

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

Executive Director's Report June 17, 2020

2020-21 BUDGET PROPOSAL

CDIAC's proposed budget for the Fiscal Year (FY) 2020-21 is \$3,983,000, a 0.5% increase from FY 2019-20 total expenditure authority inclusive of mid-year adjustments. The slight increase is a result of \$18,000 in adjustments for benefits and other miscellaneous adjustments. The total budget authority includes \$3,803,000 in baseline expenditure authority and \$180,000 in reimbursed expenditure authority. CDIAC generates reimbursements from the fees it charges attendees of CDIAC's educational seminars.

In FY 2020-21, 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 2018-19 ENACTED	FISCAL YEAR 2019-20 ENACTED	FISCAL YEAR 2020-21 PROPOSED
Authorized Positions	21	21	21
Personal Services	\$2,009	\$2,130	\$2,149
Operating Expenses & Equipment	1,795	1,707	1,834
BUDGET ACT APPROPRIATION ¹	\$3,804	\$3,837	\$3,983
Mid-year Adjustments ²	120	128	-
GRAND TOTAL	\$3,924	\$3,965	\$3,983

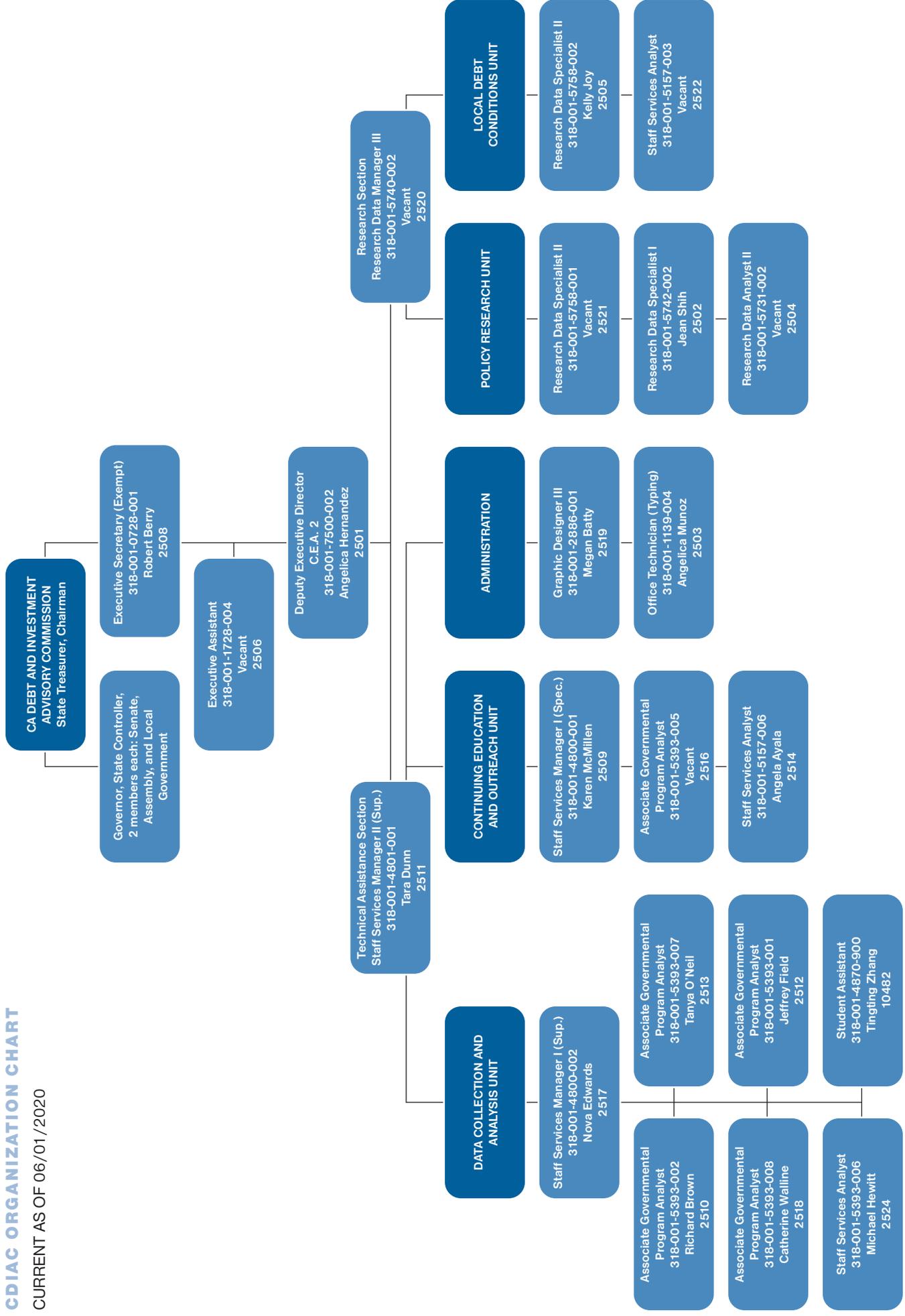
¹ Includes \$180,000 appropriation authority for reimbursements associated with education programs.

² MID-YEAR ADJUSTMENTS (THOUSANDS \$)

	FY 2018-19	FY 2019-20
Pension Contributions	\$15	\$27
Employee Benefits	24	27
Salary Adjustments	62	57
Other Post-Employment Benefits	19	17
TOTAL	\$120	\$128

CDIAC ORGANIZATION CHART

CURRENT AS OF 06/01/2020



CDIAC FUND CONDITION

Fee Revenue

CDIAC's projection of a 4% reduction in fee revenue for FY 2019-20 was supported by the Securities Industry and Financial Markets Association (SIFMA) 2019 US Municipal Bond Issuance Survey which predicted a 4.1% decline in long-term US debt issuance for the calendar year. Based upon 10 months of actual invoices and estimates for May and June, 2020, CDIAC's FY 2019-20 fee revenue is expected to exceed that of FY 2018-19 by nearly 11%. The unexpected growth in revenue can be attributed to the 16% increase in California debt issuance during the 2019 calendar year. The resultant revenue surge in the first half of the fiscal year more than compensated for the steep drop predicted in the 4th quarter of the fiscal year resulting from the COVID-19 crisis.

The SIFMA 2020 US Municipal Bond Issuance Survey, released in January 2020 and covering the calendar year, predicted a 6.7% increase in long-term US debt issuance. Typically, CDIAC uses this survey of US banks and financial firms to project the direction of annual fee revenues, but the COVID-19 crisis has changed the world since the release of the SIFMA survey. Given the recent and perhaps returning instability in the financial markets and plunging state and local revenues, CDIAC has taken a much more conservative approach to its FY 2020-21 revenue projection. CDIAC projects revenues to drop 20% over the course of the fiscal year. The need to refund higher rate debt and late-year debt-financed economic stimulus projects are the key drivers of debt issuance that are expected to keep CDIAC's fee revenues from falling even further.

Expenditures

Total expenditures for FY 2019-20 are expected to be nearly \$3.7 million, approximately a 2% decline from FY 2018-19. The reduction in spending is attributed to position vacancies. Although five vacancies have been filled during the fiscal year, all but one position were filled by internal promotion. Therefore, total vacancies were only reduced by one. CDIAC is likely to end FY 2019-20 with four vacancies.

Expenditures in FY 2020-21 are expected to approach the total budget appropriation of nearly \$4.0 million. The key driver of expenditures in the new fiscal year will be personnel costs related to filling vacancies. CDIAC plans to fill vacancies as soon as possible taking into consideration the application and interviewing challenges presented by social distancing and teleworking. Although CDIAC is planning to bring on new team members and expand personnel costs, the expenditure esti-

mate for the fiscal year includes adequate remaining resources to carry-on with CDIAC's critical projects.

Fund Balance

CDIAC expects to see slight growth (1%) in its year-end Fund Balance for FY 2019-20. However, given the unprecedented uncertainty presented by the COVID-19 crisis and its effect on California debt issuance, a significant reduction in fund balance during FY 2020-21 is expected. CDIAC projects a reduction in fund balance in excess of over \$1 million or nearly 20%. Fee revenue will be monitored and discretionary expenditures adjusted during the course of the fiscal year to mitigate fund balance erosion beyond that projected.

CDIAC FUND CONDITION (THOUSAND \$)

	2018-19 ACTUAL	2019-20 ESTIMATED ¹	2020-21 PROJECTED ²
RESERVES, ADJUSTED	\$5,800	\$5,501	\$5,569
REVENUE			
Fees ¹	\$3,284	\$3,636	\$2,909
Interest	112	85	75
Reimbursements, Misc.	72	36	50
TOTAL REVENUES	\$3,468	\$3,757	\$3,034
EXPENDITURES			
State Operations	\$3,470	\$3,490	\$3,800
Adjustments (Prorata, Pension Loan)	297	199	293
TOTAL EXPENDITURES	\$3,767	\$3,689	\$4,093
FUND BALANCE	\$5,501	\$5,569	\$4,510

¹ FY 2019-20 fee revenue estimates are based on invoices generated through April 2020 and invoice estimates for May-June. Operations expenditures are based on internal fiscal year budgeting.

² FY 2020-21 issuance fee revenue is projected to be 80% of prior year fee revenue. Operations expenditures are projected to be just under the baseline budget authority (total authority less reimbursements)..

FY 2019-20 SUMMARY OF ACCOMPLISHMENTS

Debt Data Collection and Reporting

CDIAC received and processed nearly 11,500 reports submitted by the issuers of state and local debt. The submittal of Reports of Proposed Debt Issuance and Reports of Final Sale decreased by 32% and 34%, respectively. The Yearly Fiscal Status Reports submitted by issuers of Mello- and Marks-Roos debt remained relatively constant. Annual Debt Transparency Report (ADTR) filings, the reporting requirement added by SB 1029, Hertzberg, (Chapter 307, Statutes of 2016), continue their expected steep increase – 52% increase for the 2018-2019 reporting year. The workload was accomplished with a hard-working and dedicated team of only seven staff members and through the cooperation of a very conscientious constituency.

In the midst of processing the ceaseless torrent of reports, CDIAC's data team made other marked improvements in CDIAC's ability to report data to policy makers and the public. Working with external software development support, CDIAC designed and installed an enhancement to the public facing ADTR that displays on DebtWatch, the public's access portal to the vast stores of CDIAC's debt data. The enhanced ADTR is now capable of displaying all of the information regarding the authorization for debt issuance that CDIAC collects under the reporting requirement.

Over the last year, CDIAC has been advancing its multi-year project of digitizing its vast repository of hard-copy issuance documents and making them available to the public through DebtWatch. Beginning with conversion of files as late as 2012, the digital document collection has advanced four more years during the fiscal year to include all debt issues since the year 2001.

Continuing and Topical Education

Over one thousand participants from state and local agencies and the private sector registered for one of CDIAC's twelve educational programs produced during the COVID-19 shortened year.

The year began with a three-part webinar series produced collaboratively with the Treasurer's Green Bond Market Development Committee and the Goldman School of Public Policy and focused on practical guidance for the issuance of green bonds. The first session in August laid out the fundamental terminology and considerations for issuing green bonds. Session two, in September, took up the topic of green certification and the balance between green accountability and financial prudence. The

final session in October explored the market's expectations for a green bond issuance. Participation in each session averaged nearly 80 people.

CDIAC's in-person seminar programming year began in September in Sacramento with 88 people attending *On-going Debt Administration*. CDIAC brought together 14 panelists for the day-long program focused on the fundamentals of continuing disclosure, post-issuance filing and reporting, and compliance with federal arbitrage rules. On the following day, CDIAC presented *Developing Internal Controls for Bond Accountability*. Fifty-six attendees listened to five new panelists present topics including risk assessment, control policy development, and monitoring and oversight – all aimed at the prudent management and disbursement of bond proceeds.

Also in September, CDIAC celebrated 18 years of collaboration with *The Bond Buyer* by producing the Preconference at the 29th Annual California Public Finance Conference. The standing-room only crowd gathered to hear from 15 panelists on the topics surrounding the practical implications for issuers of the recent expansion of the event disclosure requirements under U.S. Securities and Exchange Commission (SEC) rule 15c2-12 related to “financial obligations.”

As 2019 began to close, CDIAC shifted its programming over to focus on the investment of public funds. In November, CDIAC produced three one-day, hands-on workshops that explored the concepts of yield, duration, and convexity and included benchmarking exercises. Sixty-six attendees, total, participated in one of the three sessions.

Building upon original CDIAC research, *Socially Responsible Investing – What Does It Mean and What's the Risk?*, CDIAC presented a webinar headlined by CDIAC's lead researcher, Tara Dunn, entitled *Socially Responsible Investing: Integration in the Local Agency Portfolio*. The webinar was developed to equip local investment officers with tools to help them carefully navigate the exploration and potential adoption of socially responsible investing (SRI) strategies and environmental, social, and governance (ESG) criteria in their own portfolio management. Forty-two participants took part in the pre-holiday webcast.

The new year kicked off with CDIAC's annual collaboratively produced investment conference. Advanced Public Funds Investing was produced in partnership with the California Municipal Treasurers Association (CMTA). Held in Claremont with 49 attendees, the one-and-a-half-day seminar covered assessing and adjusting liquidity, understanding risk, advanced analytics, and advanced investment analysis concepts, including an investment portfolio case-study simulation.

Just before the global pandemic shortened CDIAC's seminar schedule, CDIAC was able to hold its Municipal Market Disclosure program in Irvine for 55 participants. The program focuses entirely on disclosure including SEC, Municipal Securities Rulemaking Board (MSRB), and CDIAC rules and regulations for primary and secondary disclosure practices by public agencies.

In response to the COVID-19 crisis, CDIAC produced two webinars aimed at information gaps that had not been entirely filled by other allied organizations: navigating investor disclosures and issuing short-term debt. Disclosure to the market of an issuer's financial condition in the face of so much uncertainty is incredibly challenging. Coming off many years of economic expansion, most agencies have not had to issue short-term debt for liquidity. Both webinars are designed to provide practical guidance on topics that have taken on a whole new dimension during the crisis.

Web-based Training and Resources

Just before the fiscal year began CDIAC commenced work on an external contract to produce an additional four modules of the Elected Officials Training Program on debt issuance and administration. At the conclusion of the contract in early 2021, CDIAC will have five of nine modules completed. During the fiscal year, CDIAC completed *Why Do Public Agencies Issue Debt?* (Module 1), installed corrections and enhancements to *What You need to Know before Issuing Debt* (Module 2) and began production of Module 3, *Debt Structure: Form follows Function*.

As support for special topical programming CDIAC has developed very comprehensive libraries of resources and reference materials. Specifically, CDIAC built extensive libraries on green bond issuance and socially responsible investing. The libraries provide CDIAC's constituency a one-stop-shop of current information on these special topics. CDIAC built upon this competency to develop its initial response to the COVID-19 crisis. CDIAC consolidated available information relating to municipal debt produced by a wide array of public and private public finance organizations in one place so agencies can more quickly and easily educate themselves on the evolving issues. CDIAC seeks out new information and updates the COVID-19 page at least twice a week.

Research and Guidance

In the spring of 2019, CDIAC released the *California Debt Financing Guide* (Guide), a completely re-envisioned replacement for CDIAC's flagship publication, the *California Debt Issuance Primer*. The Guide was

designed as a new approach to understanding the responsibilities and obligations of issuers while providing a comprehensive discussion of the legal and statutory requirements for debt issuance. When the Guide debuted, it was launched as an enhanced, searchable PDF. CDIAC's ultimate goal was to convert the Guide into an interactive, relational, and web-based application that could be customized by the user including personalized annotations. The customized experience would recognize each individual user through a login and password and is accessible on any personal device. Following a six-month development process with an external vendor, CDIAC launched the new California Debt Financing Guide application last month.

Started in 2014 at the request of the Legislative Analyst Office, CDIAC has since annually produced its report, *K-14 Voter Approved General Obligation Bonds: Authorized, But Unissued*. The 2020 update identifies over \$52 billion of unissued, voter-approved general obligation bond capacity among school and community college districts from elections since the passage of Proposition 39. Conceived as a one-time project, this report helps to annually update policy makers of the capacity of local districts to develop new or rehabilitated school facilities. The report is an example of the combination of CDIAC's data collection and research disciplines and has become the inspiration for a wholesale database enhancement effort that builds upon the newly collected authorization data collected under SB 1029.

Working collaboratively with private and public sector professionals, CDIAC produced the *Local Agency Investment Guidelines* (LAIG), 2020 edition. CDIAC's most anticipated annual publication, the LAIG, as it's called, provides legal references, recommendations, and practical guidance for interpreting and applying California statute to the practice of public fund investment by local agencies. The publication supported a variety of topics during CDIAC's investment related educational events and led to CDIAC's participation in several external presentations and engagements.

CDIAC continued its long-standing research tradition of compiling and analyzing results of the bond and tax measures included on 2019 local ballots and the 2020 primary elections across the entire state. These reports, spanning 40 elections, provide a detailed analysis of the certified results of bond and tax elections. The data collected through this process is integrated with CDIAC's debt database to simplify the tracking of bond authorizations and provide key data points for the annual K-14 authorized, but unissued report.

CDIAC produced foundational policy research focused on the topic of socially responsible investing (SRI). The issue brief, *Socially Responsible Investing – What Does It Mean and What's the Risk?*, provided local invest-

ment officials with guidance on how to integrate SRI, within the confines for investment statute, into their portfolio management strategies. The brief discussed different strategic approaches, presented examples of SRI policies adopted by local agencies, provided reference resources for SRI credit analysis. The brief was the inspiration for a CDIAC produced webinar on the topic and a panel at the Government Investment Officers Association annual conference.

Climate change is having a very real effect on California, its cities, counties, districts, and schools, and the infrastructure that supports them. Yet, frequently issuers of long-term debt are entering the market with primary offerings that do not carefully review and disclose the potential impact climate change will have on the issuer's ability to repay or the integrity of the infrastructure being financed. To assess the status of climate change risk disclosure in public offerings, CDIAC undertook a detailed review and analysis of nearly 200 official statements for public enterprise revenue bond issuances. The study objective was to learn what was being disclosed and to what extent the statements characterized or quantified the potential impact of climate change on agency owned facilities, agency operations, and/or agency repayment ability. The report, scheduled for completion in late June, represents the only known research in this area. CDIAC expects the project will influence additional research and lead to the development of guidance and best practices. Using this work as the foundation, CDIAC plans to make climate change disclosure the topic of the CDIAC Preconference at the Bond Buyer California Public Finance Conference in October 2020.

FY 2020-21 STRATEGIC PLAN HIGHLIGHTS

CDIAC's mission is to improve the practice of public finance in California by providing responsive and reliable, information, education and guidance. CDIAC's seeks consistent achievement of this mission by delivering products and services that are timely, of the highest achievable utility, simply discovered and accessed, and provided in the formats and modes supportive of contemporary learning preferences.

CDIAC is focused on accomplishing several key objectives in FY 2020-21 that are guided by this strategic vision.

End-To-End Enhancement of the California Debt Database

Enhance the user experience of CDIAC online data collection interface to increase data validity, issuer compliance, and processing capacity. Redesign and deploy the next generation of DebtWatch to improve data access and utility and give issuers a more active role in data management.

CDIAC has begun the project by conducting outreach to a variety of frequent submitters of issuance and annual reports. Feedback received during the outreach phase, combined with the expert knowledge of CDIAC's own data team, has been developed into a scope of work for a full system redesign, with emphasis placed on the "front-end" filer interface.

CDIAC intends to contract with an external vendor to develop the end-to-end system analysis with delivery of the analysis, design, and cost estimates expected before calendar year end. Based on the design and costs estimates, CDIAC will develop certain enhancements with internal IT capacity and the balance will be developed by external vendors utilizing FY 2020-21 and FY 2021-22 budget authority. The end-to-end analysis will also include identification of the best value application for a revision of DebtWatch, CDIAC's public facing data interface. The ultimate goal is to complete the enhancement project by 2021 calendar year-end.

Core and Topical Educational Programs

Develop and conduct core and topical training in debt issuance and administration and the investment of public funds. Emphasize applied learning opportunities and use of technology to enhance the learner's experience.

DEBT PRE-CONFERENCE AT CMTA ANNUAL CONFERENCE. Originally scheduled in April 2020 to precede the California Municipal Treasurers Association annual conference which was cancelled due to COVID-19. CDIAC will redesign this debt issuance basics programming to be presented in one or more webinars.

LAND-SECURED FINANCING. CDIAC's very popular day-long seminar covering the step-by-step procedures and fundamental considerations of Mello-Roos and assessment district financing originally scheduled for May 2020 is tentatively scheduled for November 2020, COVID-19 crisis permitting.

PRECONFERENCE TO THE BOND BUYER CALIFORNIA PUBLIC FINANCE CONFERENCE. For the nineteenth year, CDIAC will produce the pre-conference, a three quarter-day seminar program addressing an emerging or especially critical topic in California public finance. Scheduled for October in Los Angeles (COVID-19 permitting) the program topic is tentatively slated to be climate change disclosure.

INVESTMENT WORKSHOPS. Applied learning is the clear focus of CDIAC's investment workshops. Limited to small class sizes (25-30), participants learn more advanced investment concepts and are walked through investment portfolio techniques using tools that can be applied by par-

ticipants to their own portfolios. Two to three sessions are tentatively scheduled for fall/winter 2020-21.

PUBLIC FUNDS INVESTMENT PROGRAM WITH CMTA – REDESIGNED. The California Municipal Treasurers Association is CDIAC’s standing partner for the development and production of CDIAC’s investment curriculum. At the request of our partner, this program will be redesigned this year to combine fundamental and advanced curriculum back-to-back. CDIAC will also develop webcasted prerequisite curriculum presented in advance of the in-person seminar. The seminar is tentatively scheduled for January 2021. Prerequisite webinars will be held within the thirty days preceding.

DEBT ESSENTIALS. CDIAC’s flagship three-day debt issuance fundamentals program, originally scheduled for fall of 2020 has been tentatively moved to the spring of 2021 hoping the COVID-19 impact on public gatherings will be minimized.

WEBINARS. Webcasts will continue to be the chosen medium as long the COVID-19 crisis impacts the ability to gather in large groups. CDIAC will look to support the public finance community in California through debt and investment topics related directly to the impacts of COVID-19. Summer is usually webinar season. Plans are to use webinars to address current land secured financing topics and to provide how-to guidance on the use of CDIAC database enhancements and the Debt Financing Guide.

New Formats and Modes of Educational Programming

Increase access, utility and consumption of educational programming and guidance by using current technologies and contemporary methods.

NEW TRAINING MODES. CDIAC will conduct a feasibility analysis on the financial, operational and strategic implications of developing and distributing educational curriculum through new training modes. These new product considerations include produced video of in-person programming, video mini-modules, (short single topic presentations of a 5-10 minute duration), and expanded electronic courseware.

NEW APPROACH TO PRODUCT DELIVERY. Delivery of all published reports and guidance, webinar replays, and electronic courseware (See elected officials, below) is conducted through CDIAC’s webpage. CDIAC uses rudimentary search-&-find technology to help visitors identify and link to the desired resources in specific sections of the website. This segmented approach makes it difficult to access the full CDIAC library, and it does nothing to take advantage of the interactive features CDIAC’s has added to its products and services. CDIAC will evaluate the feasibility of developing a new hosted environment for the delivery of its products and ser-

vices that integrates the learning management system with the interactive elements of new and existing products (e.g., Debt Issuance Guide), and provides a guided learning experience. The system can assemble customized curricula, provide access to customized products, suggest references based on what a user is viewing, and provide easier search capabilities for those needing “grab and go” access.

ELECTED OFFICIALS TRAINING PROJECT. CDIAC continues the development of web-based, on-demand training courses on debt issuance and administration tailored for elected officials. CDIAC has completed modules 1 and 2 of the nine-module curriculum. Module 3 is currently under production. The current vendor contract calls for the completion of five total modules by January 2021. Just prior to the completion of the first five modules, CDIAC will procure services for the development of the final four modules of the debt curriculum. It will also procure a subscription to a learning management system (LMS) that will deliver the first five modules. Modules 6 through 9 will be added to the LMS upon completion. Completion of the entire curriculum is targeted for December 2021.

Develop Timely and Practical Guidance and Seminal Research

Develop analyses, reports and tools that improve the practice of public finance and can be foundational to other products, services, or research.

BUILD UPON THE FOUNDATION IN THE DEBT GUIDE. The development of the California Debt Financing Guide in the interactive Wordpress format gives CDIAC incredible flexibility to integrate new material with the full features as built into the application. First up, will be to add an appendix devoted to development finance.

INVESTMENT PRIMER MAKEOVER. It has been eleven years since the California Investment Primer has been updated. CDIAC will scope a revision of the Investment Primer that will include update of the material, reformatting and reorganizing of the guide, and the development of an application in the model of the Debt Guide.

LOCAL AGENCY INVESTMENT GUIDELINES – 2021. The annual update of the LAIG, as it is known, is probably the most anticipated publication CDIAC produces. It provides local agency investors the statutory and practical guidance they need to manage their investment portfolios. In addition to updating the written material, CDIAC will investigate opportunities to invest in enhancements that could create interactive and relational features.

2021 K-14 AUTHORIZED, BUT UNISSUED. Since 2014, CDIAC has annually produced this data rich, yet concise publication that reports on the amount of unissued general obligation bond authority in K-14 districts across the state. This is data produced exclusively by CDIAC. In 2021, CDIAC will work to integrate this work fully into the redesign of Debt-Watch II so that this report can be produced on a near real-time basis.

CLIMATE CHANGE DISCLOSURES IN INITIAL OFFERINGS. A project begun last year, the extensive, first-of-its-kind research on the existence and character of climate change disclosures in initial offering documents will be published in the summer of 2020. This research work will not only produce an assessment of climate change disclosures but will also provide guidance on this current, and often controversial, public finance topic. It is expected that the publication of the paper will lead to inquiry by others in the public finance field. It will also form the foundation for CDIAC's exploration of the topic at the CDIAC Preconference at The Bond Buyer California Public Finance Conference in fall 2020.

Build an Organization that Will Deliver on CDIAC's Value Proposition

Develop and maintain an organization that is well-known for delivering timely, convenient, practical, professional, and accurate data, information, and guidance.

COMMUNICATIONS STRATEGY. CDIAC will engage a consultant to help CDIAC reshape and reimagine its brand and develop an integrated communications strategy that can be utilized across all products and mediums of communication. This will include mass communication, targeted engagement, social media, and creative tools. CDIAC will be positioned to use this foundation to consider the feasibility of a more active external outreach and engagement strategy.

REBUILD TECHNICAL ADVISORY GROUPS. For many years in its history, CDIAC had formal technical advisory groups with members that helped shape the work of CDIAC with their practical advice. Representing both the public and private sectors of the public finance community, the groups made recommendations on research and educational curricula, served as external reviewers, and were a sounding board for a variety of concepts and ideas. CDIAC will develop new technical advisory groups, one on debt administration and the other on public funds investing. The groups will be small, less than 10 members each, and will be convened on an ad hoc basis.