

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

Executive Director's Report June 13, 2019

2019-20 BUDGET PROPOSAL

CDIAC's proposed budget for the Fiscal Year (FY) 2019-20 is \$3,837,000, a two % decrease from FY 2018-19 after accounting for adjustments. Total budget authority includes \$3,657,000 in expenditure authority and \$180,000 in reimbursement authority. CDIAC generates reimbursements from those attending educational programming. The proposed budget includes adjustments totaling \$121,000, including an increase for pension contributions, employee benefits, salaries, and other post-employment benefits.

In FY 2019-20, CDIAC is authorized for 21 full-time staff 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 2017-18 BUDGETED	FISCAL YEAR 2018-19 BUDGETED	FISCAL YEAR 2019-20 PROPOSED
Authorized Positions	21	21	21
Personal Services	\$1,788	\$2,131	\$2,009
Operating Expenses & Equipment	1,628	1,558	1,707
BUDGET ACT APPROPRIATION ¹	\$3,416	\$3,689	\$3,716
Net Adjustments ²	396	235	121
GRAND TOTAL	\$3,812	\$3,924	\$3,837

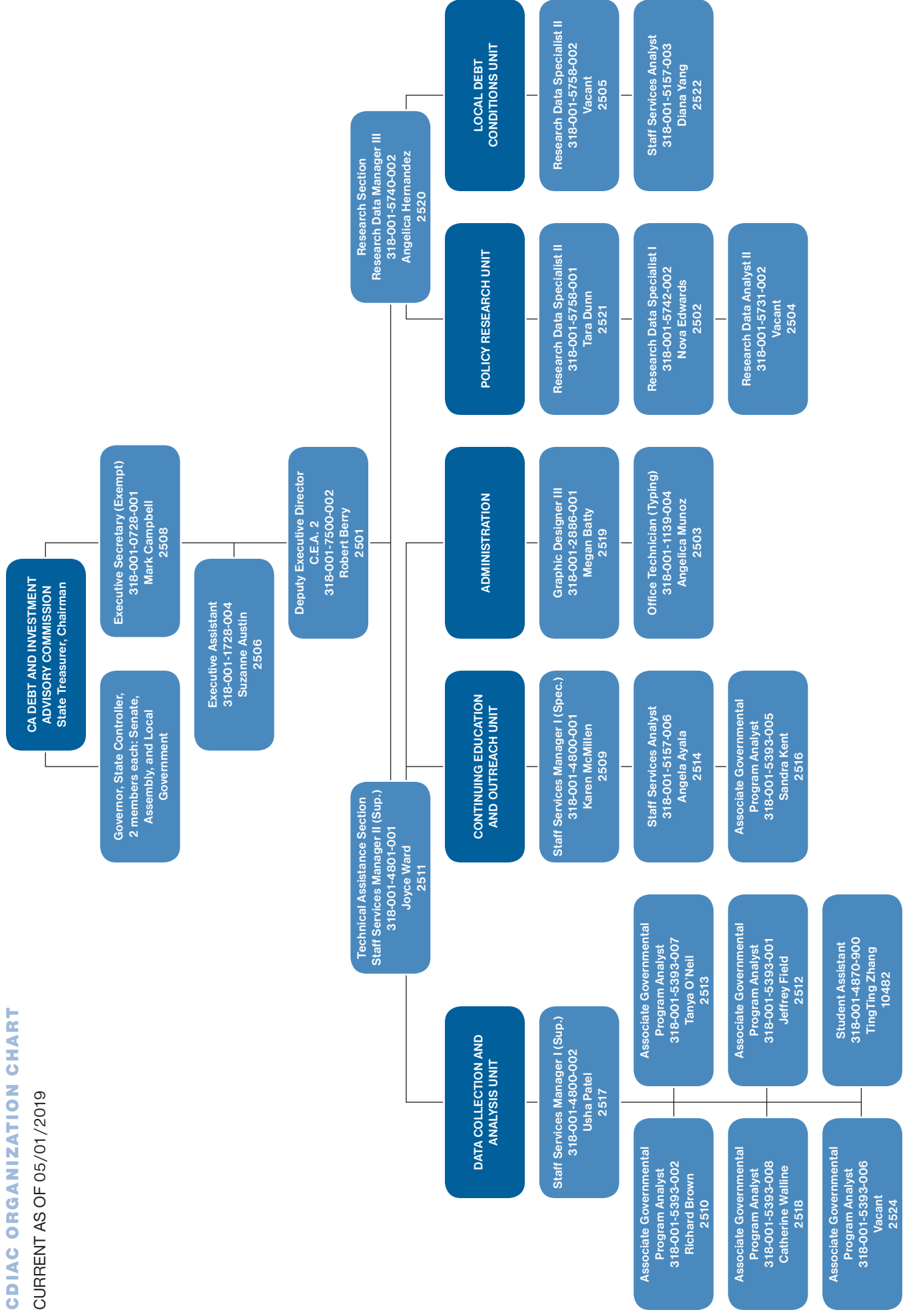
¹ Includes \$180,000 appropriation authority for reimbursements associated with education programs.

² ADJUSTMENTS (THOUSANDS \$)

	FY 2017-18	FY 2018-19	FY 2019-20
Pension Contributions	\$48	\$41	\$15
Employee Benefits	31	51	25
Salary Adjustments	79	124	62
Other Post-Employment Benefits	-	19	19
Prorata Assessment Removal	(190)	-	-
Personal Services BCP	200	-	-
SB 1029 BCP	140	-	-
IT Transparency Unit BCP	88	-	-
TOTAL	\$396	\$235	\$121

CDIAC ORGANIZATION CHART

CURRENT AS OF 05/01/2019



CDIAC FUND CONDITION

Fee Revenue

Based on revenue estimates for the fourth quarter of FY 2018-2019, the decline in issuance fee revenue forecasted for FY 2018-19 did occur, although a 12.5% decline appears much more likely than the 21% decline predicted.

Based on the SIFMA 2019 US Municipal Bond Issuance Survey, CDIAC projects its FY 2019-20 revenues will fall by approximately 4%.¹ The largest factor contributing to the decline in bond issuance, according to the SIFMA survey, will be underfunded pension programs followed by a broad-based deterioration of credit.

CDIAC FUND CONDITION (THOUSAND \$)

	2017-18 ACTUAL	2018-19 ESTIMATED ²	2019-20 PROJECTED
RESERVES, ADJUSTED	\$5,187	\$5,883	\$5,304
REVENUE			
Fees ¹	\$3,793	\$3,320	\$3,187
Interest	68	80	70
Reimbursements, Misc.	25	67	25
TOTAL REVENUES	\$3,886	\$3,467	\$3,282
EXPENDITURES			
State Operations	\$2,967	\$3,748	\$3,686
Adjustments (FI\$Cal, Prorata, Pension Loan)	223	298	198
TOTAL EXPENDITURES	\$3,190	\$4,046	\$3,884
FUND BALANCE	\$5,883	\$5,304	\$4,702

¹ The issuance fee rate increased on April 1, 2017 to the rate prescribed under California Government Code section 8895 with exceptions under CCR Title 4, Section 6030. Projections for FY 2019-20 were based on a 4.1% decline in US long term municipal bond issuance forecast by the *SIFMA 2019 US Municipal Issuance Survey*.

² Nine months of actual data combined with an Apr-June estimate for revenues and expenditures.

¹ This is supported by the SIFMA 2019 US Municipal Issuance Survey, a compilation of forecasts from firms engaged in underwriting and/or analyzing the United States municipal bond. The survey concluded that long term municipal bond issuance in the United States will decline 4.1% in 2019.

² FY 2018-19 expenditures include nine months of actuals and an estimate based on internal budgeting for the final quarter of the fiscal year.

Expenditures

Total expenditures for FY 2018-19 are expected to be \$3.7 million, nearly a 26% increase over the prior year expenditures.² The increase is largely attributed to increased personnel costs from refilling vacant positions and leave balance retirement, and several large external contracts associated with CDIAC's elected officials training project and the Debt Financing Guide. Total expenditures are expected to substantially level off in FY 2019-20. Increased personnel costs from new staff and general salary increases are predicted to be offset by lower external contract expenditures. CDIAC expects to fill two of three current vacancies before the close of the first quarter of FY 2019-20.

Fund Balance

While CDIAC's issuance fee returned to the statutory level in April of 2017 and brought about a surge in fee revenue in FY 2017-18, federal tax reform and the elimination of advanced refunding largely reversed the revenue improvement. Fund balance is estimated to decline by 10% in FY 2018-19. Another 11% decline in fund balance is forecast by the end of FY 2019-20.

UNIT REPORTS

Data Collection and Analysis Unit

DEBT ISSUANCE DATABASE REVIEW AND DEVELOPMENT PROJECT. In 2014, CDIAC undertook an extensive analysis of the database to identify improvements in functionality, performance, and utility. As a result of this effort, CDIAC has developed a detailed vision that reflects current and future uses of CDIAC data, the capture of third-party data, and the potential to embrace new technologies to achieve expanded program and policy goals. CDIAC continues to push for a comprehensive review of current technology solutions to this vision.

ANNUAL DEBT TRANSPARENCY REPORTS. SB 1029, Hertzberg, (Chapter 307, Statutes of 2016), added Government Code Section 8855(k) to require all public issuers in California who submitted a report of final sale to CDIAC on or after January 21, 2017 to report on the status of that debt annually until the debt is no longer outstanding and the proceeds have been fully spent. CDIAC teamed with the Information Technology Division (ITD) and the issuer community to develop and deploy the annual debt transparency report (ADTR). CDIAC, in conjunction with ITD, continues to work to secure external IT services to develop and deploy the next generation database that will provide an integrated solution to address CDIAC's need to collect, manage and report on debt issuance in California.

Education and Outreach Unit

CURRICULUM AND PROGRAM DEVELOPMENT. The two areas that will continue to affect the educational needs of California's public agencies are: 1) educating new staff in public agencies and newly elected officials, and 2) changes to the method and manner in which debt is issued in the municipal market. In response, CDIAC will continue to develop programming that addresses these two critical environmental forces, specifically, training for elected officials on debt financing and courses that address changes in debt management practices that impact California issuers.

INTERNET-BASED ON-DEMAND TRAINING. CDIAC has begun to develop a web-based, on-demand training course on debt issuance and administration that is tailored for elected and appointed officials. Through the use of an interactive learning management system, officials will receive a certificate after completing a series of online courses and demonstrating sufficient knowledge acquisition. The system will also allow CDIAC to track registration and develop reports to monitor the effectiveness of the program in achieving the learning objectives and reaching the target audience. The pilot was released in February 2019.

TOOL-BASED TRAINING IN THE CLASSROOM. CDIAC introduced an "applied learning" into its core educational curriculum in 2016 and into 2018. Participants' feedback has shown that this approach is effective. In 2019, CDIAC will offer Excel-based training in public investing in smaller, more interactive settings.

OUTREACH AND COLLABORATION. CDIAC plans to continue its collaboration with local, state and national organizations such as the Government Finance Officers Association (GFOA) and the State Debt Management Network (SDMN) administered by the National Association of State Treasurers. Staff will also attend regional and divisional association meetings and events to interface with professional groups to build networks and maintain a presence in the industry.

EXISTING PARTNERSHIPS. In 2019, CDIAC will continue its partnership with *The Bond Buyer*, and the California Municipal Treasurer's Association (CMTA) to provide training workshops for beginners and advanced practitioners. CDIAC also plans to renew its collaboration with the California Society of Municipal Analysts.

DIRECT PROMOTION OF PROGRAMS. As in prior years, CDIAC will continue to promote its programs through its subscribed email list and newsletter, postings on association webpages and in their newsletters and, when necessary, through direct promotion of seminars through targeted mailing of printed brochures to local public agency officials. Social me-

dia, such as Twitter and LinkedIn, will continue to be used for focused promotion to followers of CDIAC and the State Treasurer's Office.

STATE FINANCING BOARDS, COMMISSIONS, AND AUTHORITIES. CDIAC will continue to offer webinar services to meet the educational and outreach needs of the of state financing boards, commissions, and authorities.

Policy Research Unit

PART 3 OF THE CALIFORNIA DEBT FINANCING GUIDE. CDIAC will develop a handbook for public finance professionals focusing providing best practices in the issuance and administration of debt. The handbook will employ a Q&A format with responses offered by a core group of public finance experts.

BLOCKCHAIN AND PUBLIC FINANCE. CDIAC will attempt to explain the underlying blockchain mechanics of cryptocurrencies and address how public agencies are using or planning to use this technology to support public purposes.

DISCLOSURE PRIMER. CDIAC will develop a concept to create a primer on municipal market disclosure. The primer would be a companion to the *California Debt Financing Guide* and provide a detailed desk-reference for public finance officials on disclosure requirements and best practices.

LOCAL AGENCY INVESTMENT GUIDELINES: 2020 UPDATE. CDIAC will review and update 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 basic public fund investment topics. The 2020 Update will reflect statutory changes effective January 1, 2020.

MARKS-ROOS REPORTING: 20-YEAR REVIEW OF MARKS-ROOS ANNUAL REPORTING TO CDIAC. CDIAC will review twenty years of Yearly Fiscal Status Reports filed by issuers and obligors of Marks-Roos financings with CDIAC covering Fiscal Years 1996-97 through 2016-17. The review will identify trends in Marks-Roos issuance, highlighting market or legislative changes in Marks-Roos issuance practices.

SB 1029: REVIEW OF DEBT POLICY CERTIFICATION REQUIREMENT. CDIAC will review the debt policy certifications required under SB 1029. As part of the filing of the Report of Proposed Debt Issuance, issuers certify whether or not they have a debt policy that meets the criteria established by SB 1029. The report reviews reporting requirements and addresses trends as well as any issues found in the review of the certifications.

RESEARCH RESOURCE DATABASE. CDIAC will develop a proposal to create a research resource database that will bring together municipal finance information from a variety of sources in a searchable, central repository to facilitate the development and enhancement of CDIAC's research, data analysis, and educational programming.

SOCIALLY RESPONSIBLE INVESTING. More public agencies are considering the addition of socially responsible criteria to their investment policies. CDIAC will look at the different socially responsible criteria currently used by public agencies and discuss the benefits and drawbacks of implementing socially responsible investment criteria.

CALIFORNIA DEBT FINANCING GUIDE—VIDEO SERIES. CDIAC plans to develop a video series to increase the educational value of the *California Debt Financing Guide*.

UPDATE TO THE CALIFORNIA PUBLIC FUND INVESTMENT PRIMER. CDIAC is in the process of reviewing the *California Public Investment Primer*, which was last updated in 2009, to determine the scope of updates needed.

DEVELOPMENT OF A DATA WAREHOUSE. CDIAC will develop a plan to procure or create parallel or complementary data sets to expand the utility of CDIAC debt issuance data and create a Data Warehouse. The concept of the Data Warehouse is to provide internal and external researchers with a “go-to” source for data relevant to the study of public financial management by combining CDIAC's municipal debt data with a wide variety of available economic and demographic data.

OUTREACH AND COLLABORATION WITH PUBLIC FINANCE ORGANIZATIONS. CDIAC will continue to work with public finance organizations, public agencies and research organizations to identify and assess new forms of public debt and 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.

DEBT AND INVESTMENT LEGISLATION AFFECTING STATE AND LOCAL GOVERNMENTS. CDIAC will continue to monitor the status and maintain an inventory of important state and federal legislation affecting public finance, municipal bond issuance, and public funds investing. Published periodically in *Debt Line* during the legislative session, the online inventory includes helpful links to the most current information on pending legislation.

DEBT LINE. CDIAC will continue to publish *Debt Line*, a monthly newsletter including issuance statistics and analysis, research articles,

important dates and details arising from MSRB and SEC regulatory activities, and announcements of educational programming provided by CDIAC and allied organizations.

LEGISLATIVE UPDATE

AB 945 (MCCARTY) would amend and repeal Section 53601.8 and 53635.8 of the Government Code to allow local agencies to invest and deposit the agency's surplus funds in specified types of financial institutions and to increase the percentage of the agency's funds invested in such institutions from 30% to 50%.

AB 1701 (CERVANTES) would amend Sections 63045 and 63046 and add Sections 63044.3 and 63044.4 to the Government Code to provide the California Infrastructure and Economic Development Bank (I-Bank) authority to enter into agreements with redevelopment agencies to finance economic development projects in low-income census tracts and to issue debt to finance those projects.

ACA 1 (AGUIAR-CURRY) if approved by the voters in a general election would amend the State Constitution to add an additional exception to allow cities, counties, city and county, and special districts to levy ad valorem tax to service bonded indebtedness incurred to fund construction, rehabilitation, or replacement of public infrastructure, affordable housing, permanent supportive housing, or the acquisition or lease of real property for these purposes with 55% voter support.

SB 128 (BEALL) would amend Government Code with regard to Enhance Infrastructure Financing Authorities to remove the requirement that the public financing authority obtain voter approval to issue bonds but instead develop an enhanced infrastructure financing plan and submit it for public review and require the authority to pass a resolution containing specified information regarding the issuance of bonds.

SB 598 (MOORLACH) would amend and add to the Government Code to enact the Open Financial Statement Act and establish the Open Financial Statement Commission to establish software and financial data standards enabling public agencies to create Inline eXtensible Business Reporting Language (iXBRL) and submit a report to the Legislature making recommendations regarding how and whether to transition financial reporting by state and local agencies to iXBRL.