AGENDA ITEM 2 (ACTION ITEM)

APPROVAL OF MINUTES FROM JUNE 6, 2024, MEETING

Minutes

California Debt and Investment
Advisory Commission Meeting
June 6, 2024, 1:00 PM

Paul Bonderson State Office Building
901 P Street, Room 102
Sacramento, CA 95814

ITEM 1. ROLL CALL

Deputy Treasurer John Sheldon called the meeting to order at 1:06 PM.

Present at the meeting were Deputy Treasurer John Sheldon, representative for California State Treasurer Fiona Ma; Deputy State Controller Dave Oppenheim, representative for State Controller Malia Cohen; and Nikolai Sklaroff, Capital Finance Director for the San Francisco Public Utilities Commission. Also in attendance were CDIAC's Executive Director, Robert Berry, and Deputy Director, Angelica Hernandez.

Assemblymember David Alvarez, Assemblymember Avelino Valencia, Treasurer Sandie Arnott, and California State Governor Gavin Newsom were absent. Deputy Treasurer Sheldon declared a quorum.

ITEM 2: APPROVAL OF THE MINUTES FROM JUNE 22, 2023 (ACTION ITEM)

Deputy Treasurer Sheldon moved to the first order of business: Item 2, approval of the minutes from the June 22, 2023, meeting. Commissioner Nikolai Sklaroff made a motion to approve the minutes as presented and Deputy State Controller Oppenheim seconded the motion. Deputy Treasurer Sheldon then asked the members of the public for their comment. Seeing none, the Secretary called the roll.

APPROVAL OF JUNE 22, 2023 MINUTES

	AYE	NAY	ABSENT	ABSTAIN
GOVERNOR GAVIN NEWSOM			X	
DEPUTY STATE CONTROLLER DAVID OPPENHEIM	X			
ASSEMBLYMEMBER DAVID ALVAREZ			X	
ASSEMBLYMEMBER AVELINO VALENCIA			X	
TREASURER SANDIE ARNOTT			X	
COMMISSIONER NIKOLAI SKLAROFF	X			
DEPUTY TREASURER JOHN SHELDON				X

The motion to approve the minutes was carried. Mr. Sheldon then asked CDIAC's Executive Director, Robert Berry, to present Information Item 3 on the agenda.

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

Mr. Berry began with a brief overview of CDIAC's budget to provide a high-level review of CDIAC'S accomplishments for fiscal year 2023–24, followed by planning for fiscal year 2024–25.

CDIAC's total budget for fiscal year 2024–25 proposed in the May Revision is $4,343,000. This represents a small increase from the previous year's enacted budget authority when accounting for mid-year adjustments to the prior year's authority. CDIAC's total appropriation includes $180,000 of reimbursement authority. That means that CDIAC can spend up to $4,163,000. CDIAC can also spend each additional dollar reimbursement that is generated up to $180,000. Reimbursements are derived from registration fees for CDIAC's in-person education programs that reimburse for the cost of food and beverage as well as facilities and equipment. Mr. Berry also noted that CDIAC has the authority for 21 full-time positions, and that CDIAC had only two vacancies as of the 2024 commission meeting.

Mr. Berry then delved into the fund condition. He mentioned that economic uncertainty and actions of the Federal Reserve to increase interest rates have caused a large decrease in long-term debt issuance activity from last year and have resulted in a significant reduction in CDIAC issuance fee revenue. Last year, CDIAC predicted a small, 4% decrease in fee revenue, but cautioned that it could be substantially larger. CDIAC experienced a 10% revenue decline for fiscal year 2023–24. CDIAC expects to see a continued decrease in fee revenue as economic conditions for long-term debt issuance have not improved and are not expected to improve in the near term. CDIAC projects a 12% decrease in fee revenue for fiscal year 2023–24. CDIAC's current fiscal year expenditures are expected to come in at about $3.75 million, approximately a 5% decrease from last fiscal year. This was largely due to position vacancies and the conclusion of recurring IT subscriptions that were terminated with the launch of the new DebtWatch 2.0 site.

In the next fiscal year, CDIAC projects expenditures of about $4.1 million, which is a 9.4% increase over the current year. This is attributed to growth in personnel costs and the reduction in CDIAC's vacancies from five to two. Mr. Berry noted that CDIAC's personnel cost growth had been mitigated by reductions in technology expenditures, transitioning from the high cost of development to lower maintenance costs. CDIAC's fund balance is strong on a historical basis, mainly due to the large increase in debt issuance in prior fiscal years. However, CDIAC's fund balance is expected to decrease by about 16% this year. Given the 22% revenue decline, CDIAC projects a further reduction in the fund balance in fiscal year 2024–25 by about 15%.

Mr. Berry continued showing a comparison of revenues, expenditures, and the fund balance across the fiscal years. At this point, Mr. Berry paused to see if there were any questions about CDIAC's budget or fund condition.

Deputy State Controller Oppenheim began by congratulating Mr. Berry on filling three vacant positions and recalled that Commissioner Sklaroff had previously expressed concern over the number of vacancies and the ongoing trend of decreased talent recruitment among state and local government. Mr. Oppenheim then inquired about the trend of CDIAC's fund balance and whether Mr. Berry was concerned about the future and fundamental structure. Mr. Berry agreed that the decline in the fund balance had accelerated, deteriorating from $7 million during a period of very high fee revenue in 2021 to $4 million. Mr. Berry explained that CDIAC's fee revenue is currently at its statutory maximum, limiting options for increasing income with the exception of a change in the statutory fee structure. Mr. Berry proposed a study on issuance levels and projections to help stabilize revenue around $3.8 million to $4 million, which aims to align income with ongoing operational costs and personnel expenditures. Historically, CDIAC has had a higher budget authority than its actual fee collection and has consistently underspent its budget authority.

Commissioner Sklaroff noted that CDIAC's services to issuers and investors are valuable and suggested to explore a fee structure that reduces dependency on market cycles, ensuring stability in service provision despite economic fluctuations. He voiced his concerns about the current fee structure, particularly the inflexible $5,000 statutory maximum, which may become insufficient over time due to inflation and economic changes. Commissioner Sklaroff recognized the importance of cost control for accessing funds by cities, counties, and other organizations, but emphasized the unique and valuable services provided by CDIAC. Deputy State Controller Oppenheim also commented on the trends in CDIAC's fund balance by suggesting CDIAC investigate making fees more percentage based or tied to economic indicators to ensure stability and avoid future financial constraints. Mr. Berry agreed that CDIAC was not seeing the expected increase in fee revenue associated with inflation and increasing size of necessary expenditures and the bond issues that accompany them.

Deputy Treasurer Sheldon then asked for clarification on what bond amount the $5,000 fee cap applies to. Mr. Berry explained that the $5,000 fee cap applies to bond issuances of up to $20 million, a provision designed to protect smaller issuers in the community. Deputy Treasurer Sheldon agreed with this approach while also noting that such fees are typically amortized over many years as part of the underwriting process. Deputy Treasurer Sheldon remarked that bond issuance rates have been accelerating, with recent data for national trends showing a 25% increase. Deputy Treasurer Sheldon highlighted the projection of a substantial rise in issuance volume in June, though he cautioned that this might reflect a few large issuances rather than a high number of smaller ones. Turning to the topic of accounts receivable, Deputy Treasurer Sheldon expressed concern that not all fees from securities firms had been collected. He emphasized the importance of addressing this issue and suggested that efforts be intensified to collect payment. Mr. Berry explained that efforts were ongoing to collect payment on past-due invoices. He confirmed that $200,000 is expected to be collected during the current fiscal year, with an additional $250,000 projected for the next year. Deputy Treasurer Sheldon concluded by expressing his appreciation for the work being done to address these financial challenges.

Mr. Berry continued with the efforts of the Data Collection & Analysis Unit. He provided a brief overview of CDIAC's operational accomplishments during the fiscal year and outlined future initiatives for the next fiscal year. He reiterated CDIAC's responsibility to collect comprehensive information on all state and local debt authorization and issuance until fully repaid. CDIAC serves as a clearinghouse for that information. Last year, Mr. Berry reported that CDIAC had completed the first phase of the end-to-end database project with the development of the new Data Portal. After three years of development, CDIAC successfully launched Debt Watch 2.0 on May 1, 2024. Debt Watch 2.0 is a cloud-based statistical clearinghouse that updates data daily, improves document access and searchability, and provides robust data visualization tools for stakeholders to create customized charts and annual report summaries. CDIAC also has plans for more improvements that include additional summaries and enhanced features that allow users to manage and correct their data directly from within the system.

CDIAC processed over 17,000 report submissions in fiscal year 2023–24, marking an 11% increase over the previous fiscal year. Debt issuance submissions saw only a slight, 3% decrease, despite a 22% decline in revenue. Mello- and Marks-Roos are the annual report submissions for those specific types of debt and the number of these report filings has been relatively stable from year to year. The Annual Debt Transparency Reports (ADTRs) are the annual filings required for all outstanding public debt issues in California, and the increase in these reports was much larger than the decline in issuance submissions in fiscal year 2023–2024. Over 9,000 current and overdue reports were submitted during this last ADTR filing period, which resulted in a 20% increase in ADTR submissions in fiscal year 2023-24. The annual growth in the ADTRs is expected to continue for the foreseeable future.

Mr. Berry explained the technological efficiencies that have been built into the reporting system, including expanding the adoption of a batch application that allows the issue filing system to submit dozens of reports simultaneously to keep CDIAC ahead of the growth curve.

Mr. Berry proceeded by presenting on CDIAC's Education Unit's efforts. The 2023–24 fiscal year marked a very productive year for the continuing education program. CDIAC had six separate programs held over eight months, which featured 50 different expert presenters and reached over 700 attendees. He highlighted CDIAC's 22nd Pre-conference program at the California Public Finance Conference presented by *The Bond Buyer*. During this program, CDIAC presented a variety of potential strategies that could be used before, during, and after issuance to manage borrowing costs. In May, CDIAC produced *Current Topics and Practices in Land Secured and Development Finance* held in Pomona. This program featured a training about current trends and applications related to land-secured financing.

CDIAC produced and executed three successful webinars in fiscal year 2023–24, including a two-part webinar series on the integration of specific strategies for pension and liability management. CDIAC also hosted a program on municipal green bond disclosure, which discussed investors' recommendations for the content that investors expect to see in the initial disclosure documents for green bonds. CDIAC's last webinar of 2023–24 covered arbitrage risks and opportunities in the current interest rate environment. Replays for all of these webinars are available to watch through CDIAC's learning-management system (LMS), the EdPortal.

In addition to live virtual programs, CDIAC completed two on-demand modules to complete the Elect>Ed series on debt issuance administration. The new modules were released to the Education Portal, which now contains 42 debt and investment courses with nearly 600 registered users. This educational content is specifically geared to elected officials and public finance officers.

Mr. Berry continued by discussing the accomplishments of CDIAC's Research Unit in fiscal year 2023–24. CDIAC published its annual update to the *K-14 Authorized but Unissued* series, which identified $55 billion of unissued G.O. authorization among K-14 districts. CDIAC also published its annual *Local Agency Investment Guidelines* report as well as an updated Securitized Investments issue brief. In addition, CDIAC's Research team was instrumental in developing new procedures and a reporting structure for CDIAC's annual data reporting.

Mr. Berry then detailed the planning highlights for fiscal year 2024–25. Following the completion of CDIAC's end-to-end database enhancement project, the focus will be on ongoing system maintenance and improvements to avoid future large-scale upgrades. Key areas of improvement include improving ADA accessibility for printed reports, notifications for filing obligations to keep filers informed, and an enhanced internal administrative interface for better data management. Additional data validation routines are planned to prevent bad data from entering the system. CDIAC also intends to improve and automate its invoice processing interface for more efficient tracking of accounts receivable. By making these necessary improvements, CDIAC hopes to enhance the experience for both internal and external users of the system.

CDIAC has several planned educational events in fiscal year 2024–25. In October, CDIAC will host its first annual municipal disclosure training webinar, which will feature current hot topics that are relevant to agency personnel involved in the disclosure process. In November, CDIAC is planning a webinar on the evolution of changes in credit ratings and their impact on issuers' rating strategies. CDIAC is also preparing for five ambitious in-person programs in the coming year. CDIAC will host its flagship program, *Municipal Debt Essentials*, in September 2024. Debt Essentials is a three-day intensive debt issuance and administration program covering topics from planning, preparing, and issuing debt to topics of post-issuance administration. The Pre-conference to *The Bond Buyer*'s California Public Finance Conference in October 2024 will be devoted to talking about strategies for issuers to access fair and transparent pricing when issuing debt. In January 2025, CDIAC will produce its annual investment program through a partnership with the California Municipal Treasurers Association, which will cover intermediate investment level topics. In the spring of 2025, CDIAC will host a two-day municipal market disclosure program focusing on disclosure fundamentals and current topics, including climate risks and cyber risks. In the fall of 2025, CDIAC intends to produce an advanced land-secured program that will cover a combination of fundamental and current topics in land-secured financing.

CDIAC also plans to leverage social media to create strategic marketing opportunities in addition to enhancing the CDIAC website for easier access to content and publications. CDIAC intends to implement a new email marketing communication system for over 7,000 subscribers to improve user engagement. Mr. Berry then concluded his summary of the planning highlights for fiscal year 2024–25.

Deputy State Controller Oppenheim addressed the Commission to confirm that a quorum was reached with three Commission members. It was stated for the record that a quorum for the California Debt and Investment Advisory Commission is reached with a majority of non-legislative Commission members, so a quorum had been reached with the presence of three non-legislative members for the 2024 Commission Meeting.

Mr. Berry then presented on the newly developed DebtWatch 2.0 site. The presentation detailed the enhanced functionality of the DebtWatch 2.0 homepage, highlighting its streamlined interface, real-time updates, and interactive data visualization tools for debt issuance and compliance reporting. Key enhancements include detailed filters, customizable reports, and accessible summary data, along with a tool for visualizing trends related to cumulative debt and annual filings.

Mr. Berry then took the opportunity to thank the CDIAC staff for their dedication and successful adaptation to increased demands over the past year.

Deputy Treasurer Sheldon thanked Mr. Berry for the presentation. Mr. Berry then moved to the next item on the agenda.

ITEM 4. COMMISSION STAFF REPORT (INFORMATION ITEM)

Out of consideration for the Commission's time, Mr. Berry presented the highlights of the 2024 Commission Staff Report during Item 3, and he presented the full report to be included in the meeting package to the Commission. There were no questions from the Commission for Item 4.

ITEM 5. CONTRACT DELEGATION AUTHORITY FY 24–25 (ACTION ITEM)

Mr. Berry then presented the Contract Delegation Authority for fiscal year 2024–25. Government Code Section 8857 authorizes the Commission to delegate to the Executive Director the authority to enter contracts on its behalf. The definition of contracts for the purpose of this delegation includes purchases of goods and services through service orders, standard agreements, and purchase orders. In effect, this includes all CDIAC operating expenses and equipment (OE&E). The OE&E expenditures fall under this contract definition and are therefore relevant to the discussion. On June 22, 2023, the Commission approved Resolution 23-01, which authorized the Executive Director to enter into contracts and interagency agreements in fiscal year 2023–24 with the following limitations: a cumulative contract authority not to exceed $1,800,000, and any single contract shall not exceed $400,000 (not including the interagency agreement for administrative services through the State Treasurer's Office, which shall not exceed $425,000). In addition, the resolution requires the Executive Director to report on all contracts approved pursuant to the resolution and a list of expenditures and the contracts as provided in the staff report. Resolution 24-01 requests delegation of contract authority to the Executive Director for fiscal year 2024–25, with the same limitations as last year's cumulative contract authority: not to exceed $1.8 million, any single contract shall not exceed $400,000 (not including the interagency agreement for administrative services with the Treasurer's Office, which shall not exceed $425,000). The cumulative contract authority request in the resolution will accommodate all of CDIAC's OE&E expenditures expected for the next fiscal year as it has in the current year. The single contract request is the same as last year, and CDIAC expects it will accommodate any expected contracts during the fiscal year as well. The interagency agreement limitation is based on the estimates from the Treasurer's Office, Administration, and Information Technology divisions. For the reasons discussed in the staff report, the staff recommended approval of the delegation of contract authority as specified in Resolution 24-01.

Deputy Treasurer Sheldon thanked Mr. Berry. He then asked if there were any questions for Mr. Berry on the staff report.

Commissioner Sklaroff questioned about whether contracts for third-party hotel services are included within the Contract Delegation Authority. Mr. Berry confirmed that contracts for third-party hotel services, including room blocks for conferences, fall under the authority provided from the resolution. This includes both cumulative and single contract authority. Mr. Berry mentioned a current contract for $80,000 for the Sheraton Fairplex in Pomona related to the *Municipal Debt Essentials* program.

Commissioner Sklaroff then inquired about the potential relocation of the State Treasurer's Office back to its original Capitol Mall address and was informed that it would be unlikely to happen within the next year, with a possible return to the original location scheduled for late 2025.

Commissioner Sklaroff concluded with no further questions, and Deputy Treasurer Sheldon reiterated that the likelihood of relocation is low in the near future.

Hearing no further questions, Deputy Treasurer Sheldon made a motion to approve the resolution. Deputy State Controller Oppenheim and Commissioner Sklaroff seconded the motion.

APPROVAL OF RESOLUTION 24-01: CONTRACT DELEGATION

	AYE	NAY	ABSENT	ABSTAIN
GOVERNOR GAVIN NEWSOM			X	
DEPUTY STATE CONTROLLER DAVID OPPENHEIM	X			
ASSEMBLYMEMBER DAVID ALVAREZ			X	
ASSEMBLYMEMBER AVELINO VALENCIA			X	
TREASURER SANDIE ARNOTT			X	
COMMISSIONER NIKOLAI SKLAROFF	X			
DEPUTY TREASURER JOHN SHELDON	X			

The motion to approve Resolution 24-01 was carried.

ITEM 6. PUBLIC COMMENT

Mr. Sheldon then opened the meeting up for public comment. Hearing and seeing none, he thanked everyone for their attendance and adjourned the meeting at 2:08 PM.