

CALIFORNIA DEBT ADVISORY COMMISSION

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A large, light gray, textured map of the state of California is positioned in the background, centered behind the title text.

# 1994 ANNUAL REPORT

**MATT FONG**  
*State Treasurer and Chairman*

**CALIFORNIA DEBT ADVISORY COMMISSION**

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June 1995

To the Members of the California Legislature and the Governor of the State of California.

On behalf of the members of the California Debt Advisory Commission, I am pleased to submit the Commission's 1994 Annual Report for your review.

As shown in this report, 1994 was a very active year for the Commission. Although the total amount of debt issued in this state declined dramatically, the Commission's staff continued to be very productive in their efforts to assist local agencies in lowering the costs of debt. In addition to meeting their statutory reporting requirements, staff produced a variety of reports, issue briefs and seminars that have contributed to the education of participants in the public finance industry.

This report provides an overview of the Commission's responsibilities and output during 1994. It also contains a review of debt issued in 1994, highlighting the major changes and influences that affected the public finance industry during this period.

Looking to the future, I have asked CDAC to undertake another important task. Earlier this year, the *Task Force on Local and State Investment Practices* recommended that CDAC work with statewide associations to develop enhanced continuing education programs for local officials who have direct or supervisory control over local agency investments.

Respectfully submitted,

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Matt Fong  
State Treasurer

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Matt Fong  
State Treasurer

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June 1, 1995

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## **California Debt Advisory Commission**

The California Debt Advisory Commission is the State's clearinghouse for public debt issuance information. The Commission was created by the California Legislature in 1981 to assist state and local government agencies with the monitoring, issuance, and management of public debt.

### **1994 Members of The California Debt Advisory Commission:**

**Kathleen Brown**  
California State Treasurer  
and Chair

**Pete Wilson**  
Governor  
or  
**Russell Gould**  
Director  
Department of Finance

**Gray Davis**  
State Controller

**Robert G. Beverly**  
State Senator

**Lucy Killea**  
State Senator

**Jim Costa**  
State Assemblyman

**Dean Andal**  
State Assemblyman

**Donald W. Merz**  
Treasurer-Tax Collector  
Sonoma County

**Phyllis E. Currie**  
Chief Financial Officer  
Los Angeles City Department  
of Water and Power

**Additional information concerning this report or the program of the California Debt Advisory Commission may be obtained by contacting:**

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## AN INTRODUCTION TO THE COMMISSION

The California Debt Advisory Commission (CDAC) was created in 1981 with the passage of Chapter 1088, Statutes of 1981 (AB 1192, Costa). This legislation requires the Commission to serve as the State's clearinghouse for public debt issuance information and to assist state and local agencies with the monitoring, issuance, and management of public debt. Pursuant to Chapter 1088, the Commission is specifically required to:

- o Serve as the state's statistical center for debt information.
- o Publish a monthly newsletter.
- o Maintain contact with all participants in the municipal debt industry to improve the market for public debt.
- o Provide technical assistance to state and local governments to reduce cost and protect the issuer's credit.
- o Undertake or commission studies on methods to reduce costs and improve credit ratings.
- o Recommend legislative changes to improve the sale and payment of debt.
- o Assist the Housing Bond Credit Committee and all state financing authorities and commissions in carrying out their responsibilities.

Since the Commission's creation in 1981, the Legislature has given CDAC additional responsibilities. Chapter 1399, Statutes of 1984 (AB 4025, Waters) requires CDAC to collect, summarize, and report annually to the Legislature specific information on the use of proceeds from the sale of housing bonds. Moreover, Chapter 1399 — modified by the Local Government Omnibus Act of 1994 (Chapter 939, SB 1393) — requires that no issuer may issue any bonds subject to the reporting requirements of Section 8855.5 until the State Treasurer certifies that the public agency or nonprofit corporation has filed all of the information required by Section 8855.5 with the California Debt Advisory Commission.

Additionally, the Legislature requires issuers to report specified information to the Commission when they (1) sell refunding or revenue bonds through negotiation or private placements or (2) issue bonds payable in a foreign currency. Also, pursuant to legislation enacted in 1992 (Chapter 772, SB 1464, Mello), the Commission is now required to collect specified fiscal information on Mello-Roos community facilities districts which issue bonds after January 1, 1993.

The Commission fulfills its mandates through a variety of publications and programs summarized in this report by drawing primarily on information submitted by issuers of California public debt, supplemented by information from experts in the financial community and in the field of public finance, as well as from outside data sources.

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## THE COMMISSION'S PROGRAMS

In order to carry out its mission of assisting state and local agencies on matters related to debt issuance and debt management, the Commission engages in a wide range of activities and functions. These activities can be classified into three general program areas: data collection, policy research and development, and technical assistance.

### Data Collection

In compliance with its statutory requirements, CDAC operates two data repositories: the debt issuance data bank and the housing bond proceeds data bank. These repositories are considered two of the most comprehensive and accessible databanks of their kind. Depending on the needs of state and local governments and market conditions, the volume of data processing may range from 2,500 to 4,000 individual debt issuance reports received each year. Data from these reports are the basis for all of the statistical information released by the Commission.

As the state's clearinghouse for public debt financing information, the Commission has compiled data on all public debt issued in California since January 1, 1982. All issuers of state and local government debt are required to submit issue-related information to the Commission 30 days prior to the sale. A sample of the data reported to CDAC includes the sale date, the name of the issuer, the type of sale, the principal amount, the type of debt instrument, the source(s) of repayment, the purpose of the financing, the rating of the issue, and the members of the financing team.

Effective January 1, 1995, CDAC instituted for use by all bond counsels and issuers or their representatives new reporting forms (revision 1995) to report debt issuances pursuant to California Government Code Section 8855(g). To assist those who are new to the reporting process, an instruction sheet is now available for the revised *Report of Proposed Debt Issuance* and *Report of Final Sale* forms. The revised forms incorporate requests for additional information from public and private municipal bond participants due to changes and innovations in the municipal market.

The revised reporting forms also assist issuers in complying with reporting requirements related to negotiated refundings, which necessitated a separate written statement in addition to the submission of the CDAC reporting forms. These additional reporting requirements were added with the passage of AB 2544 (Chapter 1033, Statutes of 1985) which amended Section 53583 of the Government Code. The consolidation of data items to be submitted for negotiated refundings with existing reporting requirements reduces the amount of paper to be sent to the CDAC.

CDAC's other data program, the housing bond proceeds databank, produces statewide information on the costs and benefits of tax-exempt mortgage revenue bonds issued by local entities. A critical feature of CDAC's housing revenue bond proceeds databank is its capacity to illustrate to policymakers and to the public the scope of low-income housing in the state financed by tax-exempt revenue bonds. Since January 1, 1985, CDAC has been collecting annual information on *multifamily* and *single-family* housing bond issues sold by cities, counties, and redevelopment agencies in California. Housing authorities began reporting in January 1, 1986. Housing bond data compiled by CDAC include project name and location, developer information, occupant incomes and family size, unit size, and rents or mortgage payments.

## **Policy Research and Development**

The Commission's mandated duties include various tasks intended to generally improve the market for California public debt, such as to maintain contact with all participants in the municipal debt industry, to undertake or commission studies, and to recommend legislative changes. To fulfill these functions, CDAC's Policy Research and Development Division draws on information from the Data Collection Division and on data and expertise from outside sources to formulate policy options on current issues in California public finance for consideration by the members of the Commission.

The Policy Research and Development Division must be sensitive to current issues and bring problems and their possible solution to the attention of the Executive Director and the members of the Commission. The staff of the Policy Research and Development Division accomplishes this task by keeping abreast of current developments in the financial markets, monitoring and analyzing the data collected by the Commission, conducting research studies, and collecting feedback from issuers and other interested parties.

## **Technical Assistance**

CDAC's formal technical assistance program consists primarily of two components. One of these is the *California Debt Issuance Primer*, a CDAC publication designed as a reference manual for public debt issuers in the state. The *Primer* contains information on the roles and responsibilities of public debt issuers and provides a comprehensive overview of the various debt financing options available to California issuers. It also describes and discusses the roles of the participants in a debt financing, the steps in the debt issuance process, State debt oversight and financing programs, and key terms and concepts in public finance.

The other component is CDAC's seminar program, which was inaugurated in June 1984. Offered several times a year at different locations statewide, CDAC seminars are designed to meet two goals: (1) to introduce public officials who are new to the field of public finance to the debt issuance process and (2) to strengthen the expertise of those who are already familiar with debt issuance and management concepts. Since their inception in 1984, over 1,500 public officials and staff have participated in the Commission's seminars. Most of the participants come from local agencies, while the remainder represent federal, legislative, and state agencies.

Of course, CDAC does not limit its technical assistance program to the *Primer* and the seminars. As the state agency responsible for the oversight of state and local debt, public and private individuals routinely contact the Commission with inquiries related to California public debt. Hence, the Commission's staff responds to numerous technical assistance requests throughout the year. These requests include simple referral requests, data inquiries, and questions on the nature and application of specific debt instruments, among others. In a typical year, CDAC staff responds to over 1,000 requests for information or assistance.

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## **THE TECHNICAL ADVISORY COMMITTEE**

To assist the Commission in its decision-making responsibility, a Technical Advisory Committee (TAC) was established in 1983. The TAC serves two primary functions:

- 1) To assist the CDAC in its deliberations by providing a forum for initial discussion of issues, problems, and opportunities related to public agency debt transactions; and
- 2) To assure a proper technical review of public finance subjects by initially exposing them to professionals who have expertise in both the public and private aspects of public agency debt.

Since its inception, the TAC has continually provided Commission staff with valuable advice on a wide variety of issues, ranging from the contents of CDAC's reporting forms to emerging issues in public finance. Many of the TAC members also serve as faculty for the Commission's technical assistance seminars.

The TAC is composed of about two dozen individuals representing various groups involved in municipal finance, including bond counsel, underwriters, financial advisors, investors, credit rating agencies, and local bond issuers. The State Treasurer appoints TAC members to staggered two-year terms. All TAC members serve without compensation. Members of the Technical Advisory Committee that served during calendar year 1994 are listed in Appendix B, and those that are serving during 1995 are included as Appendix C.

# CALIFORNIA PUBLIC FINANCE IN 1994

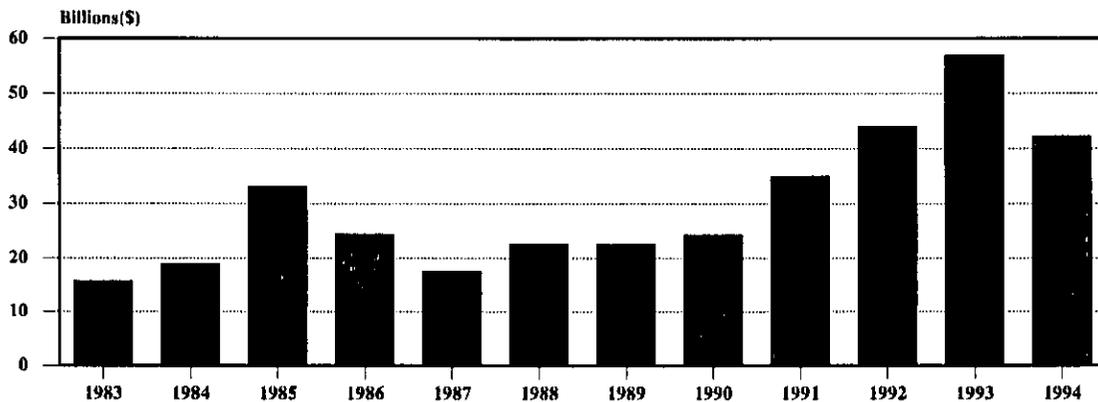
## CALIFORNIA DEBT ISSUANCE IN 1994

This section summarizes California public debt statistics and highlights the major purposes for which new debt was issued in 1994. A more detailed treatment of public debt issued in California is provided in the Commission's two companion publications: *1994 Calendar of Debt Issuance* and *1994 Summary of California Public Debt*.

Overall volume for 1994 marks a trend reversal from the prior year, which showed the highest volume of California public debt issuance recorded since the Commission began collecting this data. Chart 1 illustrates the historical trend. The 1994 total of \$42.1 billion, a drop of 26 percent from the prior year, registers just below the 1992 volume of \$43.9 billion, the second-highest volume ever recorded. The trend reversal is due to a decline in debt issuances by local agencies. Total local debt issuance in 1994 was \$25.8 billion, a 37 percent decline from the \$41.3 billion issued by local agencies in 1993. By contrast, total debt issuance by agencies of the State rose by five percent from \$15.3 billion in 1993 to \$16.1 billion in 1994. Issuances by non-profit student loan corporations more than doubled from \$63.7 million issued in 1993 to \$150 million issued in 1994, of which \$100 million was for refunding.

Chart 1

### California Public Debt Issuance 1983 through 1994



Source: California Debt Advisory Commission

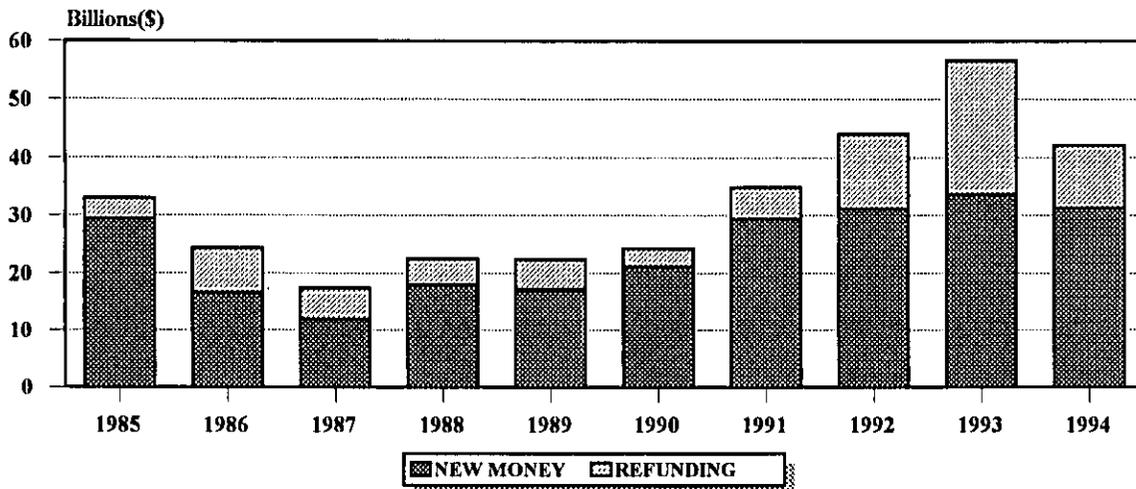
The total number of debt issues reported sold in 1994 was 1,673. Of that total, 127 were state issues; four were student loan corporation financings; and the remaining 1,542 were sold by local issuers. This is down 11 percent from the total of 1,887 reported in 1993.

## Higher Interest Rates Slow Refundings

Issuances for the refunding of prior debt dropped by 53 percent from \$23 billion in 1993 to \$10.8 billion in 1994, while new money issues declined by seven percent from \$33.6 billion to \$31.3 billion over the same period. Chart 2 shows the trend reversal in historical perspective.

Chart 2

### California Public Debt Issuance Refunding vs. New Money 1985 through 1994



Source: California Debt Advisory Commission

Table 1 shows a numerical breakdown of California long-term and short-term public debt issuances, including refundings, between 1993 and 1994.

Table 1

### California Public Debt Issuance Long-Term vs. Short-Term 1993 and 1994 (Millions \$)

	1993	1994	Percentage Change
Long-term Debt	\$39,365	\$23,458	-40.4
(Refundings)	(23,045)	(10,785)	-53.2
(New Projects)	(16,320)	(12,673)	-22.4
Short-term Debt	<u>17,311</u>	<u>18,638</u>	<u>+7.7</u>
Total	\$56,675	\$42,096	-25.7

Note: Figures include state and local governmental entity and Student Loan Corporation issues.

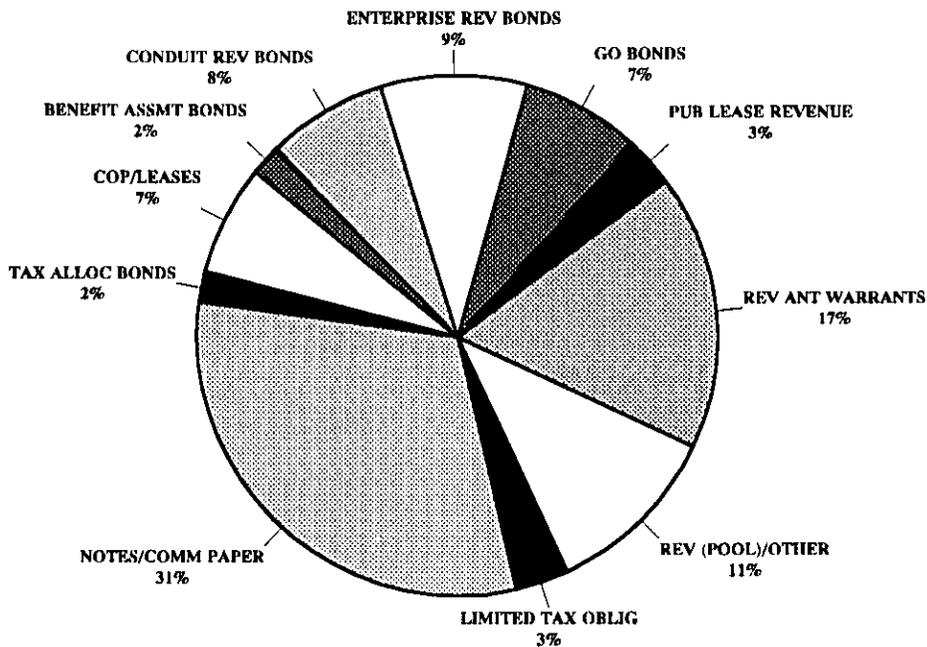
## Notes and Commercial Paper Account for One Third of Debt Issuance

Chart 3 illustrates the distribution of the type of debt instruments sold in 1994. Of an aggregate \$42.1 billion sold by all California public agencies, notes (\$12.2 billion) and commercial paper (\$634 million) which total \$12.8 billion account for 31 percent. This is comparable to the 33 percent market share of notes and commercial paper in 1993. The category of notes includes tax anticipation, revenue anticipation, tax and revenue anticipation, bond anticipation, grant anticipation, and tax allocation notes.

The next largest single category was \$7.2 billion of revenue anticipation warrants (RAWs) sold by the State to address its cash flow needs, accounting for 17 percent of the total.

Chart 3

### California Debt Issuance by Type January 1, 1994 - December 31, 1994



Source: California Debt Advisory Commission

With the exception of the residual category of "other bonds," which includes \$362 million of pool revenue bonds, and accounts for eleven percent with an aggregate total of \$4.4 billion, all other category types accounted for less than ten percent each.

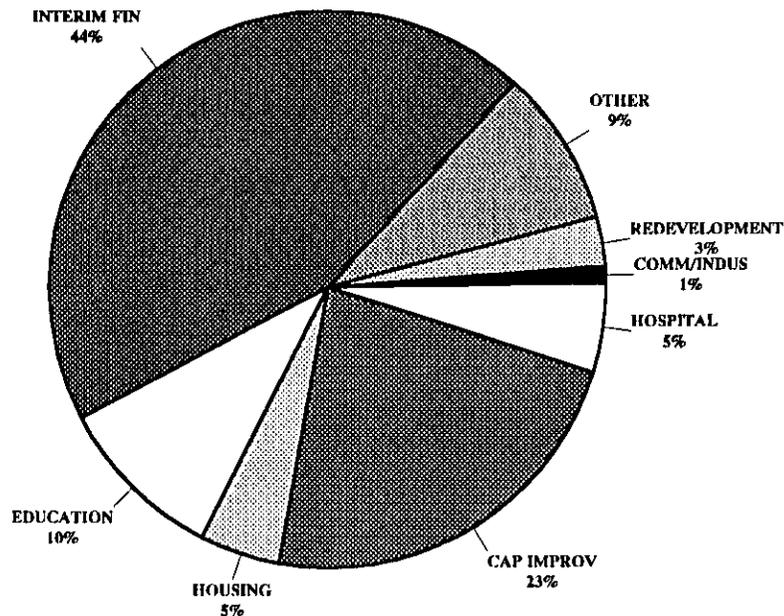
## Interim Financing a Priority in 1994

Chart 4 shows the distribution of 1994 California public debt issuances by purpose. Interim financing (\$18.6 billion), the largest purpose category, accounting for 44 percent of the total aggregate \$42.1 billion sold by all California public agencies. Issuances in the next largest category, capital improvements (\$9.7 billion), accounted for 23 percent. Financing for educational purposes (\$4.2 billion), the third category, was just over ten percent of the total.

The remaining categories — housing, hospital, commercial/industrial, redevelopment, and the residual category “other” — each account for less than ten percent of the total 1994 California public debt volume.

Chart 4

### California Debt Issuance by Purpose January 1, 1994 - December 31, 1994



Source: California Debt Advisory Commission

It should be noted that any or all of the categories shown in Chart 4 include new money issuances, issuances for the refunding of existing debt, as well as taxable debt issuances.

## State Issuance Inches Up in 1994

The 1994 debt issuance for agencies and departments of the State totaled \$16.1 billion, up five percent from the 1993 total of \$15.3 billion. Over 63 percent (\$10.2 billion) of this volume was used for interim financing — a mix of revenue anticipation notes and revenue anticipation warrants issued in 1994 for cash-flow purposes. This represents a 46 percent rise from the \$7 billion sold for this purpose in 1993. Of the remaining \$5.9 billion issued, \$4.1 billion was new money and \$1.8 billion was for refunding. This matches the 1993 new money total issuance of \$4 billion. Issuances for the refunding of long-term debt in 1993 totaled \$4.3 billion. A breakdown of 1994 state agency issuances by purpose, with a year-over-year comparison, is shown in Table 2.

Table 2

**State of California  
Public Debt Issuance by Purpose  
1993 and 1994  
(Millions \$)**

	1993	1994	Percentage Change
Interim Financing	\$7,000	\$10,200	+45.7
Education	2,872	2,800	-2.5
Housing	1,028	1,144	+11.3
Commercial/Industrial	335	176	-47.5
Hospital/Healthcare	470	675	+43.6
Capital Improvements	3,586	1,106	-69.2
Redevelopment	0	3	n/a
Other	<u>0</u>	<u>7</u>	<u>n/a</u>
<b>Total</b>	<b>\$15,291</b>	<b>\$16,111</b>	<b>+5.4</b>

Note: Figures may include taxable debt issuances and issuances for the purpose of refunding existing debt.

In 1994, agencies of the State sold long-term debt primarily for college and university and K-12 school facilities (\$2.8 billion), housing (\$1.1 billion), and capital improvements and public works (\$1.1 billion). The remainder of long-term debt issuance was for hospital and healthcare facilities (\$674 million) and commercial and industrial development (\$176 million), with minor amounts for redevelopment and other purposes totaling approximately \$10 million. Significant decreases were registered from the prior year for capital improvements and public works (down 69 percent), and for commercial and industrial development (down 48 percent). Increases in debt issuance were reported for hospital and healthcare facilities (up 43 percent), and housing (up 11 percent).

## Local Debt Issuance Down in 1994

Local governmental entities issued \$25.8 billion of debt instruments in 1994, down 37 percent from the \$41.3 billion sold in 1993. Of this volume, about a third each was accounted for by long-term new money (\$8.6 billion), interim financing (\$8.4 billion), and the refunding of long-term debt (\$8.8 billion). Although still the major component, refunding as a percent of the total 1994 local agency volume dropped to 34 percent of the total, as compared to 45 percent of the total in 1993. Table 3 shows a breakdown of 1994 local debt issuances by purpose, with a year-over-year comparison.

Table 3

**California Local Agencies  
Public Debt Issuance by Purpose  
1993 and 1994  
(Millions \$)**

	1993	1994	Percentage Change
Interim Financing	\$10,311	\$8,438	-18.2
Education	1,729	1,261	-27.1
Housing	1,035	806	-22.1
Commercial/Industrial	100	210	+110.5
Hospital/Healthcare	2,629	1,447	-45.0
Capital Improvements	20,857	8,555	-59.0
Redevelopment	4,224	1,202	-71.5
Other	<u>436</u>	<u>3,917</u>	<u>+798.4</u>
<b>Total</b>	<b>\$41,320</b>	<b>\$25,835</b>	<b>-37.5</b>

Note: Figures may include taxable debt issuances and issuances for the purpose of refunding existing debt.

Short-term cash-flow financings for local agencies (\$8.4 billion) decreased by over 18 percent in 1994 from a record high of \$10.3 billion in 1993. Despite this decrease in volume, and even though there were changes in federal tax law that dictated more stringent cash flow rules, more local agencies (691) issued interim cash flow instruments in 1994 than in 1993 (633). The 1994 total issuance for interim financing includes \$1.9 billion in taxable short-term notes.

Although capital improvements and public works projects headed the list of 1994 long-term debt financings with a total volume of \$8.6 billion, the volume in this category dropped 59 percent from the total amount sold for this purpose in 1993. Over half of this 1994 total, \$4.8 billion, was for new projects. The remaining \$3.7 billion was for the refunding of prior debt. The next highest volume was registered in the residual category "other," which shows a dramatic 798 percent increase from the prior year. This category includes pension and insurance obligations and Tector

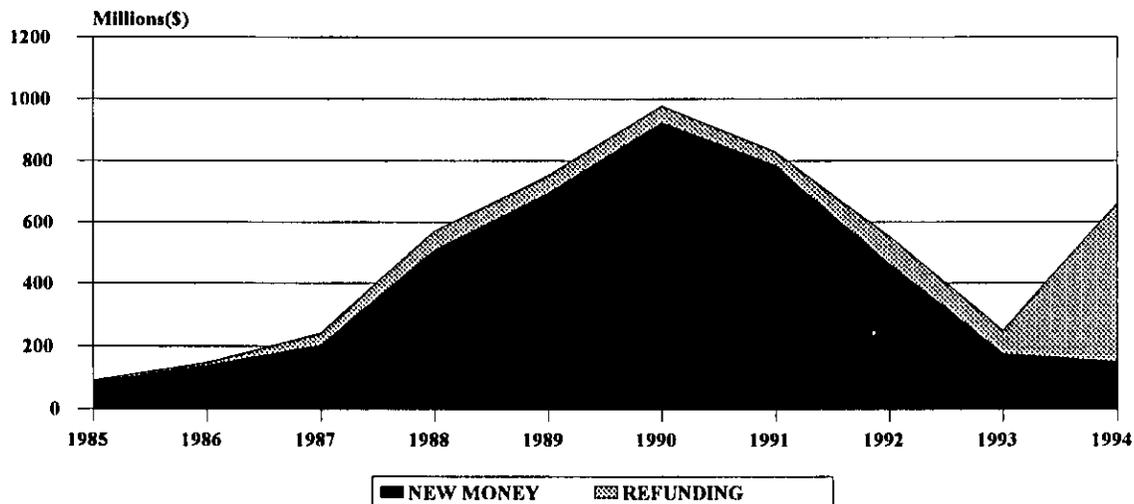
plan financings, for a total of \$3.9 billion. Of this amount, \$2.9 billion was for refunding. The financing of hospitals and healthcare facilities ranked next with a total debt issuance of \$1.4 billion, down 45 percent from 1993. Issuance for educational facilities was close to \$1.3 billion, down 27 percent, and financing of redevelopment projects was \$1.2 billion, down 72 percent. Issuances for housing decreased 22 percent from \$1 billion sold in 1993 to \$806 million sold in 1994. Issuances for commercial and industrial development more than doubled from \$100 million sold in 1993 to \$210 million in 1994.

### Refunding Results in Mello-Roos Trend Reversal

Financings by Mello-Roos Community Facilities Districts (CFDs) showed a significant increase in 1994, following a three-year consecutive decline from an all-time high of almost \$1 billion reported in 1990. However, while Community Facilities Districts issued a total volume of \$662 million in 1994 — two and one half times the 1993 volume of \$249 million — only \$150 million (23 percent) of the total issuance was for new projects. The remaining \$512 million (77 percent) was issued for the refunding of prior debt. Chart 5 provides a historical perspective of Mello-Roos issuances by Community Facilities Districts since 1983, with a breakdown of refunding versus new money.

Chart 5

#### Mello-Roos Issuance Refunding vs. New Money January 1, 1985 - December 31, 1994



Source: California Debt Advisory Commission

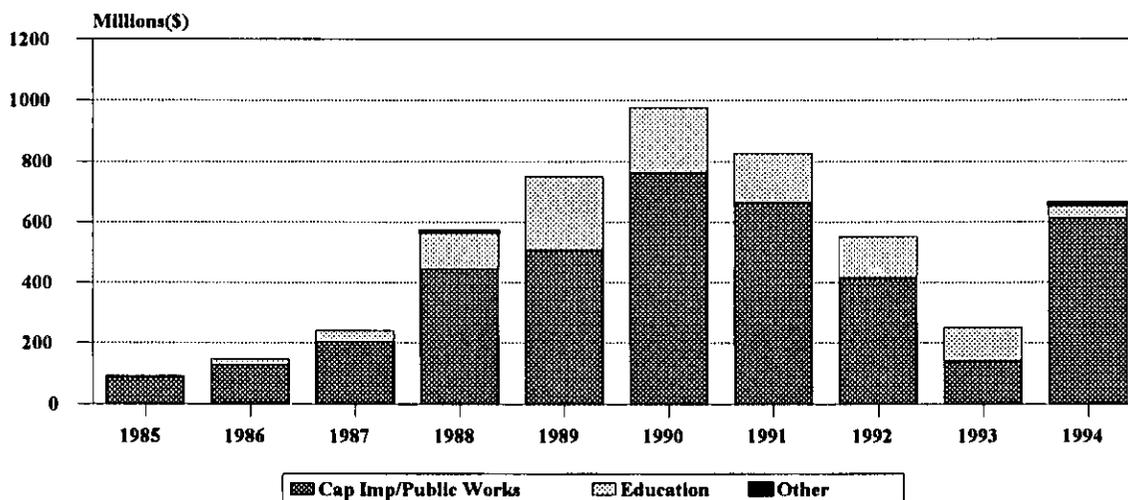
The Mello-Roos Community Facilities Act was passed in 1982, and the first bond sale under this Act, an \$8.5 million school financing, was issued in 1983. Thereafter, issuances by Community Facilities Districts increased steadily over the next seven years. After reaching a peak volume of

\$977 million in 1990, CFD issuances slowed by 15 percent to \$828 million in 1991, declined by another 33 percent in 1992 to a volume of \$553 million, and continued to drop by another 55 percent in 1993 to a volume of just \$249 million for the year — the lowest volume registered since 1987.

A breakdown of Mello-Roos issuances by purpose is shown in Chart 6. The primary purpose of CFD issuance in 1994 was for the funding of capital improvements and public works, while the debt issuance volume for the financing of educational facilities declined for the fifth consecutive year. Issuances for 1994 include a small residual category for purposes other than educational facilities and such traditional items like sewers, sidewalks, and roads which comprise the category of capital improvements and public works.

Chart 6

**Mello-Roos Issuance by Purpose  
January 1, 1985 - December 31, 1994**



Source: California Debt Advisory Commission

**Negotiated Sales Lose Market Share**

Due to increased activity by State agencies, negotiated sales lost in market share relative to competitively bid sales for the second consecutive year. As shown in Table 4, negotiated sales represented 63 percent of the total municipal debt volume in 1994, the lowest market share reported since the Commission started computing these statistics. The competitive bidding process is most often used by agencies of the State. State agencies sold 65 percent of their 1994 issuances by competitive bid, while only 20 percent of the 1994 issuances by local agencies were sold competitively.

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Table 4

**State and Local Debt Issuance  
Competitive vs. Negotiated Financings  
1984 through 1994  
(Millions \$)**

Year	Competitive	% of Total	Negotiated	% of Total
1994	\$15,589	37.0	\$26,504	63.0
1993	14,826	26.2	41,850	73.8
1992	9,446	21.6	34,296	78.4
1991	10,001	28.7	24,821	71.3
1990	6,043	25.0	18,130	75.0
1989	4,545	20.3	17,812	79.7
1988	3,418	15.2	19,068	84.8
1987	1,780	10.2	15,603	89.8
1986	3,273	13.5	21,041	86.5
1985	5,445	16.5	27,460	83.5
1984	2,694	14.4	16,051	85.6

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A historical perspective is presented in Table 4. In 1984 negotiated sales as a percentage of total debt issuance represented 86 percent. Following a dip to 83 percent the following year, the proportion of negotiated sales rose to 87 percent in 1986, reaching an all-time high of almost 90 percent in 1987. Since then, the market share of negotiated sales declined slowly but steadily to just over 71 percent in 1991.

The primary reason for this was an equally steady increase in the sale of general obligation bonds by the State of California over that period, all of which were sold competitively. Consequently, when competitive G.O. sales by the State dropped off in 1992, the scale tipped in favor of negotiated sales to finish that year with a 78 percent share of the market. In 1993 negotiated sales represented 74 percent of the total. This downward trend was continued in 1994, when the proportion of negotiated sales fell further to 63 percent of the total municipal debt volume as a result of increasing debt issuances requiring competitive bidding by agencies of the State.

## ACCOMPLISHMENTS IN 1994

### THE COMMISSION'S PUBLICATIONS

One of the Commission's many challenges is to keep the public informed about issues that affect public finance. As a statewide resource agency on public finance matters, the Commission strives to make the information at its disposal as accessible to the public as possible. To meet this goal, CDAC disseminates a variety of publications throughout the year. With the exception of the *California Debt Issuance Primer* — a reference manual for issuers of public debt — reports and other publications are available to any interested party free of charge.

In 1994, CDAC published the 13th volume of **DEBT LINE**, the Commission's monthly newsletter; developed a third topic for its *Issue Briefs* series; and released nine new publications, which are described below. (A listing of all CDAC publications currently in print is available upon request.)

#### **1993 Annual Summary: The Use of Housing Revenue Bond Proceeds [CDAC 94-1]**

This is the ninth edition in a series of reports designated to summarize information on local agencies' use of tax-exempt housing revenue bond proceeds, based on unaudited data reported to the CDAC by the issuing agencies. Included in this *Summary* is information on the incomes, family size, rents or mortgage payments of housing occupants; the number, size, sales price, and geographic distribution of the units that are developed; the length of time the units have to comply with income-targeting requirements; and the type of developers or sponsors of housing projects.

The 1993 edition shows that close to \$7.7 billion in housing revenue bonds, issued between January 1, 1985 and June 30, 1993, were subject to the reporting requirements in 1993. For the first time since the Commission began collecting this data, all issuers complied with the State's reporting requirements.

The information included in the *1993 Annual Summary* indicates that multifamily bond proceeds of almost \$6.7 billion provided funds for the construction of 113,552 units. Of these units, 23 percent (26,519 units) are targeted for lower-income households. The data for single-family housing shows that there were nearly \$1 billion of reportable bond proceeds in 1993. Of these proceeds, \$929 million were actually available for making mortgage loans. However, only \$357 million (38 percent) were utilized in the origination of 3,736 mortgage loans. Nearly two-thirds, \$572 million, remained available for mortgage loans at mid-year 1993.

**The Impact of the 1993-94 State Budget and Proposition 172 on  
California Cities and Counties  
[CDAC 94-2]**

Addressed to State policymakers and other interested persons, this report presents a condensed summary of public hearings held by the Commission in San Diego, Sacramento, and Los Angeles during October, 1993 in response to continuing state budgetary difficulties. The report includes a summary of the findings (Section I), a summary of the testimony that was presented (Section II), and a background paper (Section III), which was prepared in advance of the hearings to identify some key questions for discussion.

Testimonies given by local government officials and by representatives of the three major credit rating agencies yielded five major findings: (1) the passage of Proposition 172 — which extended the 1/2 cent sales tax — does not address long-term problems at the local level; (2) innovations, consolidations, and downsizing have become staples of local government operations; (3) counties have been hardest hit by State budget actions, however problems exist elsewhere; (4) as in 1992, local officials clamor for reliable and predictable funding sources; and (5) the delay of capital improvements, maintenance, and equipment replacement represents a ticking time bomb.

By making this information available prior to legislative deliberations, the Commission sought to (1) assure that the integrity of local government finance will be protected; (2) ensure continued access of local governments to the capital markets; and (3) maximize the contributions of cities and counties to the recovery of the California economy.

**1993 Annual Report  
[CDAC 94-3]**

This report summarizes the activities of the Commission on an annual basis. As such, the *1993 Annual Report* provides a synopsis of the activities and accomplishments of the Commission and its members, gives an overview of California public finance activities during 1993, summarizes CDAC's accomplishments in the same year, and outlines major new projects planned by the Commission for 1994. In addition to the digest of the Commission's programs and activities, the report also provides a broad perspective on major events that shaped California public finance in 1993.

The *1993 Annual Report* is supplemented by several charts and tables that provide a perspective on California public debt activity over time, as well as appendices containing excerpts from the Government Code, upon which the California Debt Advisory Commission's programs and operations are based, and other pertinent information relating to the Commission.

**1993 Summary of California Public Debt  
[CDAC 94-4]**

This report is a companion volume to the *1993 Annual Report* [CDAC 94-3]. The purpose of this report is to provide a profile of the level of public borrowing by all levels of government in the state. It is based on unaudited data for public debt issuance from January 1 through December 31,

1993. The first part of the report presents an overview of the volume of state and local issuance for 1993. Additionally, it includes a year-over-year comparison which shows a significant drop in the volume of debt issued by the State, while local agency debt shows a substantial increase. The report also indicates that both State and local agencies used a substantial portion of the bond proceeds for the financing of capital improvements and education.

For the State, the narrative portion of the report includes discussions on the level of bond issuances (including refundings) and short-term debt. The discussion of local debt focuses on bonds issuances (including Mello-Roos bonds), certificates of participation (COPs), and tax and revenue anticipation notes (TRANS). Also included is an overview of debt by county of origin.

The bulk of this report is devoted to tables that summarize 1993 state and local debt issuance by type of debt instrument (general obligation bonds, certificates of participation, etc.); use of proceeds (single-family housing, education, health care, etc.); taxable financings; financings to refund existing debt; and type of issuing agencies (State, cities, counties, etc.). This report is the ninth *Summary* published since 1985.

### **1993 Calendar of Debt Issuance [CDAC 94-5]**

A companion publication to the *1993 Annual Report* [CDAC 94-3], this report contains detailed information on each California debt issue sold in 1993, as reported to the Commission. The information presented in the *Calendar* is organized by State agency, county and issuer to portray each entity's debt issuance activity for the year. Details include the type of debt instrument sold, the sale date, the purpose for which the funds are raised, and related information of relevance to issuers, analysts, and others interested in California's public debt portfolio. This report is the ninth in a series published annually since 1985.

### **Appraisal Standards Report [CDAC 94-6]**

In response to the passage of SB 1464 (Chapter 772, Statutes of 1992), this report addresses land valuation practices in relation to public debt issuances by Mello-Roos Community Facility Districts (CFDs) and assessment districts. Effective January 1, 1994, the bill establishes a minimum 3:1 value-to-lien or value-to-debt ratio for bonds issued by a CFD, among other requirements.

Section I of the report provides background information relating to SB 1464 requirements, the Mello-Roos Act and California special assessment acts, property value as security for bondholders, and limitations of the value-to-lien ratio. In Section II, the general requirements of the appraiser who undertakes to establish value-to-lien ratios for land-secured financings are discussed, including credentials and independent contractor status.

Since the appropriateness of an appraisal method is linked to the reason for which an appraisal is done, Section III outlines considerations entering into formulating the appraisal problem with respect to establishing lien-to-value ratios for CFDs. Section IV presents a broad overview of the several means for the valuation of real property, complete with illustrations. The methodology is

outlined for the Sales Comparison procedure, the Cost approach, the Income Capitalization technique, and for Discounted Cash Flow Analysis. The discussion includes considerations for the appropriate use of each of these methods.

Section V summarizes the content of an appraisal, including the appropriate format and level of documentation. In Section VI, the necessity for an appraisal review is addressed. The report concludes with a glossary of appraisal terms.

### **1994 Annual Summary: The Use of Housing Revenue Bond Proceeds [CDAC 94-7]**

Tenth in a series, this annual report presents CDAC data on local agencies' use of housing revenue bonds proceeds reportable to the Commission in 1994. This report includes information on the incomes, family size, rents or mortgage payments of housing occupants; the number, size, sales price, and geographic distribution of the units that are developed; the length of time the units have to comply with income-targeting requirements; and the type of developers or sponsors of housing projects.

This *Summary* shows that \$8.2 billion in housing revenue bonds, issued between January 1, 1985 and June 30, 1994 for the construction, rehabilitation, and refunding of both multifamily and single-family projects, were subject to the reporting requirements in 1994. Of this volume, local issuers submitted detailed housing data on a total volume of almost \$8.1 billion, which represents a compliance rate of 98 percent.

Because of differences in reporting requirements, the information for multifamily and single-family projects included in the *1994 Annual Summary*, as in all prior summaries, is presented in separate sections of the report. The respective bond volumes are as follows.

The data for multifamily bond proceeds of \$7.035 billion reported in 1994 show that the funds provided assistance in the construction of 114,728 units. Of these units, 24 percent (27,742 units) are targeted for lower-income households.

The data for single-family housing reported in the same year shows that there were just over \$1 billion of reportable bond proceeds in 1994. Of the \$840 million proceeds actually available for making mortgage loans, only \$336 million (40 percent) were utilized in the origination of 3,512 mortgage loans. The bulk, \$504 million, remained available for mortgage loans at mid-year 1994.

### **1994 Mello-Roos Community Facilities Districts Yearly Fiscal Status Report [CDAC 94-8]**

This is the second report in a series published on the financial status of Mello-Roos Community Facility Districts (CFDs). California legislation (SB 1464, Mello, Chapter 772, Statutes of 1992) requires that all issuers of CFD bonds report annually, until the bonds are retired, to the California Debt Advisory Commission on the fiscal status of their bonds sold after January 1, 1993. Additionally, SB 331, Mello, Chapter 1193, Statutes of 1993, requires that all agencies issuing Mello-

Roos CFD bonds, regardless of when sold, notify the Commission if there is a draw on the bond reserve fund or a default on payment of principal and interest.

The report is designed to provide specific details on each CFD bond issuance reported to the Commission, including the amount of debt sold, final maturity date, fund balances, assessed value of the CFD, delinquencies, foreclosure, and other pertinent information. The information published in this report is based on bond sales held from January 1, 1993 through June 30, 1994. In 1994, 31 issuers were required to file status reports on 57 separate bond issues. Of these, two agencies failed to submit the required information. However, the Commission's 1994 report also contains data on nine debt issuances that were voluntarily reported by agencies in addition to the 57 bond issues subject to the reporting requirements.

**State and Local Tax and Bond Ballot Measures  
Results of Primary and General Elections  
June 7, 1994 and November 8, 1994  
[CDAC 94-9]**

This report, the sixth in a series, presents the results of the 1994 Primary and General elections held in California. Included is data on all statewide and local bond and tax measures from information received from the California Secretary of State's Office and the 58 county clerks' election departments. The Commission has published general election results in a series of reports since November 1986.

Results from the June 7, 1994 Primary election show that over 60 percent of the bond and tax measures tracked by the California Debt Advisory Commission were defeated. Out of a total of 61 measures reported, 23 passed (38 percent) and 38 failed (62 percent), including the four State of California measures which were defeated. Appendix A in CDAC report #94-9 presents summary information on State and local bond and tax measures from the Primary election in tabular form.

From the November 8, 1994 General election, the Commission received information on 93 bond and tax measures. Resulting in a passage rate slightly above that for the June election, 37 measures (40 percent) passed and 56 measures (60 percent) were defeated. Those defeated included the State of California's general obligation bond measure (Proposition 181) and the State's gasoline sales tax proposal (Proposition 185). Appendix B of CDAC report #94-9 presents summary tables on State and local bond and tax measures from the General election.

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**OTHER COMMISSION PUBLICATIONS**

**DEBT LINE (Monthly)**

In 1994, over 1,500 public and private subscribers received copies of **DEBT LINE**, CDAC's monthly newsletter. This publication contains a calendar listing of all proposed and sold debt issues reported to the Commission, summary tables on the types of debt and the purposes of the

financing, as well as various informational articles. The Commission is receiving an average of 20 new subscription requests every month and expects to have 1,600 subscribers at the beginning of 1995.

**DEBT LINE** provides three basic types of information. First, it provides information on municipal bond financing transactions occurring in the state. Agencies which are considering a financing transaction often consult **DEBT LINE** for information on similar issues in the market, such as the volume of debt issuance, interest cost, type of sale, or members of the financing team. Others may consult the newsletter for an indication of potential new trends or innovations in public finance.

Second, **DEBT LINE** serves as a forum for discussions of critical issues in public finance. While some articles are intended to inform readers of developments taking place in the marketplace, other articles present differing views on or exposition on a particular topic. The May, 1994 issue, for example, included two views of the Richmond case — “Refinancing the Richmond USD COPs: The Ultimate Story Bond” and “A Trustee’s View of the Richmond USD Default.” By contrast, the June, 1994 issue was focussed on pension obligation financing, with articles entitled “**DEBT LINE** Takes a Closer Look at Pension Obligation Finance,” “Unfunded Pension Obligation Financing: How It Works,” “Pension Obligation Bond Financings from the Issuer’s Perspective,” “Rating Pension Bonds in California,” and “Bond Financing of Unfunded Pension Obligations: The Legal Aspect.”

Third, **DEBT LINE** is the primary vehicle for advising the public of the Commission’s activities. It frequently includes announcements concerning new CDAC publications, programs, and seminars, as well as summaries of the Commission’s meetings and hearings. Additionally, **DEBT LINE**’s “Legislative Status Report,” a regular feature, provides information on state legislation that affect the issuance and management of public debt.

### **Issue Brief Series**

To round out its technical assistance function, the Commission developed the *Issue Brief* series, which are reference documents on topical public finance matters. As such, these documents present objective analyses on important current issues, including suggestions for addressing these issues. Being somewhat more technical than a typical **DEBT LINE** article, but not lengthy enough to be published in report form, these treatments are made available separately in the Issue Brief format.

*Issue Brief No. 3, Preparing Requests for Proposals*, provides a starting point for smaller agencies or infrequent issuers in their search to obtain expert help in preparing for a bond sale. A Request for Proposals (RFP) is a formalized method of soliciting information of candidate firms concerning their qualifications, experience, proposed compensation arrangements, and suggested approaches to a planned financing.

Released in October of 1994, *Issue Brief No. 3* is designed to guide and assist agencies through the request for proposals process. Starting with the development of the scope of work, the Issue Brief describes services commonly sought in a financing; i.e., the services of the financial advisor, underwriter, bond counsel, and trustee or fiscal agent. An emphasis is placed on the importance of establishing proposal evaluation criteria, which include assessing the applicant’s qualifications, the merits of the proposed services, and proposed fee arrangements. This Issue Brief also addresses establishing technical requirements, communicating with potential providers, and monitoring and evaluating performance after a contract has been awarded. In planning for the sale of a debt issue,

Issue Brief No. 3 recommends a review of both *Issue Brief No. 1, Competitive Versus Negotiated Sale of Debt*, and *Issue Brief No. 2, Understanding the Underwriting Spread*.

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## **THE COMMISSION'S SEMINARS AND SYMPOSIA**

In 1994, as in prior years, the Commission continued to offer its seminar programs as part of its public technical assistance function, including events which are co-sponsored by statewide associations. Co-sponsored seminars and symposiums are uniquely designed to serve the needs of specialized groups and to bring various players in the financial market together for a broader exchange of views and a fresh outlook on persisting problems. Thus, CDAC's ongoing educational program is constantly evolving to meet the varied and changing needs of the financial community it serves.

### **Meeting the Challenges of Affordable Housing in California, a Symposium**

A symposium, entitled *Meeting the Challenges of Affordable Housing in California* was offered jointly by the CDAC and Standard and Poor's Corporation (S&P) on March 24, 1994 in Los Angeles. Designed as a forum to discuss critical public finance and policy issues occurring in the State of California, this symposium was the third of its kind co-sponsored by the Commission and S&P. It was attended by about 200 individuals from state and local government agencies, non-profit housing organizations, financial institutions, and real estate companies.

The symposium opened with an overview of the impact of the Northridge earthquake on housing in the greater Los Angeles area. Gary Squier, General Manager of the Los Angeles Department of Housing, outlined the extent of damage in the various census tracts. Following the introductory remarks, two panels of speakers addressed major issues relating to affordable housing. The first panel of speakers discussed financing issues. The second panel focused on the policy side of the affordable housing debate.

### **Seminar on Understanding the Debt Issuance Process**

Presented jointly with the California Association of School Business Officials (CASBO), the CDAC held a seminar on January 27 and 28, 1994 in Sacramento to help public officials understand the debt issuance process. Following opening remarks by Ted Witt of CASBO and an introduction to financing School Facilities in the 1990s by Assemblymember Delaine Eastin, Chair of the Assembly Education Committee, both public and private sector experts led the various sessions. Seminar presentations included an overview of the municipal securities industry and addressed the following topics: (1) the financing decision: preparing for the issuance of debt and understanding the issuer's role in the process, (2) ethics and public finance transactions, (3) designing the debt issue: executing the plan of finance, (4) debt instruments: general obligation bonds, certificates of participation, and Mello-Roos bonds, and (5) municipal bond credit ratings. This seminar was attended by over 60 participants.

### **Seminar on Current Issues in Public Finance**

This seminar was co-sponsored by CDAC, the California State Association of Counties (CSAC), and the California Association of County Treasurers and Tax Collectors (CACTTC). It was held in Sacramento on August 11 and 12, 1994. This seminar provided general sessions on credit issues for counties, ethics, disclosure issues, the impact of national health care reform, economic development strategies, the use of derivatives, and recent innovations in managing, assets, liabilities, and cash-flow. The various seminar topics were explored by 11 speakers from both the public and private sectors. It was targeted for elected officials, chief administrative officers, treasurers and tax collectors, county counsels, public works directors, auditor-controllers, and their staff. Over 50 participants attended this seminar.

### **Seminar on the Basics of Cash-Flow Financing**

A technical assistance seminar on the basics of cash-flow financings was held on November 14, 1994 in Millbrae (near the San Francisco Airport). The seminar, presented jointly for the second year by the CDAC and Moody's Investors Service, was designed to provide a broad spectrum of information on a critical part of the debt financing market. This seminar included the following sessions: (1) the role of short-term debt issuance in cash management, (2) legal authority and tax considerations for issuance of short-term debt instruments, (3) the TRAN issuance process: a local agency's experience, (4) credit analysis of tax and revenue anticipation notes (TRANs) by rating agencies, and (5) marketing considerations in the issuance of TRANs. The faculty for the seminar was drawn from experts of the public and private financing community. The seminar was attended by about 40 persons.

### **Seminar on Understanding and Managing Leases**

The Commission's newest seminar program, *Understanding and Managing Public Leases*, was held on November 2, 1994 in San Diego, in conjunction with the 14th Annual Fall Conference of Association for Governmental Leasing & Finance (AGL&F). Intended as a primer for public and private finance professionals on the subject of lease debt, presenters discussed the basic types of leases, leasing terms and concepts, and current issues affecting the municipal leasing industry. The seminar also included a session on an agency's experience with managing lease debt and a session on guidelines to issuance and prudent lease management. As is typical for CDAC seminars, both public and private sector finance experts made up the faculty. Almost 90 participants attended this seminar.

### **Fundamentals of Debt Financing Seminar**

The *Fundamentals of Debt Financing*, the Commission's introductory seminar for public officials interested in understanding the debt issuance and debt management process, was held April 7 and 8, 1994 in Irvine. The one and one-half day seminar is designed to cover the basics of a bond

issue, the participants' roles, types of debt financings, credit ratings, disclosure issues, and ethics. The seminar's faculty consists of private and public financing professionals. The *Fundamentals* seminar, which has attracted hundreds of participants over the last six years, is open only to local and state officials.

### **The Mechanics of a Bond Sale Seminar**

For public officials who require more advanced training in public finance, CDAC again offered the *Mechanics of a Bond Sale* seminar. The seminar, held on September 8 and 9, 1994 in Burlingame (near the San Francisco Airport), was designed to take public officials through the step-by-step process of bringing a bond to market. CDAC's *Mechanics of a Bond Sale* seminars include in-depth examinations of each step of the bond issuance process. As such, the program is designed to take public officials through the steps in a debt financing and includes such topics as capital outlay planning, structuring and financing, preparation of legal documents, marketing and pricing, risks and rewards of debt issuance, investing the bond proceeds, and warning signs of credit deterioration and rating downgrades.

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## **THE COMMISSION'S PUBLIC HEARINGS**

Among a multitude of mandated tasks, CDAC is required to maintain contact with municipal issuers, investors, underwriters, credit rating agencies, and others to improve the market for state and local government debt issues. To help meet this requirement, the Commission schedules public hearings on topics of widespread interest. To allow for timely input from all interested parties, CDAC's public hearings are held at various locations throughout the State. The hearings, conducted as conditions warrant, attest to the Commission's commitment to providing public oversight and input on issues affecting debt issuance in California.

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## **THE COMMISSION'S NETWORKING EFFORTS**

### **Public Outreach**

As the state's central repository for debt information, the Commission is often invited to conferences and other gatherings to address various issues related to California debt issuance and debt management. CDAC uses these opportunities to share the Commission's views on various public finance matters and to learn about issues of concern to constituency groups who have an interest in how state and local agencies issue and manage debt. During the past year, CDAC staff made presentations and conducted workshops for groups which included the following:

Annual *Bond Buyer* Conference on Public Finance  
Association for Government Leasing and Finance

California Society of Municipal Analysts  
California School Board Association Finance Conference  
Government Finance Officers Association  
Local Agency Investment Fund Conference  
Municipal Bond Insurance Association  
National Federation of Municipal Analysts  
State Debt Management Network  
Urban Water Economics and Management Institute  
Western State Treasurers Association

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## **THE COMMISSION'S DATA REPOSITORY**

For calendar year 1994, the data collection unit of the Commission processed 1,766 reports of proposed debt issuance by California state and local issuers of public debt. CDAC also received 1,673 reports for issues sold during the year. These included issues that were reported as proposed sales in prior years but were actually sold in 1994. Each of the over 3,400 reports CDAC processed in 1994 contains detailed information on the sale of public debt.

In addition to debt issuance reports, CDAC compiled data on the use of housing revenue bond proceeds. For the *1994 Annual Summary: The Use of Housing Revenue Bond Proceeds*, the Commission contacted 177 local agencies for data on 602 debt issuances relating to multifamily and single-family housing projects. Information was submitted by 169 agencies — 89 cities and counties, 46 redevelopment agencies, 29 housing authorities, and five housing finance agencies. These agencies reported on an outstanding debt of almost \$8.1 billion, or 98 percent of the \$8.2 billion volume subject to the reporting requirement in 1994.

The data which support all CDAC publications, as well as information provided to the public upon request, are culled from the individual debt issuance reports that CDAC receives each year.

## THE OUTLOOK FOR 1995

This chapter highlights programs and activities planned for 1995. The California Debt Advisory Commission's 1995 agenda includes a combination of ongoing and new programs, following a change in administration. As CDAC enters its 14th year, State Treasurer Matthew K. Fong became the Commission's fifth Chairman by virtue of his office.

### **State Treasurer's Task Force on Local and State Investment Practices**

As a result of the losses incurred by the Orange County investment pool, State Treasurer Matt Fong assembled an eleven-member Task Force on Local and State Investment Practices at the request of Governor Pete Wilson. Pursuant to the recommendations of the State Treasurer's Task Force, the California Debt Advisory Commission plans to work with statewide associations which represent local agency financial managers to develop enhanced continuing education programs. Seminars in this program will be offered to state and local officials who have direct or supervisory responsibility for investments.

The primary objective of the Task Force was to ensure that investment practices at all levels of government in California give first priority to the security of invested taxpayer funds and to the maintenance of adequate liquidity. Yields on investments should be considered only after security and liquidity are assured. Additional details are available in a State Treasurer's Office publication, entitled *Task Force on Local and State Investment Practices: Recommendations and Analysis* (March 14, 1995).

### **Database Conversion**

The cornerstone of the data collection and dissemination unit is a database system which receives, stores, and compiles information received by the Commission. To better integrate mandates for additional data collection added to the Commission's tasks over the years and to provide technical assistance in a more efficient manner, the Commission's database is being converted to a system that will accommodate these needs.

As part of the conversion process, the Commission's staff is exploring means to provide information published in **DEBT LINE** in non-printed format. Requests for technical assistance regularly include request for access to information that is published electronically, however, such requests could not be accommodated with the existing computer system. In 1995, CDAC staff will be working on developing policy, procedures, and a pricing schedule for providing information in a more convenient format (either on diskettes or via electronic transmission) to interested parties.

## **Credit Implications of the Orange County Crisis: Report on a Public Hearing**

Because of implications for statewide debt issuance of the Orange County crisis, CDAC scheduled a public hearing for February 22, 1995 in Santa Ana. State Treasurer Matthew K. Fong, chairman the Commission, summed up the situation succinctly: "The Orange County [crisis] is not just an Orange County problem. It's a state problem. The County has no more time to deliberate. They must act."

Hence, the stated purpose of this public hearing was to explore two key topics: (1) the likely impact of the Orange County crisis on the debt obligations of Orange County Investment Pool agencies, and (2) steps that state and local leaders can take to restore the confidence of investors in California's municipal securities. A final report on this hearing, which drew nearly 80 attendants, was released in April 1995. It includes the Commission's background paper, a transcript of the testimony, and a summary of the testimony.

## **Recommended Practices for Redevelopment in California**

While redevelopment has provided cities and counties with broad powers and substantial fiscal resources to revitalize blighted neighborhoods, build low- and moderate-income housing, create jobs, finance infrastructure improvements, and develop commercial, industrial, and retail space, it also has let to controversy. Critics have pointed to questionable practices of redevelopment agencies as examples of abuses of redevelopment's tax increment and eminent domain powers.

In an attempt to curb abusive practices, the Legislature adopted AB 1290 (Isenberg, effective January 1, 1994). Although the Commission recognizes AB 1290 as the prevailing policy statement on redevelopment, it believes that more can be done to promote effective and efficient redevelopment practices. Thus, the Commission has embarked on a project to develop a set of *Recommended Practices* for the effective and prudent use of redevelopment powers through which the Commission hopes to help redevelopment agencies optimize the benefits of redevelopment and promote sound debt issuance and management practices.

The final product, a handbook for California redevelopment practitioners, was released in May 1995. It consists of three sections: (1) a background on redevelopment in California; (2) recommended redevelopment practices in the areas of economic development, blight elimination, neighborhood revitalization, housing, and debt management; (3) recommended legislative or policy changes which would enhance redevelopment agency practices in California. Case studies are used to illustrate various points and recommendations.

## **Marks-Roos Local Bond Pooling Act Study**

The intent of the Marks-Roos Local Bond Policy Act of 1985 was to help lower the fixed cost of debt issuance through economies of scale, especially to small issuers, by allowing them to form public finance authorities (PFAs) to pool their bond financings. Subsequent abuses, including blatant arbitrage, moved the Legislature to adopt SB 2447 (McCorquodale, effective January 1, 1991). Additionally, Congress enacted "hedge bond" rules to curb the tendency to oversize the amount of bonds issued in relation to capital requirements for the foreseeable future.

State law, however, left large loopholes with regard to refundings. Moreover, it is not clear whether the hedge bond rules were sufficient to address the problem of oversized Marks-Roos bond pools. Therefore, an in-depth review was released in March of 1995 to give the Commission a full understanding of the benefits and the problems that have materialized since 1985. The study enables the CDAC to formulate various options to address any problems which have been identified. Among other concerns, the Marks-Roos study addresses the sizing and structure of bond pools, assesses compliance with recent changes to the Marks-Roos Act, examines the suitability of bond pool investments and identifies appropriate disclosure requirements for these investments. The CDAC study also addresses the disposition of savings generated by bond pool refundings of assessment bonds.

### **Symposium on California Water Issues**

With a focus on water issues, the California Debt Advisory Commission (CDAC) and Standard and Poor's Corporation (S&P) will co-sponsor their fourth symposium on February 28, 1995 in San Francisco. The symposia are designed to provide a forum for public and private sector individuals to discuss critical public finance and policy issues occurring in the State of California. Previous symposia covered education, transportation, and housing issues, with an attendance of 100 to 200 individuals at each event.

In two discussion sessions — *The Leadership Challenge Facing Water in California* and *Financing Water Projects in California: Impact of Changes in Federal and State Policies* — experts in the fields of water and public finance will discuss recent developments and identify emerging trends. In addition, the impact of the landmark accord reached between the State and federal agencies on the use of Sacramento-San Joaquin Delta water will be addressed.

### **Seminar on Municipal Investment Management**

A workshop on municipal investment management for county officials will be offered on April 21, 1995 in Sacramento. The event is co-sponsored by the CDAC, the California State Association of Counties (CSAC), and the California Council of Partnerships (CCOP). The sessions will be presented by public and private sector financial experts. Planned topics include: (1) the role and responsibilities of the county finance team; (2) types of fixed income products and services offered by their providers; (3) an explanation of paper loss in relation to bonds; (4) prudent investment practices and the role of the fiduciary; (5) investing: risk, reward, and protection; and (6) an exploration of derivatives and the use of leverage.

### **Seminar on Waste Facilities Financing**

Scheduled for the fall of 1995, a seminar on waste facilities financing will be co-sponsored by the CDAC, the California Integrated Waste Management Board (CIWMB), the California Solid Waste Association of North America (CAL-SWANA), the California State Association of Counties (CSAC), and the League of California Cities (LCC). Planned sessions include the debt issuance process, including guidelines for solid waste financings; rules and regulations regarding ethics, contributions, and disclosure; and critical factors affecting the credit quality of solid waste debt

issues. Seminar sessions will also explore the regulatory environment for waste management; flow control and Carbone decision; the role of the CIWMB and local agencies in waste management; and waste management compliance strategies in the post-Carbone era.

### **Current Issues in Public Finance Seminar**

Scheduled for August 1995, this seminar on topical public finance issues for counties will be co-sponsored with CDAC, the California State Association of Counties (CSAC), and the California Association of County Treasurers and Tax Collectors (CACCTC). This will be the fourth seminar offered by the Commission which focuses on the information needs of county elected officials, chief administrative officers, treasurers and tax collectors, county counsel, county auditor-control-lers, and their staff who are responsible for the issuance and management of debt.

### **Secondary Market Disclosure Seminars**

The Commission is planning a series of workshops for local officials throughout the state to familiarize them with their responsibilities in complying with Securities and Exchange Commission (SEC) Rule 15c2-12, which becomes effective July 3, 1995. The program will include an explanation of why the SEC felt there was a need for further regulation in the municipal industry, a clarification of what information is required under the new rule and the implications to issuers, and a discussion of how increased information will affect the marketability of municipal debt issues in the secondary market.

### **The “Fundamentals of Debt Financing” and “Mechanics of a Bond Sale” Seminars**

As part of its technical advisory function, the Commission continues to offer its standard two seminars on basic elements of public finance to state and local officials. In 1995, both seminars will be held in Irvine, CA. The Fundamentals seminar, scheduled for April 6 and 7, is designed to provide a new issuer’s perspective to a bond financing. The Mechanics seminar is scheduled for September 21 and 22.

**APPENDICES**

**STATE OF CALIFORNIA GOVERNMENT CODE  
DIVISION 1 OF TITLE 2 (EXCERPT)**

**Chapter 11.5. CALIFORNIA DEBT ADVISORY COMMISSION**

**8855. Creation, composition, term; officers; compensation; powers and duties**

(a) There is created the California Debt Advisory Commission, consisting of nine members, selected as follows:

(1) The Treasurer, or his or her designate.

(2) The Governor or the Director of Finance.

(3) The Controller, or his or her designate.

(4) Two local government finance officers, appointed by the Treasurer, one each from persons employed by a county and by a city or a city and county of this state, experienced in the issuance and sale of municipal bonds and nominated by associations affiliated with such agencies.

(5) Two Members of the Assembly appointed by the Speaker of the Assembly.

(6) Two Members of the Senate appointed by the Senate Committee on Rules.

(b) The term of office of an appointed member is four years, but appointed members serve at the pleasure of the appointing power. In case of a vacancy for any cause, the appointing power shall make an appointment to become effective immediately for the unexpired term.

Any legislators appointed to the commission shall meet with and participate in the activities of the commission to the extent that the participation is not incompatible with their respective positions as Members of the Legislature. For purposes of this chapter, the Members of the Legislature shall constitute a joint interim legislative committee on the subject of this chapter.

(c) The Treasurer shall serve as chairperson of the commission and shall preside at meetings of the commission. The commission, on or after January 1, 1982, and annually thereafter, shall elect from its members a vice chairperson and a secretary who shall hold office until the next ensuing December 31 and shall continue to serve until their respective successors are elected.

(d) Appointed member of the commission shall not receive a salary, but shall be entitled to a per diem allowance of fifty dollars (\$50) for each day's attendance at a meeting of the commission not to exceed three hundred dollars (\$300) in any month, and reimbursement for expenses incurred in the performance of their duties under this chapter, including travel and other necessary expenses.

(e) The commission shall do all of the following:

(1) Assist the Housing Bond Credit Committee and all state financing authorities and commissions in carrying out their responsibilities as prescribed by law, including assistance with respect to federal legislation pending in Congress.

(2) Upon request of any state or local government units, to assist them in the planning, preparation, marketing, and sale of new debt issues to reduce cost and to assist in protecting the issuer's credit.

(3) Collect, maintain, and provide information on state and local debt authorization, sold and outstanding, and serve as a statistical center for all state and local debt issues.

(4) Maintain contact with state and municipal bond issuers, underwriters, credit rating agencies, investors, and others to improve the market for state and local government debt issues.

(5) Undertake or commission studies on methods to reduce the costs and improve credit ratings of state and local issues.

(6) Recommend changes in state laws and local practices to improve the sale and servicing of state and local debts.

(f) The commission may adopt bylaws for the regulation of its affairs and the conduct of its business.

(g) The issuers of any proposed new debt issue of state or local government shall, no later than 30 days prior to the sale of any debt issue at public or private sale, give written notice of the proposed sale to the commission, by mail, postage prepaid. This subdivision shall also apply to any nonprofit public benefit corporation incorporated for the purpose of acquiring student loans.

(h) The notice shall include the proposed sale date, the name of the issuer, the type of debt issue, and the estimated principal amount thereof. Failure to give this notice shall not affect the validity of the sale.

(i) The commission shall publish a monthly newsletter describing and evaluating the operations of the commission during the preceding month.

(j) The commission shall meet on the call of the chairperson, or at the request of a majority of the members, or at the request of the Governor. A majority of all nonlegislative members of the commission constitutes a quorum for the transaction of business.

(k) All administrative and clerical assistance required by the commission shall be furnished by the Office of the Treasurer.

**8855.5 Bond issuing agencies, authorities, governmental units, or nonprofit corporations; reports to commission**

(a)(1) Any redevelopment agency which issues revenue bonds to finance residential construction pursuant to Chapter 7.5 (commencing with Section 33740 or Chapter 8 (commencing with Section 33750) of Part 1 Division 24 of the Health and Safety Code, (2) any housing authority which issues revenue bonds to finance housing developments or residential structures pursuant to the Housing Authorities Law, Chapter 1 (commencing with Section 34200) of Part 2 Division

24 of the Health and Safety Code, (3) any local agency which issues bonds to finance residential rehabilitation pursuant to the Marks-Foran Residential Rehabilitation Act of 1973 (Part 13 (commencing with Section 37910), Division 24, Health and Safety Code), (4) any city or county which issues bonds for purposes of a home financing program carried on pursuant to Chapter 1 (commencing with Section 52000) to Chapter 6 (commencing with Section 52060), inclusive, of Part 5 of Division 31 of the Health and Safety Code or for purposes of financing the construction, acquisition, or development of multifamily rental housing pursuant to Chapter 7 (commencing with Section 52075) or Chapter 8 (commencing with Section 52100) of Part 5 of Division 31 of the Health and Safety Code, (5) any local agency, including any charter city or city and county, that issues revenue bonds to finance the purchase, construction, or rehabilitation of housing pursuant to any statute or under the authority of its charter, and

(6) Any nonprofit corporation that has qualified under Section 501(c)(3) of the federal Internal Revenue Code and which issues indebtedness for which the interest is exempt from federal income taxation to finance the purchase, construction, or rehabilitation of housing in this state, shall report to the California Debt Advisory Commission the incomes, family size, and rents or mortgage payments of the occupants, the number, size, cost, sales price, location by zip code, and geographical distribution of the units developed; the length of time the units are required to be held for occupancy by targeted income groups, and, if applicable, the number of years the units are required to be held as rentals; and the distribution of housing developments among for-profit, limited dividend, and nonprofit sponsors. For the purposes of this section, "nonprofit sponsors" includes public agencies.

(b) The information required to be reported by subdivision (a) shall be reported at least annually during the time that a percentage of the units are required to be occupied by, or made available to, persons or families within a particular income group. The report required by subdivision (a) shall only apply to housing units financed with the proceeds of bonds that are authorized to be issued, and which are issued, on and after January 1, 1985, pursuant to any of the provisions described in subdivision (a) or implementing provisions supplementary thereto, such as the authorizations contained in Chapter 5 (commencing with Section 6500) of Division 7 of Title 1. For purposes of this section, "bonds" means any bonds, notes, interim certificates, debentures, or other obligations issued under the authority of the provisions, or as otherwise, described in subdivision (a), and "issues" includes the issuance of bonds to refund previously issued bonds pursuant to the statutory provisions authorizing the original issuance or pursuant to supplementary authorization, such as Article 10 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5.

The redevelopment agency, housing authority, local agency, or city and county may charge a fee to the recipient of agency financing not to exceed the cost of making the reports required by this section.

**8855.7 Reports required by Section 8855.5; analysis of compliance with subsection (d) or Section 142 of Internal Revenue Code; certification of compliance with filing requirements.**

(a) The reports required by Section 8855.5 shall also contain an analysis by the reporting agency of compliance with the targeting requirements of subsection (d) of Section 142 of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 142) with respect to any issue of its bonds subject to those requirements for federal tax exemption under Section 103 of the Internal Revenue Code of 1986 (26 U.S.C. Sec. 103). The analysis shall identify the numbers of rental units subject to this reporting requirement by categories based on the number of bedrooms per unit, and shall report as to each of these categories.

(b) No public agency or nonprofit corporation subject to the reporting requirements of Section 8855.5 may issue any bonds, including bonds to refund previously issued bonds, subject to the reporting requirements of that section until the Treasurer certifies to the Legislature that the public agency or nonprofit corporation has filed the information required by Section 8855.5 and this section with the California Debt Advisory Commission.

#### **8855.8 Commission compilation and summary of reports; contents**

The commission shall compile and summarize the information reported to the commission pursuant to Section 8855.5 and issue that summary to the Legislature and the Legislative Analyst on or before November 1 of each year that the information is received by the commission. This summary shall also list any redevelopment agency, housing authority, local agency, city, and county which issued bonds under the authority of any of the programs specified in subdivision (a) of Section 8855.5 without first obtaining a certification from the Treasurer required pursuant to Section 33760, 34312.3, 52097.5, or 52045 of the Health and Safety Code.

#### **8856. Fees**

In providing services under paragraph (2) of subdivision (e) of Section 8855, the commission may charge fees in an amount not to exceed the fees established by the Department of General Services for the provision of contract services. In carrying out all the other purposes of this chapter, the commission may charge fees to the lead underwriter or the purchaser in an amount equal to one-fortieth of 1 percent of the principal amount of the issue, but not to exceed five thousand dollars (\$5,000) for any one issue. However no fees shall be charged to the lead underwriter or the purchaser for any water district issue which is subject to the jurisdiction of the Districts Securities Commission. Amounts received under this section shall be deposited in the California Debt Advisory Commission Fund, which is hereby created in the State Treasury. All money in the fund shall be available, when appropriated, for expenses of the commission and the Treasurer.

Until such time as fees are received by the advisory commission and appropriated pursuant to this chapter for the expenses of the commission and the Treasurer, the commission may borrow such moneys as may be required for the purpose of meeting necessary expenses of initial organization and operation of the commission.

#### **8857. Employees**

The chairman of the commission, on its behalf, may employ an executive secretary and other persons necessary to perform the duties imposed upon it by this chapter. The executive secretary shall serve at the pleasure of the commission and shall receive compensation as fixed by the commission.

#### **8858. Review of capital improvement financing; report**

The commission shall comprehensively review the financing of capital improvements by all agencies of local government and study the comparative debt of local governmental agencies for capital improvements and the use of bond financing as a source of the indebtedness. The review shall include an analysis of all general obligation and revenue bond financing laws. On or before January 1, 1983, the commission shall submit to the Legislature a report of its findings and recommendations, if any, for revising the laws governing such financing devices.

**8859. Advice regarding local bond pooling authorities**

The commission may, upon request, advise local agencies regarding the formation of local bond pooling authorities pursuant to Article 4 (commencing with Section 6584 of Chapter 5 of Division 7 of Title 1, and may advise the authorities regarding the planning, preparing, insuring, marketing, and selling of bonds as authorized by that article.

## COMMISSION TECHNICAL ADVISORY COMMITTEE

1994

### PUBLIC MEMBERS

**Norma Lammers**  
*CA State Association of Counties*

**Adair Most**  
*City of Victorville*

**Cynthia Nelson**  
*Santa Ana Community Devel. Agency*

**Paul Reed**  
*Irvine Unified School District*

**Art Vargas**  
*Castro Valley Sanitation District*

**Sharon Yonashiro**  
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*Charles A. Bell Securities Corp.*

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### INVESTOR REPRESENTATIVE

**Thomas Kenny**  
*Franklin Advisers*

<b>COMMISSION TECHNICAL ADVISORY COMMITTEE</b> <b>1995</b>
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*City of Sacramento*

**Norma Lammers**  
*CA State Association of Counties*

**John S. Lindsay**  
*City of Santa Rosa*

**Jeff Thomas**  
*City of Tustin*

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**Steven Zimmermann**  
*Standard & Poor's Corporation*

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**Thomas Kenny**  
*Franklin Advisers*

## COMMISSION FUNDING AND EXPENDITURES

The Commission is funded out of the California Debt Advisory Commission Fund, established under Chapter 1088/81. The CDAC Fund is supported by fees levied on debt issues reported to the Commission. Specifically, Chapter 1088 authorizes the Commission to charge a fee, equal to one-fortieth of one percent (2.5 basis points), up to \$5,000 for each issue, to the lead underwriter or purchaser of a debt issue. By Commission policy, however, current CDAC fees are limited to one-hundredth of one percent (one basis point), up to \$1,500.

The Commission has reduced its fee schedule twice since 1982 to provide a more equitable fee schedule for short-term and long-term debt issues sold in California, and to reduce the reserve in the CDAC Fund to a level equal to one year's appropriation. In 1986, the Commission also rebated \$1.2 million to state and local government agencies which remitted fees based on the schedule set in law for debt issues sold in 1982 and 1983. As Table 2 indicates, the Commission required \$1,044,609 in fiscal year 1992-93 to conduct its mandated functions. This was almost entirely offset by \$1,044,216 in new revenues. At the start of the 1994-95 fiscal year, the CDAC Fund balance exceeded \$1.2 million.

Table 5

### California Debt Advisory Commission Operating Revenues and Expenditures Fiscal Year 1993-94

CDAC Fund:	
Beginning balance (7/1/93)	\$1,245,370
New revenues	1,044,216
Reimbursements	8,425
Operating transfers in	<u>16,460</u>
<b>Total resources</b>	<b>\$2,314,471</b>
Expenditures:	
Staff salaries	\$482,943
Staff benefits	120,691
General expense	20,014
Printing	67,053
Communications	3,379
Postage	20,272
In-state travel	12,148
Out-of-state travel	3,201
Training	1,870
Facilities operation	61,819
Consultant and professional contracts	225,035
Data processing	908
Central administrative services	18,849
Equipment	<u>6,427</u>
<b>Total expenditures</b>	<b>\$1,044,609</b>
Operating transfers out	52,427
CDAC Fund:	
Ending balance (6/30/94)	\$1,217,435

**CALIFORNIA DEBT ADVISORY COMMISSION STAFF**

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*STAFF*

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**Carol Campbell**

**Lori Clayton-Ampey**

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