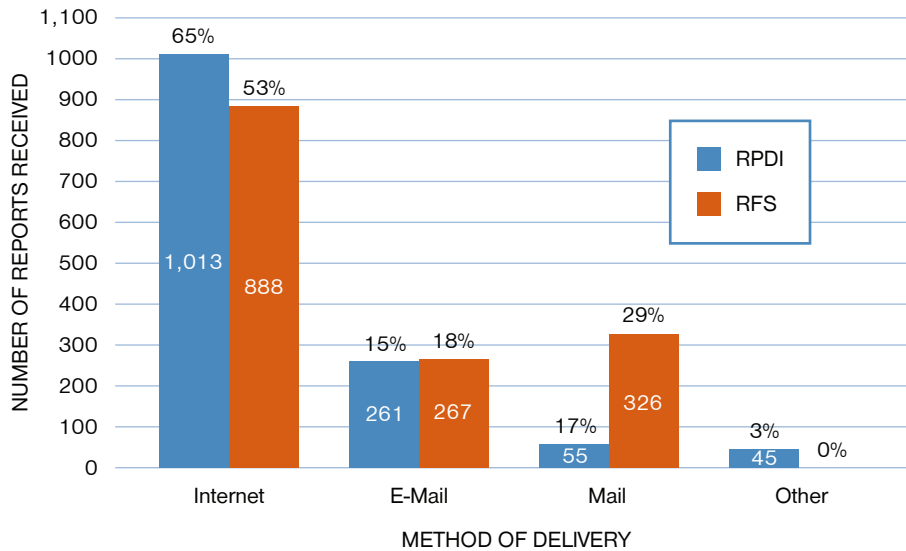
In addition to the RPDI and RFS, CDIAC is statutorily required to collect data from public debt issuers who have issued under the Marks-Roos Bond Pooling Act or the Mello-Roos Community Facilities Act. When these additional types of reports are considered, approximately 81 percent of all reports were submitted using CDIAC’s online forms, an 8 percent increase from last year. (Figure 3). Reports received by traditional mail and as an e-mail attachment fell to 11 percent of all reports, a 15 percent decrease from last year.

<sup>4</sup> Totals as of April 21, 2014.

<sup>5</sup> Submittal of the fillable PDF RPDI is included in the “Other” category.

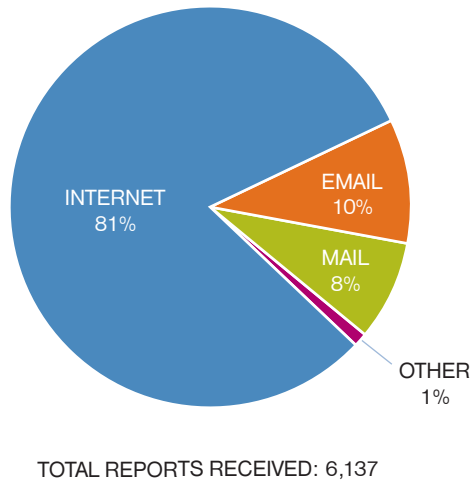
**FIGURE 2**

STATE AND LOCAL ISSUANCE, METHODS OF SUBMITTAL  
RPDI's AND RFSs, FY 2013-2014



**FIGURE 3**

STATE AND LOCAL ISSUANCE  
METHODS OF SUBMITTAL  
ALL REPORTS, FY 2013-2014



In the coming year, CDIAC hopes to automate the submission of Tax and Revenue Anticipation Note (TRAN) Pools reports, thereby eliminating the need for CDIAC staff to manually enter the data. Electronic submission of these reports should greatly increase the online submission rate and bring us closer to our goal of 95 percent.

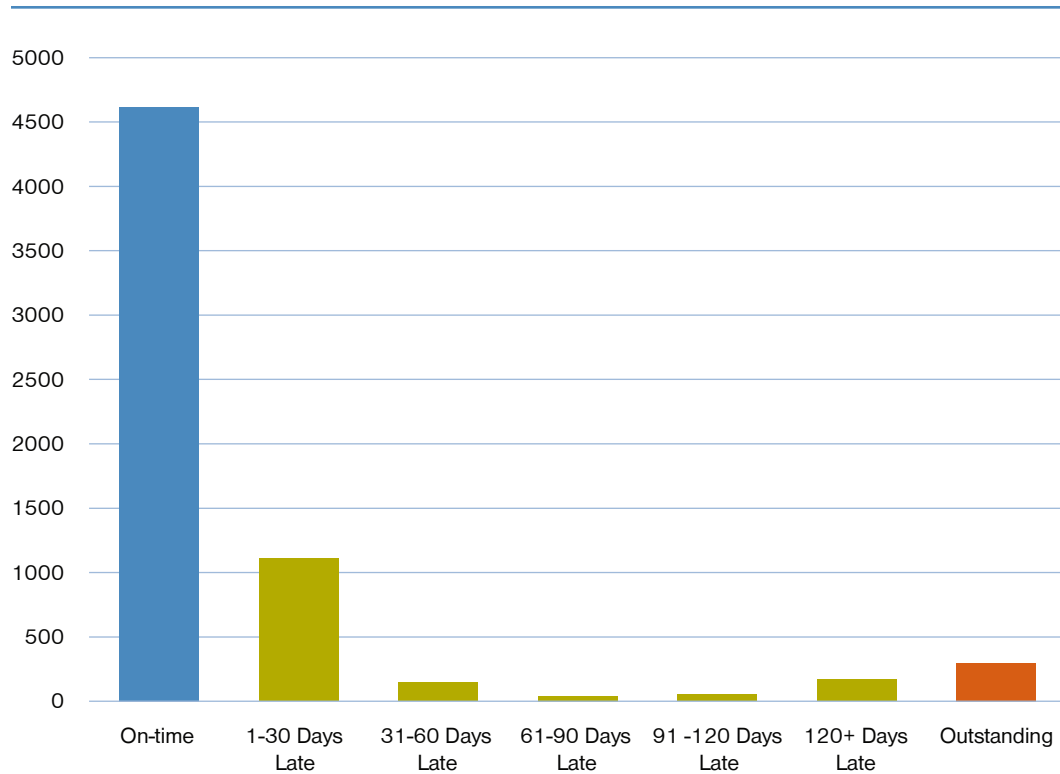
Since each of the mandated reports must be submitted to CDIAC within specific timeframes, CDIAC tracks the timeliness of submittal on all reports. During FY 2013-14, 75 percent of the reports received by CDIAC were submitted within required timeframes, 25 percent were not. As of April 21, 2014, approximately 299 of the 2,145 of the MKR YFSRs reports (14 percent) expected to be filed no later than October 30, 2013 remain outstanding (Figure 4).

### Debt Issuance Fees

A critical function of the Data Unit is the collection of reporting 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

**FIGURE 4**

TIMELINESS OF REPORTING, ALL REPORTS EXPECTED, DURING FY 2013-2014



per issue. Long-term maturities (greater than eighteen months) are assessed 1.5 basis points (0.00015) of principal not to exceed \$3,000.<sup>6</sup> Fees are collected only on debt issues of \$1,000,000 or more. A detailed fee schedule is available on CDIAC's website.

For the first nine months of FY 2013-14 the Data Unit issued 807 invoices totaling approximately \$1.3 million.<sup>7</sup> As of April 21, 2014, 56 invoices, representing \$110,784 in issuance fees, remain uncollected for debt issued in 2013. Figure 5 reflects the breakdown of reporting fees assessed for state and local agencies in FY 2013-14.

### 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:

<sup>6</sup> 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.

<sup>7</sup> This figure represents invoices issued as of March 31, 2014.

**FIGURE 5**

FEES ASSESSED IN FY 2013-14,  
 JULY 1 TO APRIL 21, 2014, STATE VS. LOCAL

	FEES ASSESSED	# OF INVOICES**
STATE		
Long-Term Debt	\$110,891*	45
Short-Term Debt	150	1
LOCAL		
Long-Term Debt	\$1,213,789	679
Short-Term Debt	22,800	82
TOTAL	\$1,347,629	807

\* Includes fees assessed to the Student Loan Corporation

\*\* Short-term invoices issued for local agencies may include fees assessed for TRAN Pools. These invoices represent multiple flat rate assessments on one invoice

DEBT LINE NEWSLETTER. CDIAC is mandated to publish a monthly newsletter describing the operations of the Commission during the prior month<sup>8</sup>. *Debt Line*, CDIAC's monthly publication, satisfies this requirement. It provides the public with comprehensive information on all reports of proposed and finalized debt issuances received during the prior month in addition to cumulative debt issuance statistics.

ONLINE TABLES AND GRAPHS. The Data Unit posts monthly California state and local debt issuance data to CDIAC's website in the form of tables and graphs. Data is summarized by year and the type of debt issued or the purpose for which it was issued.

ONLINE ISSUANCE DATA. Data on all public debt issued in California each calendar year as reported to CDIAC on the "Reports of Final Sale" is posted in Excel format. The data is provided by month and includes the same information on "sold" issues that is published in the Calendar portion of *Debt Line*.

SEARCHABLE DATABASE. Users may query CDIAC's entire database of public debt issuance online and download twenty different data elements for any issuance of debt reported to CDIAC since 1984.

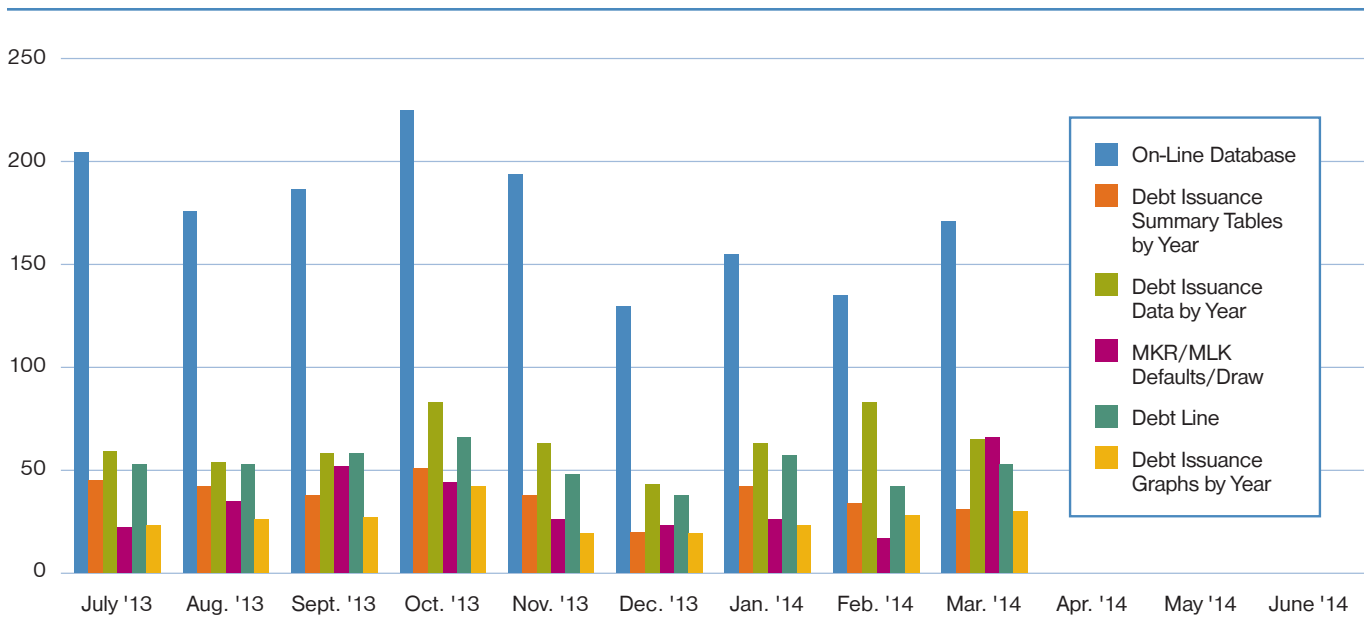
MARKS-ROOS AND MELLO-ROOS DRAW ON RESERVES/DEFAULT REPORTS. The Data Unit posts data on draws on reserve and defaults as the reports are received. Reports are listed by issuer and date of occurrence.

Figure 6 displays the number of "hits" or inquiries on CDIAC's online data sources during the first nine months of FY 2013-14.

<sup>8</sup> Government Code Section 8855(h)(9).

**FIGURE 6**

ON-LINE ACTIVITY, FISCAL YEAR 2013-14\*



\* As of April 21, 2014

## Reports

CDIAC publishes a number of summary reports using data reported throughout the year. Beginning in October each year, the Data Unit receives the Marks-Roos and Mello-Roos Yearly Fiscal Status Reports which report financial activity for the prior fiscal year (July 1 through June 30) and serve as the basis for CDIAC's Marks-Roos Yearly Fiscal Status Report and the Mello-Roos Community Facility District Yearly Fiscal Status Report.<sup>9</sup> During FY 2013-14, CDIAC published the Marks-Roos Bond Pooling Act Participants Yearly Fiscal Year Status Report for fiscal year 2005-06. Staff is currently compiling and verifying data for the intervening fiscal years. Staff also published the Mello-Roos Community Facilities District Yearly Fiscal Status Reports for fiscal year 2011-12.

Yearly data is summarized in three report forms:

**CALENDAR OF CALIFORNIA PUBLIC DEBT ISSUANCE.** This annual report lists details of each California public debt issue. Each listing includes the issuer name, county, type, purpose of the issue, date of the sale, principal amount of the debt, and whether or not the issue is a refunding. Each list-

<sup>9</sup> 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.

ing also shows the interest rate, rating, credit enhancement information, final maturity date, and 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.

**SUMMARY OF CALIFORNIA PUBLIC DEBT ISSUANCE.** This annual report provides aggregate summary information by issuer on major debt characteristics, 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 issued the debt, how the debt was issued, and for what purpose.

**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- and off- site by systematically reviewing, digitizing, and electronically storing all files. Staff continues to work on this project as time allows. As of April 2014, scanning of all 2009 and 2010 are complete. CDIAC is requesting the ability to use this electronic storage as our permanent record's storage vehicle, thus saving fees normally paid to archive the paper files.

**DATABASE AND REPORTING FORMS UPDATE--MARKS-ROOS AND MELLO-ROOS YEARLY FISCAL STATUS REPORTS (YFSRs).** CDIAC has developed four reports to standardize and improve yearly fiscal status reporting for issuers of Marks-Roos and Mello-Roos bonds. In response to our customer outreach and in order to more accurately capture reported data, CDIAC is working with the ITD to update all YFSR reporting forms. These updates should clarify the types of data required to be submitted by issuers and improve the processing of that data for Unit staff. As of April 21, ITD has completed development on three of the four updated reports and the Data Unit expects all testing to be complete and the updated reports deployed for use no later than June 2014. This will ensure that the updated reports are available for FY 2013-14 YFSR reporting.

DATABASE AND REPORTING FORMS UPDATE-REPORT OF PROPOSED DEBT ISSUANCE (RPDI) AND REPORT OF FINAL SALE. Assembly Bill 850 was approved by the Governor on October 8, 2013 and took effect on January 1, 2014. The bill made amendments and added a section to the Marks-Roos Local Bond Pooling Act of 1985 (Marks-Roos), requiring certain issuers to report additional information to CDIAC prior to and after the sale of any Marks-Roos bonds.<sup>10</sup> In order to capture the data, CDIAC needed to update its debt reporting forms. CDIAC took this opportunity to make other changes to the reports in addition to the changes required by the new law by adding new financing participant roles, types of debt instruments, sources of repayment and purposes of financing to the RPDI. ITD has developed the reports and begun testing. CDIAC anticipates that testing will be complete and the new forms deployed by the end of May 2014.

DATABASE UPDATES-APPLICATION BASED REPORTS. CDIAC continues to work with ITD to make small but significant changes to its database which will reduce the manual entry by staff, helping to increase processing efficiency and clarify the data being reported to the public.

CAPTURING PROCESS EFFICIENCIES. CDIAC's outreach to issuers and its efforts to resolve technical problems has resulted in an 8 percent increase in the number of reports submitting electronically since 2013. ITD's development of the electronic TRAN pool RPDI and RFS will greatly improve staff processing time. CDIAC anticipates the deployment of these reports no later than the end of the calendar year.

TECHNICAL ASSISTANCE. Data Unit staff responded to 30 requests for technical assistance during the first three-quarters of the fiscal year. The two most common requests were for data on the fees paid to financing team members of K-14 school and community college district issuances and information on the yearly fiscal status of Mello-Roos bonds. The Data Unit also fulfilled numerous requests for information on capital appreciation bonds, and cost of issuance on all debt types and issuers.

## 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 2013-14, 1190 municipal professionals attended educational events offered by CDIAC or in partnership with other public finance organizations, a 57 percent increase from FY 2012-13 (Figure 7). The increase in overall attendance can be attributed to an

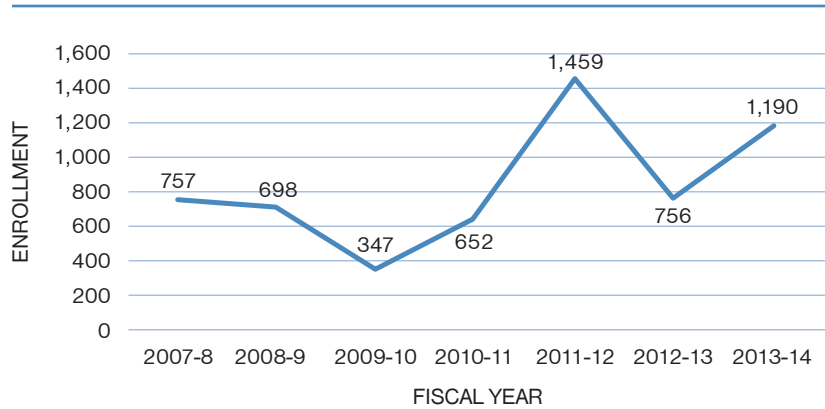
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<sup>10</sup> Government Code Section 6588.7.



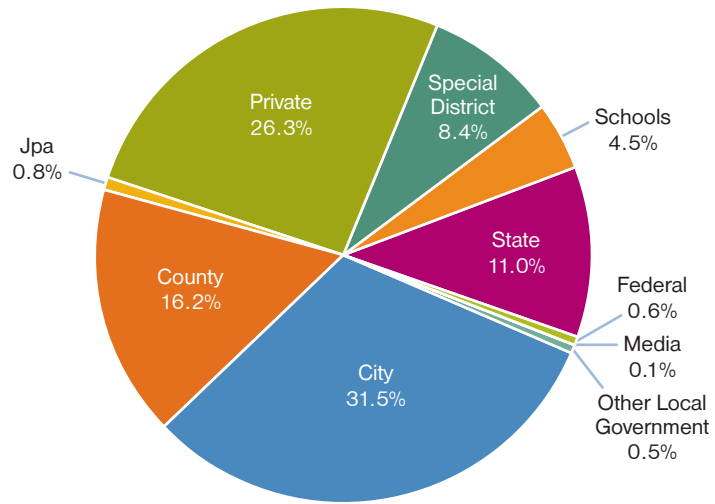
**FIGURE 7**

ATTENDANCE FOR FY 2013-14  
(CDIAC SEMINARS, CONFERENCES, WORKSHOPS AND WEBINARS)



**FIGURE 8**

ENROLLMENT AT CDIAC SEMINARS BY AGENCY TYPE  
JULY 2013 THROUGH JUNE 2014



increase in the number of CDIAC’s educational offerings, as well as to a general improvement in travel budgets for participants.

CDIAC continues to serve its core constituency, local public agencies, through its educational programs. Over the past twelve months, 73 percent of the attendees of CDIAC’s seminars have been public agency representatives of cities, counties, special districts, and other local government entities (Figure 8).

Despite improved travel budgets, webinars remain an effective mode of delivering CDIAC’s educational information to a broader audience. For-

ty-nine (49) percent of attendance in CDIAC's education programs was attributed to webinars (Figure 9).

## Webinars

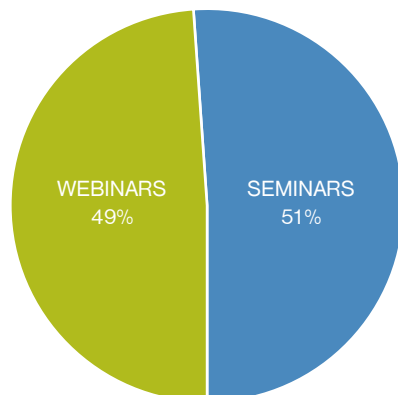
The four webinars offered in FY 2013-14 were designed to address current issues and trends in the municipal market.

**REFUNDING REDEVELOPMENT DEBT: NEW CHALLENGES.** On September 12, 2013, CDIAC held a webinar to address how the dissolution of redevelopment agencies in California transferred to successor agencies the obligation imposed by debt issued by redevelopment agencies. The webinar also considered the complexities that remain as successor agencies consider refunding outstanding redevelopment debt. The webinar addressed the incentives for successor agencies to refund redevelopment debt, the primary issues in refunding redevelopment debt, the successor agency's Oversight Board's role in the decision to refund existing debt, the market conditions conducive to refunding tax allocation bonds, and the Department of Finance's role in reviewing refundings.

**DISCUSSION OF PUBLIC INVESTMENT PRODUCTS CURRENT AND FUTURE: WHAT ARE THEY AND ARE THEY RISKY?** On November 6, 2013, CDIAC hosted a webinar focusing on how historically low interest rates and the decline of certain familiar investment products, including debt issued by government sponsored enterprises such as FannieMae and FreddieMac, have presented new challenges for public fund managers. The webinar also considered which investment strategies are the most prudent in the current interest rate environment and presented opportunities to use several alternative investment products, including covered bonds, 144A securities, Yankee bonds, certificates of deposit (CDs), supranationals, and index notes.

### FIGURE 9

EDUCATION FORMAT: IN-PERSON VS. ON-LINE  
JULY 2013 THROUGH JUNE 2014



AN UPDATE ON SWAPS: WHAT'S DIFFERENT AND WHAT TO DISCLOSE? On January 9, 2014, CDIAC held a webinar to discuss the Dodd-Frank Wall Street Reform and Consumer Protection Act as it applies to derivatives that are subject to regulation by the Commodity Futures Trading Commission and the Securities and Exchange Commission. This webinar also covered the rules and regulations that pertain to "Special Entities" and the disclosure and reporting requirements under GASB 53. Also included were discussions of the material facts required to be disclosed by swap providers to "Special Entities," the responsibilities issuers have to provide disclosure of their swaps to the market, and whether interest rate swaps benefit a public debt portfolio in the current interest rate environment.

SEC MUNICIPALITIES CONTINUING DISCLOSURE COOPERATION INITIATIVE: A CALL TO ALL MUNICIPAL ISSUER. On April 28, 2014, CDIAC held a webinar that addressed the Securities and Exchange Commission's new cooperative enforcement initiative designed to encourage issuers and underwriters of municipal securities to self-report certain violations of federal securities laws, including making materially inaccurate statements in a final official statement regarding the issuer's prior compliance with its continuing obligations as described in Rule 15c2-12. The webinar provided information on the origins of the Municipalities Continuing Disclosure Cooperation Initiative, the advantages of participation, which issuers and underwriters should consider self-reporting, and an overview of the self-reporting process.

In addition to the above, CDIAC assisted three other public agencies in conducting webinars. The California Health Facilities Financing Authority (CHFFA) hosted four informational webinars on the Investment in Mental Health Wellness Act of 2013 and the Mental Health Wellness Grant Program, with the goal of assisting grantees in understanding and navigating the grant application process. On January 27, 2014, CDIAC assisted the California Secure Choice Retirement Savings Investment Board (SCIB) in live-streaming their board meeting. On January 29, 2014, the California State Treasurer's Office Investment Division conducted its first webinar to keep Local Agency Investment Fund (LAIF) participants abreast of current economic conditions, the Pooled Money Investment Account (PMIA) investment strategy, and ongoing LAIF operations. With CDIAC's assistance, these agencies were able to reach 300 of their constituents.

## Seminars

In FY 2013-2014, CDIAC hosted four seminars independently and partnered with other public finance organizations on two additional events.

MUNICIPAL DEBT ESSENTIALS. On October 22-24, 2013, CDIAC hosted a three-day seminar series that forms the core of CDIAC's debt education programming. Each day of the series was designed to build upon the

concepts presented the previous day. The series began with Debt 1: Debt Basics, which supplied the foundational concepts for issuing debt, including discussions of both long-term and short-term financing options as well as a clarification of the roles of debt issuers and financing team members. The second day, Debt 2: Accessing the Market, provided an understanding of the strategic planning that occurs prior to debt issuance with regard to debt policy, debt affordability, structuring and pricing. Debt 3: Debt Administration explained the fundamental responsibilities of debt administration after bond issuance with discussions of arbitrage, investing, refunding, and continuing disclosure.

TOOLS AND STRATEGIES FOR TODAY'S PUBLIC INVESTMENT PORTFOLIO MANAGER. On March 12-13, 2014, CDIAC hosted a seminar to provide public agency investment officers and other public officials with an introduction to the concepts, tools, and strategies necessary to manage and oversee public investment portfolios. Panelists addressed the components of portfolio management, including establishing policy objectives, managing cash flow, understanding permitted investments, assessing and mitigating risk, and structuring portfolios.

MUNICIPAL MARKET DISCLOSURE: CURRENT TOPICS AND PRACTICES. On March 18-19, 2014, CDIAC held a seminar to help issuers address the need to improve market transparency through better disclosure. The program focused on the current rules and proposed reform initiatives for primary and secondary disclosure practices by public agencies and provided recommended disclosure practices for direct loans and general obligation debt.

FUNDAMENTALS OF LAND-SECURED FINANCING. On April 25, 2014, CDIAC hosted a seminar detailing the land-secured financing process from district pre-formation through project implementation to on-going administration. The seminar also reviewed the mechanics of the bond issuance process with regard to the structure of financing and whether the bonds should be sold through a negotiated or competitive process.

### Educational Partnerships

In FY 2013-14, two of CDIAC's trainings were delivered collaboratively through partnerships with the California Society of Municipal Analysts (CSMA) and *The Bond Buyer*.

CSMA SITE VISIT TO THE CAPITOL. On August 14-15, 2013, CDIAC partnered with the CSMA for a two-day site visit that began with a tour of the Capitol building that afforded attendees an inside look into where the state's legislative action takes place. The second day featured presentations on the impact of Covered California and the anticipated changes for California counties, healthcare providers, and insurers; the current

state of California school districts in light of an improving state economy and new voter-approved temporary tax increases; and the recent and ongoing legislative efforts to address the issue of pensions and pension obligations. The site visit concluded with a journalist roundtable where panelists discussed what they anticipated for the next year and what cues analysts might keep an eye on in the political forum.

CDIAC PRE-CONFERENCE AT *THE BOND BUYER'S* 23<sup>RD</sup> ANNUAL CALIFORNIA PUBLIC FINANCE CONFERENCE—MUNICIPAL SECURITIES RULEMAKING BOARD (MSRB) RULE G-17 AND OTHER MARKET DISCLOSURES: A PATHWAY TO CLARITY OR NOT? On September 25, 2013, CDIAC marked its 12<sup>th</sup> year of collaboration with *The Bond Buyer*. CDIAC hosted a one-day seminar that focused on the MSRB's Notice 2012-25, which provides interpretive guidance on how Rule G-17 applies to underwriters in municipal securities transactions. The goal of this workshop was to help issuers understand what questions they need to ask and what forms of disclosure they should expect or require from underwriters, financial advisors, investment advisors, bond counsel and other consultants, and to better identify and manage the conflicts and risks inherent to the business relationships that support the issuance of bonds.

CDIAC AND CSMA CALIFORNIA GENERAL OBLIGATION BONDS POLICY SYMPOSIUM ON CREDIT ISSUES. On March 14, 2014, CDIAC collaborated with CSMA to conduct a policy symposium on the condition of California general obligation bonds in the wake of municipal bankruptcy and other challenges to municipal credit. The symposium was the first of two discussions with the public finance community designed to affirm the strength of the local general obligation bonds and to identify strategies to communicate the credit quality of these bonds to the market.

## RESEARCH UNIT

California Government Code Section 8855(h)(5) authorizes CDIAC to undertake research projects that improve practices or reduce the borrowing costs of public issuers in California. Since the Commission's last meeting on June 18, 2013, CDIAC staff have either initiated or completed the following research assignments.

### Completed Projects

EMPLOYING A DEBT MANAGEMENT POLICY - PRACTICES AMONG CALIFORNIA LOCAL AGENCIES. CDIAC examined the debt management policies of cities, counties, and school districts and assessed the degree to which the policies of these local issuers conform to the Government Finance Officers Association (GFOA) best practices. The report also highlights several well-developed policies through which local agency issuers

may gain an understanding of how best practices translate into actual debt policy construction.

INVESTMENTS UNDER GOVERNMENT CODE 53601(K) – FOCUS ON FOREIGN ISSUERS. CDIAC examined the permissibility of the investment in foreign issuers under California Government Code 53601(k) with particular emphasis on the issuer and whether it is organized, operating, and licensed in the United States.

K-14 VOTER APPROVED GENERAL OBLIGATION BONDS: AUTHORIZED, BUT UNISSUED. CDIAC undertook research to cross reference K-14 general obligation bond issuance with the underlying voter approved authority to determine amounts authorized, but unissued since 2002.

LOCAL AGENCY INVESTMENT GUIDELINES: UPDATE FOR 2014. CDIAC reviewed and updated the CDIAC Local Agency Investment Guidelines. This document provides references and recommendations (developed by public and private sector professionals) for interpreting and applying California statute to common public fund investment topics related to local agencies. The 2014 Update reflects statutory changes effective January 1, 2014.

PRINCIPAL PROTECTED NOTES. CDIAC prepared a description of Principal Protected Notes, their basic structures, how they work, and why their structures are not allowed under state investment regulations.

RULE 144A SECURITIES. CDIAC provided a summary of Rule 144A securities and the rationale for its recommendation to local agencies that they not hold these securities in their investment portfolios.

### Initiated Projects in Progress

UPDATE OF CDIAC'S DEBT ISSUANCE PRIMER. CDIAC executed a contract to update the contents and presentation of the current Debt Issuance Primer to provide users a comprehensive and easy to use tool that reflects the improvements in display presentation and information retrieval available through current publishing technology. The Update will be completed in the beginning of 2015.

DIRECT LENDING. CDIAC reviewed the use of direct lending practices reported to CDIAC and provided a description of the obligations, the risks of using direct lending, and recommended debt management practices to mitigate potential risks.

### Ongoing Activities

DEBT AND INVESTMENT LEGISLATION AFFECTING STATE AND LOCAL GOVERNMENTS. CDIAC monitors the status of important state and fed-

eral legislation affecting bond issuance and public funds investing with helpful links to the legislation for the most current information and published periodically throughout the year in Debt Line.

**DEBT LINE.** CDIAC publishes its monthly newsletter, Debt Line, posting issuance statistics along with research articles penned by CDIAC staff and guest authors from selected areas within the public finance community. Among them, the Research Unit reports on the important dates and details arising from the regulatory activities of the MSRB and SEC related to the implementation of the Dodd-Frank Wall Street Reform Act.

**EDUCATION PROGRAM SUPPORT.** The Research Unit provides support to the Education Unit in their 2014-15 programs.

**TECHNICAL ASSISTANCE.** The Research Unit continues to provide input to local agencies and the general public on matters related to technical assistance request.

### Academic Studies Completed

**ASSESSING MUNICIPAL BOND DEFAULT PROBABILITIES.** CDIAC, in collaboration with the Center for California Studies at Sacramento State University, commissioned an academic study to provide a methodology to assess bond default probabilities in California cities. In this study, researchers proposed several approaches to explain municipal default and to estimating default likelihood for bonds issued by cities in California. The models were tested against the two defaults that occurred in California in 2012.

### Future Projects Scheduled for Completion

During 2014 Include:

**BRIEFS ON GREEN BONDS AND SOCIAL IMPACT BONDS.** Many California local agencies are including environmental and social priorities in their investment and debt policies. In response, CDIAC is reviewing investments in Green Bonds and the issuance of Social Impact Bonds to address how they differ from traditional bonds, and whether they are viable investments or financing tools for local governments in California.