California Debt and Investment Advisory Commission

Webinar Transcript
California Local Public Finance Virtual Forum:
A Conversation with Treasurer Fiona Ma, CPA
August 12, 2020

California State Treasurer Fiona Ma knows that collaboration and open discussion will be a key tool in the identification of public finance solutions that will address the unprecedented challenges California agencies are facing from the COVID-19 crisis. The Treasurer invites colleagues to join her for a conversation about the state of public finance in California and to share questions, challenges, successes, and ideas for restoration of our communities. In the midst of the physical separation we are all experiencing, we must consciously recognize that California's future will be stronger by joining together.

[Editor's Note: This transcript has been prepared by the California Debt and Investment Advisory Commission (CDIAC) and it believes it to be a fair and accurate reproduction of the comments of the speakers. Any errors are those of CDIAC and not the speakers.]

Title Slide – California Local Public Finance Virtual Forum

ROBERT BERRY: Good morning everyone. And welcome to the *California Local Public Finance Virtual Forum, A Conversation with Treasurer Fiona Ma*. This is a webinar presented by the California Debt and Investment Advisory Commission and the California Society of Municipal Finance Officers. My name is Robert Berry, and I am the Executive Director at CDIAC.

Agencies of all sizes and types are facing unprecedented challenges and many of these challenges have their solutions, as imperfect as they may be, rooted in public finance. CSMFO and CDIAC allied in the mission of public finance education, understand the power of collaboration and communication when it comes to developing solutions. Our goal with this webinar is to open a communication channel between you, all of you participating this morning, and Treasurer Ma and her senior staff so that you can hear thoughts on important public finance topics from her perspective here at the State Treasurer's Office, and have many of your questions addressed as well.

Just a quick overview, we'll begin the program with some opening remarks from Steve Heide, current president of CSMFO and Treasurer Ma. Then Margaret Moggia, past president of CSMFO and current CFO of West Basin Municipal Water District will engage in conversational Q and A with Treasurer Ma. In the next portion of the program, Treasurer Ma will be joined by Tim Shaefer, Deputy Treasurer of Public Finance and Kristin Szakaly-Moore, Director of the Investments Division, both here from the Treasurer's Office. So together we'll engage you in the conversation addressing questions that many of you submitted upon registration and also questions that you can submit during the program, comments, ideas that you would like to share with us this morning. You can submit questions or comments any time during the program using the box marked "questions" at the bottom of your control panel.

Just a couple of quick housekeeping items before we begin.

Slide 2 – Housekeeping **2:17**

I mentioned the audience participation and the Q and A box at the bottom of your control panel. Access to live captioning is available during the program at the address on your screen. Also, we will send all the registrants to the webinar, a web link to a replay and a transcript. Usually within a couple of weeks. Lastly, if you're have having any technical issues, try the toll-free number to GoToWebinar, 877-582-7011 or you can use the link to the address to GoToWebinar that's on the screen.

Slide 3 – Welcome **3:06**

ROBERT BERRY: Now to kick things off with opening remarks, I'd like to introduce Steve Heide. Steve is the 2020 president of the California Society of Municipal Finance Officers and Finance Director for the Chino Valley Fire District located in Chino Hills, California. Steve is a certified public accountant with over 30 years of experience in local government and private industry. CSMFO is a preeminent resource for promoting excellence in government finance and represents approximately 2,500 members statewide, including local government finance professionals from cities, counties and special districts, many of which are on the program this morning as well as affiliated commercial business partners.

Steve, thank you very much for being with us this morning and welcome to the webcast.

STEVE HEIDE: Thank you, Robert, and good morning. On behalf of the California Society of Municipal Finance Officers and over 2,500 members, I'm pleased to welcome all of you to a very special conversation with California State Treasurer, Fiona Ma. Treasurer Ma knows that collaboration and open discussion will be a key tool in the identification of public finance solutions to address the unprecedented challenges, California local governments are facing as a result of the COVID-19 pandemic. For about the next hour or so, the Treasurer has invited us to join her for a conversation about the state of public finance in California and to share questions, challenges, successes and ideas for restoration of our communities.

In the midst of the physical separation we are all experiencing, we must consciously recognize that California's future will be stronger by joining together. That is why I'm so pleased that CSMFO and CDIAC are partnering today for the support of *California Local Public Finance Virtual Forum, A Conversation with Treasurer Ma*.

For those of you who may not be intimately familiar with CSMFO, we are a member-led preeminent resource for promoting excellence in government finance. CSMFO serves all government finance professionals, through innovation, collaboration, continuing education and professional development. Integrity, competency, commitment to public service, transparency and creating a positive legacy are our guiding values. We are finance officers and affiliated professionals serving cities, special districts, and counties in California.

Also joining us during the Q and A portion of our conversation today, will be CSMFO's 2018 president, Margaret Moggia. Margaret is the executive manager of finance for West Basin Municipal Water District located in Carson, California. Margaret is a CPA with a background in public accounting and is also a certified global management accountant. In addition to her leadership role with CSMFO, Margaret was recently elected to a three-year term as an executive board member with the Government Finance Officers Association.

Margaret and I are excited that a significant number of our CSMFO members and others who are interested in this important dialogue with the State Treasurer have logged into the webinar this morning. Understandably, there is very strong interest in this timely conversation with Treasurer Ma. Without further ado, it is my pleasure to introduce California's 34th State Treasurer, Fiona Ma.

She was elected on November 6, 2018 with more votes than any other candidate for Treasurer in the state's history. She was the first woman of color and the first woman certified public accountant elected to the position. Her office processes more than $2 trillion dollars in payments within a typical year and provides oversight for an investment portfolio of more than $100 billion dollars, approximately $30 billion of which are local government funds deposited in LAIF.

She is also responsible for managing $85 billion in outstanding general obligation and lease revenue bonds of the State. Treasurer Ma was a member of the State Assembly from 2006 to 2012 serving as Speaker pro Tempore from 2010 to 2012. She built a reputation as a solid solution-oriented public servant and was adept at building a unlikely coalitions to overcome California's most complex problems. Prior to serving as Speaker pro Tempore, she was Assembly Majority Whip for both coalitions during the state budget crisis to pass ground-breaking legislation that protected public education and the environment while expanding access to healthcare. Treasurer Ma has been a licensed CPA in California since 1992 and holds a bachelor's degree in Accounting from the Rochester Institute of Technology, a master's degree in taxation from Golden Gate University, and an MBA from Pepperdine University. She is a member of the California Society of Certified Public Accountants, serves on the board of California Women Lead, is an honorary chair and spokesperson for the San Francisco Hepatitis B Free Campaign and is a member of the Screen Actors Guild. She is married to Jason Hodge, a full-time firefighter and Oxnard Harbor Commissioner. Treasurer Ma, thank you for being with us here today, the time is yours.

TREASURER MA: Thank you Steve. Can you all hear me?

STEVE HEIDI: Yes.

TREASURER MA: Thank you Steve Heide for your warm introduction and also for your leadership at CSMFO. I also want to thank your past president, Margaret Moggia for her strong support and encouragement and your commitment to excellence in finance. I also want to thank Robert Berry, the executive director for our CDIAC as well as Karen McMillen for making today happen and for all their very informative webinars that we have been doing especially during this COVID-19 season. I'd also like to give a warm welcome to all the registrants here today.

Steve forgot to mention that I started my public service career on the San Francisco Board of Supervisors back in 2002 to 2006, during the "dot com" recession as well as 9/11. My first position in elected office was at the local level during a deficit time, so in my four elected positions, three have been during deficit times. And I understand the amount of angst and anxiety you all have in terms of balancing your budget. You all cannot print money or easily borrow funds, and so you are dependent on the State, for example, and as the State, we are really looking toward the Federal Government to help us during this deficit period and to help us balance our budget. I know that you are very anxious and you have questions, we have prepared questions as well as audience questions. But before that, if you could just give me a little time to talk a little bit about the Treasurer's Office. I am very proud to be your state treasurer. I'm also very excited that I inherited an agency that is high-functioning, extremely committed with dedicated individuals who understand their role as finance professionals and also are committed to the state of California to make sure that they are doing the best job that we can. And part of what I love about my job is our three big divisions.

First is cash management, and Steve mentioned that over $2.6 trillion dollars comes through our office every year. And we have amazing professionals, who have been very dedicated especially during this COVID-19 time. About 100 individuals have been in the office, Monday through Friday, consistently since March 16th because we are the bank and we need to stay open and make sure that we are processing the payments that the State of California depends on. The second of my divisions is public finance. Last year we issued about 14 different bonds, which is going to keep people working even during this downturn and even during this pandemic; we continued to issue bonds and we were the first ones in the market, post-March 16th and saw a lot of success from the market. People have a lot of confidence in California and our bonds were oversubscribed and we got a really good [interest] rate. So kudos to all of you. And the third is my investments division. And Kristin Szakaly-Moore was appointed as a director, January 7th of this year, as well as Robert Berry to head our CDIAC, and Kristin is also on this call and will be available to answer any questions. I did want all of you to meet her since she oversees the LAIF account, which is how we interact here and have that relationship.

Just a little bit about LAIF and our pooled money investment account. I think it is about $113 billion dollars right now, with about $32 billion in our LAIF accounts. Many of you, I know, are part of our LAIF account and we thank you for entrusting us with your money. The PMIA is not a long-term investor. The PMIA's bedrock objectives are to preserve capital, remain liquid and to always stay prepared to make the cash being held available on a very short-term notice, often as little as 24 hours. Presently the state maintains only the minimum required balances in our banks to compensate the banks for the services provided to the state as a whole.

The remaining funds become part of the PMIA and are designated as investible funds, by the pooled money investment board, which I chair. The other members are the Controller as well as the governor's Director of Finance. The remaining funds are invested in safe liquid assets. Presently, roughly 4/5 of which are US treasury obligations and federal agency securities.

LAIF is a proven investment alternative that provides representative investment returns, liquidity, which is virtually immediate, and the safety of principle that is guided by State law and a rigorous development policy that is managed by my office and which is reviewed by the PMI board at least annually. I also note that the costs of LAIF are dramatically lower than any commercially offered mutual fund in the United States. And these efficiencies benefit all of California because of the broad participants in LAIF by agencies like yourself. As requested by some at last year's LAIF conference, we made the announcement to increase the amount of deposits. You can all deposit up to $75 million dollars and most recently, due to the numerous stimulus packages, we have also created new discrete subaccounts so that we can also make our services available to you in the case that you do get some CARES Act money and some of you may be getting PG&E settlement money. Again, look to us if we can be of service.

There are several professional staff here available should you wish to pose any questions here today. But my take away is your money is safe with LAIF. And we really thank you for entrusting us with your funds. We are all in this together as Steve Heide mentioned and part of that is increasing communication; this is the first in a series of webinars. We hope that this is helpful, we want to be accessible to all of you. I also have a designated email account during this time and it is *askfiona@treasurer.ca.gov* and I have Kathryn Asprey who is manning that email line. If we don't answer your questions here today or if any of your elected officials, your constituents, your family members, have any questions or are having issues accessing any of the federal or state programs, please let us know, we are here to help you. Again, I would just like to take a moment to turn the microphone and video over to Kristin so that you all can meet Kristin face to face. Kristin.

KRISTIN SZAKALY-MOORE: Good morning and thank you, Treasurer Ma, for that introduction. I would just like to say hello to all the attendees today on this webinar. I appreciate the opportunity to meet you, even if it is only virtually. I hope that you feel that your funds are safe in LAIF as the Treasurer spoke to because that is our principle concern when we do investments for the PMIA which includes LAIF. We are focused on it being a cash management tool and to ensure the safety and liquidity of your investments. I would also like to say that in the slide deck you will see that we are intending to hold a LAIF conference a little later this fall. Tentatively, scheduled for October, we're thinking an October 14th date, but we hope to have an agenda finalized within the next few weeks. Once that is done, we'll make it available on our website, which is listed on the slide deck and will also be sending out a message to the participants who are in our LAIF mailing list. So please stay tuned for that, hold the date and we hope that we'll be able to see you all virtually at that time. Thank you.

TREASURER MA: I would like to introduce Tim Schaefer who is also going to be on the call helping me field questions. Tim is my deputy over the three divisions as well as other boards and commissions. I thank him for staying and continuing on with me. He was the deputy with John Chiang and was actually my first hire early on after I won my primary. And I thanked him for his wisdom and guidance and also his institutional knowledge as we are moving forward at the Treasurer’s Office. So Tim, do you want to say a couple words?

TIM SCHAEFER: Thank you, Treasurer Ma, I appreciate that gracious introduction. I suspect that many of the just under the 300 people that are listening to this know me and probably don't want to hear a whole lot more from me. But it is my privilege as part of the Treasurer's administration to have a team of very strong colleagues like Kristin Szakaly-Moore and Mark Hariri in the centralized treasury division and Blake Fowler in public finance. I would certainly echo the Treasurer's comments and comments made by Kristin to say that we understand in the State Treasurer's Office and particularly in the operational bowels of the office where I work, that we not only have a duty to manage State funds well, but we recognize that we are all in this ecosystem together and we are sensitive to the needs of the local government and are always interested in hearing from folks on the phone and members of the CSMFO on how we can improve our performance. Thank you, Treasurer for the invitation.

FIONA MA: Thank you, Tim. All right, I will turn it over to Margaret.

Slide 4 – CSMFO Conversation 20:06

MARGARET MOGGIA: Good morning and welcome to this time that we are here to have some prepared questions for you. And then later on, we will then bring back both Tim and Kristin to join us in some additional questions from the audience.

The first question that I have for you, relates to the federal stimulus. Could you give us your thoughts about your, and your insights about, the HEROES Act and the HEALS Act and where do you think that may end up as it relates to here in California?

TREASURER MA: I am an active member of the National Association of State Treasurers, so working with the 50 state treasurers, all of us have been engaged in all of the stimulus packages since March. The latest is the HEROES Act it was passed in May by the House of Representatives. It’s a $3 trillion dollar package that has all the bells and whistles and some of it does affect local governments and so we have been very vigilant to track the provisions as well as give input to the Treasury Secretary, as well as members of the different budget and finance committees that are working on this package. The senate came back into session last week. They are at an impasse. They don't agree on certain items that are in the HEROES Act. Hopefully, it will pass, but there probably are going to be significant amendments to the HEROES Act. Similarly, the infrastructure bill is a $1.5 trillion dollar package that will help with public transportation, roads, many of the projects that we all want to see happen so that we can keep people on the job, so to speak. We got a call from Senator Diane Feinstein’s office last week about a letter that we submitted as an idea and they are very supportive of it. I know that the senators are working very, very hard to figure out what are the most important projects and program and services that they should include in that package.

MARGARET MOGGIA: You did mention that infrastructure bill, the Moving Forward Act. Do you think that some of those decisions are somewhat contingent upon what is going on between the HEROES versus HEALS discussion, if you will?

FIONA MA: I think they are kind of different because the members that work on infrastructure on those committees are potentially different from the ones that are working on more of the health and human services components in the HEROES Act. But I know that they are listening to constituents, our constituents, so if any people here on the phone care about certain projects that they have, that they are concerned about, that are stalled, that have been in the pipeline, but because of COVID-19, they really need additional assistance, I would definitely encourage you to reach out to your senators, Senator Diane Feinstein and Senator Kamala Harris, as well as your local congressional members. They too also have input, they have a vote eventually, and to the extent they hear from more of us, then those priorities move up to the top and then that's what they start focusing on. Now is the time to reach out to our congressional delegation.

MARGARET MOGGIA: Perfect. Let me continue on the discussion of bonds. And I know there has been discussion relating to building back green and resiliency bonds. As a signator of the Green Bond Pledge, you have been a proponent of utilizing financial tools as a catalyst to drive the development of low carbon and environmentally-friendly infrastructure. Given the efforts to rebuild the economy through a variety of infrastructure improvements and knowing that you are in the office, what would you like to say about moving those projects forward to finance them? And do you see an opportunity coming from this crisis to become greener and more resilient?

FIONA MA: I'm going to have Tim jump in and talk about our Green Bonds advisory committee in a moment, but back in 2005, California passed AB32, which was the first in the nation, a signature climate change, sustainability law, which was passed by Governor Arnold Schwarzenegger and that really put us on the map to be the leaders and I know that we in California, the legislature takes that seriously and proposes legislation that moves us forward and keeps us at the forefront of climate change.

When I first started in this office, I signed one of the bonds that said, "it is a Green Bond." It was a water infrastructure project. And my question to Tim was, "Okay, I get that it is a Green Bond, but what is the definition of a Green Bond?" Tim said, "Ah ha! Good question. There is no definition in the United States or in California right now of what a Green Bond is." And Tim convened a Green Bond advisory committee with my predecessor, John Chiang, and he has continued that process but I just want to give him an opportunity just to give us an update on who is on the committee and perhaps a timeline in terms of getting these standards out.

TIM SCHAEFER: Thank you Treasurer Ma. I'm privileged to be the staff to the Treasurer's Green Bond Market Development Committee, which lives at the Goldman School of Public Policy at the University of California Berkeley. The committee consists of about two dozen experienced infrastructure managers, purchasing managers, people that are active in the environmental space, bond attorneys, finance officers, and includes a representative of the Governor's office. The goal of the committee is to bring together the awareness within state government and local public agencies, of the intersection between borrowing money and what we actually spend that money on. And the 'spending on' is generally influenced by how green the project is. California has arguably the best state-level environmental policy in the land. What we are coming up a little bit short on is making sure that policy makers in Sacramento understand why labeling bonds as 'Green' is so critically important. Many of you know that in February of this year, Larry Fink, the founder of the BlackRock funds, issued a pronouncement on behalf of his organization that sustainability and green and environmentally-friendly finance would be the overarching guiding principle of BlackRock. BlackRock is the second largest holder of State of California bonds. So, the connection has been made at the investor level. And the objective of this group is to continue to push for full integration of identification of borrowing for green purposes so that it can meet the demands of investors such as BlackRock. BlackRock is not alone, they were joined last week by a very similar statement from the Franklin Templeton funds, which is the first major mutual fund complex to stand-up a Green Bond fund devoted entirely to green finance. Others had preceded them, but generally the market has viewed them as being niche players. The Franklin Templeton commitment is a game changer. And the Treasurer, as chair of this Committee, is dedicated to being the wind in their sails to keep them going in that direction because it will benefit all of us.

MARGARET MOGGIA: Thank you, Tim, for those additional comments. I wanted to talk about another initiative that is important to you and let me just give a little bit of background on it. Governor Newsom, when he came into office, had a very ambitious goal to build 3.5 million units of housing by 2025. Midway through 2019, the pace of new housing development slowed well below what experts had said would be needed to meet the Governor's target. Now, a year later, here we are in a pandemic.

Existing home sales from May were 41% lower than they were in May of 2019. And the California market seems to be recovering a little bit in this past June, about 13%, although it is very slow. In fact, some markets have seen a substantial increase in suburban housing demand as the pandemic has made the home and office one in the same. Can you tell me how the Treasurer's Office is adapting its housing program to support the desperate need for housing in California? And then follow up with, can you give us the market conditions shifting, and witnessing of the efforts to rebuild our economy, what new initiatives are under your consideration to have a more robust housing development?

TREASURER MA: Thank you for that question and we are highly focused on affordable housing. Like I mentioned, I chair 15 different boards and commissions and two directly affect affordable housing, one is CDLAC, the California Debt Limit Allocation Committee, which allocates the tax-exempt activity bonds. It is about $4 billion dollars, give or take, from the federal government. The second is our California Tax Credit Allocation Committee, which allocates 9% and the 4% tax credits that goes to subsidize affordable housing. So, we were on a robust pace in terms of creating the necessary housing. The Governor did make a very robust and bold goal of 3.5 million new homes by 2025. We are working at warp speed to do what we can, *even* during this pandemic. Although two-thirds of my team are working from home, I have been chairing those committees every month with the skeleton crew in the office. And everyone else, the board members as well as those that wish to make a public comment can log on virtually and still participate. But we felt this was important to continue to move the process forward, especially during this time of uncertainty, that developers have shovel-ready projects that are financeable with their financing commitments still in place that we should move it forward.

I also appointed a new executive director last August, Judith Blackwell, to head our CTCAC committee. And she has done a great job in standing up two new programs. One is the middle-income program with CalHFA. And we have been working collaboratively to make sure that we have one application process. This has never been done in the past. Before you would have to go to four different agencies to cobble together the funding and it is like a Rubik's Cube and maybe by the end, everything comes together, but sometimes you can't get the colors matching and therefore, you don't have a viable project. So the fact that we were able to collaborate and align and have one application, really helps streamline the process, but we have gotten most of the credits out the door and developers are out there right now working on those projects.

The second one was the federal disaster credits carried by Congressman Mike Thompson. It is a $100 million dollar credit each year for about a billion dollars over 10 years. We had to stand that program up pretty quickly and create new regs [regulations] so that we wouldn’t lose the money. And we did not anticipate that on July 1st, thate we would have a lot of applicants, because we heard from the 13 fire-devastated counties that people needed time to come up with projects and that we would probably have three rounds. To our surprise, on July 1st, like I said, we had $100 million dollars of credits and $241 million dollars of project applicants came in. We're probably not going to have two more rounds and we're going to see more shovel-ready projects especially in those 13 fire devastated counties.

Right now, we are in the process of updating the CDLAC regulations. That process is a little bit slower because we have to go through the administrative law process to get it approved. Right now, every month or every even two weeks now, we're having meetings to get input from the public, to let us know what their pipeline is, what type of projects they anticipate is going to happen in the future.

With, of course, the fact that there is going to be a tsunami, a “gray tsunami” as we call it. And we are really focused on trying to get more senior housing built to accommodate many of us as we grow older and allowing us to stay in place as we age. Thirdly, we are issuing more veterans bonds. We issued two rounds early last year. We are going to go out with another round. For those of you who are veterans or have veterans in your community, we are funding the home ownership program and that is an amazing program for veterans. That does not take into account FICO scores necessarily, you don't need a down payment, and the amount of the loan really depends on your ability to pay. And it does not have to be a W-2 salary. We encourage all veterans to please apply while there is money.

MARGARET MOGGIA: I can hear your passion for that particular one. Let me go to another topic that I know is of interest to you and that is cannabis banking. Can you share with us, I know that you have been a leader in this area, to bring properly licensed cannabis business into our economy and financial system. You’ve been trying to solve that banking challenge to get cash off the streets and increase public safety, reduce illicit cannabis markets, and increase collections. The point of this important one was of the current crisis. Since SB51 from Hertzberg, the cannabis banking bill went inactive. And is there renewed interest to bring that cannabis banking back into potential state and local revenue implications?

TREASURER MA: Prop 215, which was the medical cannabis initiative, really started in San Francisco in the AIDS crisis to provide medical relief and comfort to those with AIDS. That passed about 30 years ago and then Prop 64 passed four years ago, which now makes cannabis legal here in the state of California. When I was on the State Board of Equalization, one of our mandates was to collect sales tax on the dispensaries. So, when I started, I asked, “How much have we collected?" and nobody knew. It took about eight months to try to compile all of the cannabis revenues because there is no code, NAICS code, for cannabis. So if you open up a business, you're either a miscellaneous, health, food, or some other business code that you check off. So, it took us a long time.

In the meantime, I found that the big elephant in the room was the lack of banking access. And I started down that road trying to understand why legitimate businesses in the state of California were not able to open up a bank account. And that is because they are a "schedule one" drug on the Federal list of illicit substances. And that has really made it difficult for this industry, which I believe is one of the biggest economic drivers here in the state of California, to really thrive here. So we have been very active, not only -- Tim can maybe jump in later on the cannabis banking working task force to try to figure out how we can bank the industry. But I also testified last year on a bill in Congress called the Safe Banking Act, sponsored by representative Perlmutter of Colorado to try to get access to this market. It passed, finally. It had its first hearing and that was back in February of 2019. It since has passed the House of Representatives, but again, it is stuck in the U.S. Senate. The banking chairs are not supportive of cannabis and therefore, they do not want to have a hearing. November 3rd is an election, we will see if we can take some seats back in the U.S. Senate and if the Democrats are able to have a majority, I believe we're going to see banking access very soon. Tim, do you want to jump in and talk about our advisory group and kind of what we found?

TIM SCHAEFER: Sure. I'd be happy to, Treasurer. To the point the Treasurer is making, I've been responsible to remain with her when she walks the halls of Congress to promote this very issue. And I can report to the group that is listening, that while progress may be slow or frustratingly slow, there is progress. There is very real progress. Just this very morning, I got a push notice that two additional cosponsors have been added to the Federal legislation. The secret is, and I'm not a legislative person, but the secret here is to keep pushing on those potential cosponsors because it becomes at some point it becomes indicative of what the floor vote will look like on the particular act and this is making real progress now.

The second thing I would tell you is, that as a result of four or five public hearings that the Treasurer participated in, she was, by virtue of her posture and prominence in the field, arguably the most vocal and listened to member of the 16 member group that her predecessor stood up to examine this issue. I will tell you that the level of understanding on how complex the problem is and how important it is to get a Federal solution was not lost on this group. We now have an advocacy group that is more tightly woven together, understands what needs to be done, and most importantly, it is not focused only on the cannabis growers and distributors. It is now focused on financial people and local officials like many of the people on this call. If there is to be progress, we need to keep that level of diversity in the group so that congress understands this is not just a self-interested bill. This is a matter of public safety and a matter of common sense.

TREASURER MA: I'd just like to add, during this pandemic, Governor Newsom did declare the cannabis industry as an essential business. They have been open since March 16th and I really do think that - that has been a leveling of the playing field. That industry has gone through so much not only with banking access and I know many of you are frustrated by having to take so much cash into your coffers. But the fact that all of the assistance through the federal stimulus packages - none of them benefit the cannabis industry. Our state-level initiatives, we thought we were going to be able to help the cannabis industry through IBank loans but then we got word maybe it was going to be an issue and we stopped that as well. So it has been really difficult for this industry. But as you all know, it is thriving, people are staying home and still using cannabis, whether it is CBD or rubs and tinctures. It is a movement that is popular and getting more popular. And I know some jurisdictions don't want to have it, but it is generating a lot of tax revenues for those that do have cannabis businesses.

MARGARET MOGGIA: Let me turn directions for just a moment. Another area I know you are involved with and serve as a board member, is the PERS and STRS. So, certainly with the pandemic we saw a record loss in March, I understand about $17 billion at CalPERS. But they were able to turn that around and bring 4.7% return in fiscal year 19/20. We can certainly breathe a sigh of relief but that falls below the 7% target that could provide more fiscal stress, if you will, to our local governments. From your vantage point as a board member and as the Treasurer, could you give us what elements of the CalPERS new investment strategy give you confidence in CalPERS ability to meet that 7% target. And then what elements maybe concern you about that approach?

TREASURER MA: I'm a voting member of CalPERS and CalSTRS and I have been keenly focused on that 7% [assumed] rate of return because I understand that it impacts local governments as well as well as our retirees. So, making sure that we hit that target has been a focus of mine. I'm happy to report that CalPERS hit a 4.7% rate of return, which is better than our benchmark, especially now given our COVID-19 situation. But we all need to remember that CalPERS and CalSTRS is a long-term player. They are not short-term investors, but they are really there to make sure that there is enough cash flow to pay the retirees when that time comes. The new CIO implemented a new strategy called "better assets, more assets" which essentially allows CalPERS to invest in those type of investments that could generate a higher rate of return. For example, private equity investments, with the ability to leverage and put more money into those investments that are going to make or get us closer to the 7% assumed rate of return. I think, don't worry at this moment, that is what I would say is that before the pandemic, we were on track of hitting that 7%. We were actually above that number this year so far because of the pandemic, we are you know, below that, but again, we are long-term players in CalPERS and CalSTRS.

MARGARET MOGGIA: A follow up question to that is, and I think you touched on it briefly, about you being a proponent of more socially responsible investing and using environmental, social and governance factors in your credit analysis. Can you tell me how CalSTRS and CalPERS are doing in this regard?

TREASUER MA: There is that conflict of trying to hit that 7% with social investing, ESG. I personally am a big proponent of ESG investing. As many of you know, you all go to work every day. Are you happy at work? What makes happiness, right? It is being respected, it is having a good work environment. Potentially for us in public service, it is about doing the greater good for the public. And that is kind of the same model that ESG is aligned with, right? Environmental, I think everybody understands that we have a climate problem. That climate change is real. And many of the younger generation, especially, are focused on climate change and rightly so. I have 12 and 13-year-olds that come to the CalSTRS meetings every month religiously and they remind us that we are not going to be here forever. But they want to look after themselves and the next generation and the generation after that and we need to do better in terms of investing in more climate-friendly investments.

Secondly, social, and government, who is sitting at the table? Who is your leadership team? Who sits on the board of directors and who are your elected officials? It is that similar model. People want good people doing good things and that creates a better work environment. I'm a big supporter of that and to the extent that we move into that area is better for the State of California and the fact that there are many studies now and leaders and companies as well as like the UC system, that is also deciding to divest from certain companies and invest more in these ESG types of investments. I think it is very positive and I'm very supportive of that.

MARGARET MOGGIA: Excellent. Those are the end of the prepared questions. I'm going to ask that the remaining panelists join us on the call here, so that we can answer some of the audience questions. Both those that have been received prior to or as part of the registration and those that we have received currently. I see them starting to show back up.

Slide 5 – Public Forum **49:20**

MARGARET MOGGIA: Robert, I'll turn it back over to you. And I know you have been watching and monitoring the questions and I will look at them as well and can ask the questions to the group as well.

ROBERT BERRY: At this point in the program, we'd like to change it up a little bit and bring you all in the conversation. If you have not submitted questions, and to be honest with you, we only have a few at this point so use the question box in the control panel to submit your questions. I do have a number of questions that were submitted upon registration by folks. So what we'll do is; I'll run through some of those registration questions and then Margaret, if you would field the questions that come in real time, then we can mix it up a little bit here.

So, this question comes in from a senior treasury and debt manager with a water district. But we got the same question from a number of other city and county officials, the same topic. Local public enterprise agencies across the state are experiencing drastic reduction in operating revenues that will affect their operations and debt. How can they be helped and how can they help themselves in the absence of sufficient operating income? Is there discussion at the state level about how to provide relief as more public enterprises face insolvency.?

TREASUER MA: I'll start by saying number one, you need to keep in contact with your legislative members, your assembly members, your senators as well as the Governor. Those folks are right now working on budget trailer language, trying to figure out if we get more money from the federal government, how it is going to be distributed down to local governments as well as special districts. Now is the time to over-communicate what your needs are. But perhaps, I'm going to turn it over to Tim with some ideas or questions that we have received from local governments. So I'm going to turn it over to Tim.

TIM SCHAEFER: Thank you, Treasurer. Those of you who have ever been in the military service, which I have not, but I have friends who have, have learned the lesson to never volunteer for anything. I made the mistake of volunteering to help the Treasurer with this discussion in the National Association of State Treasurers. There is good news here. Many of the people on this call will remember back in late March, as part of the CARES Act, the Federal Government created a fund and handed it over to the Federal Reserve System to create what is now known as the Municipal Liquidity Facility [MLF]. A financing vehicle designed to aid local governments and state governments experiencing cash flow interruptions or difficulty in selling their securities. California was one of those agencies. We have about $4.2 billion dollars of outstanding variable rate debt and we watched overnight interest rates on that variable debt rise from less than ½% to over 6% - over the span of about a 10 or 11 days. It was a very alarming trend. The creation of the Municipal Liquidity Facility immediately settled that market down. And I'm pleased to report that we're experiencing very representative rates at this point. But what it did expose was that there was likely a very significant need for a facility like this. Now that's the good news. The bad news is that the Federal Reserve, who has never been in the business of lending money to state and local governments before under section 13.3 of the Federal Reserve Act, suddenly found itself in a position where it had to understand how to do this. Again, many of you will recall that initially there was a population limit that essentially limited the universe of 90,000 state and local governments down to 75 that could borrow from the MLF.

This is where the volunteering comes in. The Treasurer then asked me to participate in a working group, sponsored by the National Association of State Treasurers, in concert with the Government Finance Officers Association, to see if there was something collectively we could do to influence the Fed to be on a better path. That in turn, morphed into a discussion in our own state that now has a small ad hoc working group that consists of a member or two from the League of California Cities, including people like Michael Coleman, who I know you all know, folks from the California State Association of Counties and the Special Districts Association, to see if the Fed couldn't be moved to do the right thing for our smaller agencies, could we create something here in California that would accomplish the same thing. That has been a long, painful process, mostly because of our state laws.

Nevertheless, we are making slow, gradual progress toward determining whether or not we can create a clone of the Municipal Liquidity Facility. I have no idea whether that would be something in the Treasurer's Office, something in CSCDA, or some other yet unknown agency. The point is not who gets to take credit and ownership of it, but it's "Are we able to solve a problem?"

The problem arising from the COVID epidemic is twofold. First, there needs to be a fiscal solution. Some revenues that have gone away from your agencies are gone and they won't come back and you can't borrow your way out of that problem. That is a different problem. Others among you, would have some very significant horsepower behind an ability to borrow money, even if it is on a short-term basis to get you through to a longer-term solution. It is that element that this group is focusing on. In our last telephone call, which Robert quarterbacks for us, we learned that we have some reasonable progress on settling some of the law issues. We believe the financial issues are solvable, even though they have not been solved yet. I would simply ask your patience with us and your input on how we can do this to help you. But the ultimate goal is to not settle for 75 of America's biggest state and local governments being able to borrow money at a time when the fiscal and financial stress is greatest on our smaller agencies. If our smaller agencies don't have a pathway to some help here, surely we will end up with an outcome that none of us wants. So that is our current situation on that. Thank you for the question.

ROBERT BERRY: Margaret, we have a couple of questions that have come in from our participants this morning, relative to LAIF. We also have a couple of registrant questions relative to investments. Would you like to field the one from the audience?

MARGARET MOGGIA: Absolutely. So the one that we received while we were on this call is in your opening remarks Treasurer Ma, you mentioned about last year, raising the LAIF limit to $75 million. And the question is, is there any discussion to raise that number again? To you Treasurer Ma or to you Kristin, if you can respond to that question?

TREASURER MA: I'm going it turn it over to Kristin because I would seek her advice on that question.

MARGARET MOGGIA: Sounds good.

KRISTIN SZAKALY-MOORE: I would say at this point in time, there hasn't been any discussion to raise the limit any further. For the most part, the majority of our accounts are not near the limit at this point in time. There are several that are, unfortunately. That is one of the reasons why we are offering the CARES account and wild fire accounts to allow those localities receiving those funds the opportunity, because we know those are unexpected or were not planned for, and to allow them to put it in a vehicle for use in the near term. That is where things are at currently. It is not that we would not consider it down the road, but at the current time right now, given the cash liquidity situation and the safety and needs of the pool, we are not considering increasing it more.

TREASURER MA: Margaret, can I also ask Kristin to talk a little bit about our time deposit program? Many folks don't know about that program unless you are a bank. But I know many of the participants are very active in their community with their local banks and I just want to give Kristin an opportunity to talk about this program and to help us reach other banks that would like to participate with us, if they have the need.

KRISTIN SZAKALY-MOORE: Certainly. Yes, we do operate a time deposit program, which allows California-based banks, and particularly community banks, that is where our focus is. Because the goal of that program is to be able to assist localities and local individual businesses through their community banks. We do offer the ability for these banks to basically receive what amounts to a loan. It is a certificate that we place with them of a certain amount of funds for a short period of time upwards of up to a year is the maximum timeframe, though they have the ability to roll it over. Therefore, with these funds, these deposits, they can use it to further invest in their communities by providing loans to the businesses and individuals in their communities. So, we encourage banks, we're encouraging community banks to seek those funds with us. We currently have about $5 billion dollars that is loaned out of the program going towards community banks at the current time and throughout the whole state of California, and so that is what we would encourage them to consider thinking about for their communities.

MARGARET MOGGIA: Thank you.

ROBERT BERRY: Another LAIF question - we'll stay on the topic of investments here for a moment, this came in from an executive with a governmental accounting firm that's on the program this morning. How do you work to diversify the LAIF fund and have you ever considered providing multiple local agency investment options within LAIF?

KRISTIN SZAKALY-MOORE: Diversity obviously is a very important, critical initiative in any sort of fund and you want to ensure that to avoid the various risks associated with it. Most important is concentration risk, that is why you diversity. The PMIA, which LAIF is a part of, is diversified by statute and also by our investment policy. Our focus currently, I would say primarily, and you will see it has been a very deliberate choice is we are very focused on liquidity risk right now for the pool. Therefore, we have gone out of our way to secure most of our investments, or a large percentage, 70% in Federal Government treasuries and agencies. About 70% of the pool is invested in these. Which is going to provide that liquidity needed to ensure that funds can go out as needed. As far as diversifying further into other specific types of pools, it is something that we have considered in the past. Currently though, because of the nature of the economy, the nature of the environment, the critical need for liquidity for the pool, and also just looking at the prospect for the federal government at this point in time, we see they basically have spoken that in the next two years, we don't see a significant increase in the federal funds rate. We don't see that it would be productive at this point in time to take on further risk by having say, for example, a long-term pool. Our focus right now is to secure the investments that are invested in the pool, particularly the LAIF investments, and ensure safety and liquidity, and sticking with the types of investments that provide that, namely treasuries and agencies.

ROBERT BERRY: Margaret, there is actually a very interesting question that came in from the audience relative to LAIF funds.

MARGARET MOGGIA: I don't see that one. Let me go back. Robert I'm not seeing it.

ROBERT BERRY: I will throw it in here. This is a really interesting question from Cindy. Some of my clients are really paranoid that the state is going to raise LAIF funds due to its deficit, and have gone as far as pulling their funds out. I always refute this, but can you give me a bullet-proof argument on this?

TIM SCHAEFER: Treasurer, may I take this one?

TREASURER MA: Sure.

TIM SCHAEFER: It is contrary to state law. State law requires and dictates that LAIF funds are not borrowable assets. These are funds held in a fiduciary capacity by the State Treasurer.

And they belong to the local governments who deposit them with the State Treasurer. They are beneficial owners of it and state law prohibits borrowing from them and any attempt to appropriate those funds would raise serious constitutional issues, end of story.

TREASURER MA: I did testify on that fact last week as some folks in the community see this as a golden goose. It is *not* a golden goose. These are idle funds that the State needs and funds we invest for all of you. Again, your money is safe with LAIF. Do not worry, nobody will take your money.

KRISTIN SZAKALY-MOORE: Yes, and just to add to that, if you are really into looking at Government Code sections, the actual section that actually prohibits that loan is California Government Code Section 16429.3 and you can look there and it states what Tim and the Treasurer spoke on.

ROBERT BERRY: Well hopefully Cindy copied down that code section.

Consistent with this topic of investments, one that came in on real time, Margaret, relative to AB310 and another that came in from a commercial real estate executive at registration relative to that bill. Among a variety of other provisions would make the Infrastructure Bank a depository bank, shift some deposits from LAIF to the IBank and open up some of those new investment options. What is your thoughts on AB310?

TREASURER MA: As I mentioned, I was talking about the LAIF and PMIA account last week as it relates to AB310, which is the public banking bill authored by Assembly Member Migel Santiago of Los Angeles as well as Assembly Member David Chiu of San Francisco. I think Tim would agree that we support in concept the idea of exploring a public bank. We know even during this time there are folks that are under banked, that are not banked, or are hard to bank. That is the mission or the premise for this public banking bill. We all agreed the bill was not really ready for prime time and we would continue to work with the public banking advocates over the next 6 months to see what we could stand up to make sure that we are addressing the needs for the more vulnerable populations. Especially now during the COVID time, they are not even getting assistance from the Federal Government or the State government. They are really hurting at this time so we understand. And we are trying to do what we can in our office to stand up a new loan loss reserve fund for these COVID-related constituents and the loan loss reserve accounts allowed banks to take on more risk and loan money to small businesses or individuals who are a little bit riskier as clients, but knowing that the State of California is standing behind them and will be the backstop. Hopefully if we could get this through the budget trailer bill, we will see more money accessing many of these underserved communities.

TIM SCHAEFER: If I might add to that, an individual loan to somebody who is under banked or perhaps at the fringes of our financial system, has very different risk characteristics than do many loans made into this population. It is clear that default rates are higher, but the program the Treasurer is talking about, a loan loss reserve, by virtue of pooling these risks, tends to produced better financial outcomes. And that has been the goal of the Treasurer and of the office since I've been here.

MARGARET MOGGIA: I see another question here pertaining to CalPERS. And I know that there has been recent news with the CIO leaving CalPERS and there is discussion there about the revolving door of the CIO and that there are concerns about mediocre returns and higher fees. What are your comments or response, to let the members know that they should have faith within the CalPERS system?

TREASURER MA: That is a personnel issue so I'm not at liberty to talk about that issue. But the fact that he hit 4.7% above, which is above the benchmark that we had set at CalPERS, shows that his investment strategy of more assets and better assets and really some of the reforms that he made since he started in January of 2019, has been working.

So, all I can say is for those of you who are active CalPERS members, either current working folks like myself, retirees, you all need to stay engaged as well. This is your agency. And the people that you elect to those agencies also are part of our duty to elect folks who represent us at CalPERS and who are moving the ball forward in a meaningful way. That is all I can say about CalPERS at this time.

MARGARET MOGGIA: Sure, absolutely. Let me ask another question relating to CalPERS and again, a lot of us are under fiscal stress relating to the pandemic. Have there been any discussion or do you anticipate there will be discussion about perhaps another pension reform, a new PEPRA if you will, and where do you see your role in establishing some consideration there?

TREASURER MA: Yeah, so I have carried a couple of the provisions that was in the PEPRA bill when I was in the Legislature, one having to do with double dipping and the other with pension spiking. Governor Jerry Brown did put those two issues into his final PEPRA package. I think we are going to see changes, slowly, because they are prospective changes. I believe pre-COVID, our timeline to be fully funded, which is what we all have been working toward as a goal. Now of course my text messages are slow, but I do have the dates. I think it was 2040 or 2045 that both CalPERS and CalSTRS was expected to be fully funded.

MARGARET MOGGIA: Thank you.

TIM SCHAEFER: May I add on to that, on the Treasurer's behalf, I think it is also important for our colleagues listening to this to remember, I can say this with some authority because when I look at this screen, I think I'm the only post-PEPRA employee on this screen. I can tell you first hand that as our employee cohorts turn over, the effects of PEPRA will begin to magnify themselves in a very visible way largely because of the cap on PERS-able income. And that, I think, is something that occurs in slow motion, but we should nevertheless remain mindful of, because that will have healing effect on the Public Employees Retirement Fund.

MARGARET MOGGIA: Absolutely. Well Robert, any more questions? I know we're getting to the end of our time and want to leave some time for closing remarks.

ROBERT BERRY: We have a number of different questions that came in from registrants, we're not going to be able to get to them all. One that I would just like to throw in just as a final question, a combination of two that came in. Can you comment about the prospects, possible legislation for new revenues, increasing sales tax revenue by taxing services. And then one of the participants had a question about the potential for approval of online sports gambling as another means to generate revenue in the state?

TREASURER MA: Senator Hertzburg and Senator Bradford have been leading the effort in the Legislature to come up with an economic development, post-COVID package. We could spend another whole hour and a half talking about the different proposals, and I want to thank Tim Schaefer, since he graciously volunteered to be their technical expert. But it is really, really too much to talk about in the remaining minutes that we have. But sports wagering, has been on the table, most of the bills have been tabled for this year, unless they are COVID-related bills. It went from 700 bills pre-COVID to now just a handful of bills that have a direct nexus to COVID and the legislative leaders have asked the 120 members to just focus on their one priority bill. So sports wagering is not one of the bills up for negotiation. That bill will continue as well as the sales tax on services. That is Senator Hertzburg's bill and again, that is not on the table at this moment so there will be ongoing discussions about those two bills.

ROBERT BERRY: I think we are just about out of time and I would like to thank our panelists for participating in our virtual forum. Treasurer, would you like to make a few closing comments and we'll ask Steve Heide to come back as well.

TREASURER MA: I would be remiss if I didn't remind folks, if you haven't filled out your census form, to please do so, the deadline has been extended to September 25. We got $9.2 billlion dollars through the CARES Act here in California because of the number of people that were counted 10 years ago in the census.

Slide 6 – Connect With Us 1:15:19

TREASURER MA: We want to make sure that we get our fair share of money from the Federal Government and the website is *www.my2020.gov*. Again, if we haven't answered your questions, my dedicated e-mail is *askfiona@treasurer.ca.gov*. And we have a saying at the Treasurer's Office thanks to Tim Schaefer, the four w's: wash your hands, wear your mask, watch your distance, and we are all in this together, so stay safe and stay well and be kind to each other. And again, thank you all for logging in. This is the first of a number of different webinars. I want to thank Steve Heide, Margaret and CSMFO for your partnership in this effort and of course, Robert Berry and his team for making this all happen today.

STEVE HEIDE: Thank you, Treasurer Ma and thank you once again to our speakers this morning, Margaret Moggia, Robert Berry, Kristin Szakaly-Moore, Deputy Treasurer Tim Schaefer, and a special thank you to California State Treasurer, Fiona Ma. On behalf of CSMFO and the State Treasurer's Office, we thank you for participating in this very special conversation with the California State Treasurer, Fiona Ma. And we hope you found this to be informative and timely. During these difficult times when we are physically separated, California's future will be stronger as we join together for the benefit of our communities. Stay safe and be well and thank you again.

TREASURER MA: Thank you.

ROBERT BERRY: Thank you, everyone, that concludes our program and thank you for joining us this morning and hopefully you join us soon for future programing. So long and have a great day everyone.

TREASURER MA: Thank you.