



1996 ANNUAL REPORT

MATT FONG
State Treasurer and Chairman

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

1996 ANNUAL REPORT

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April 4, 1997

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

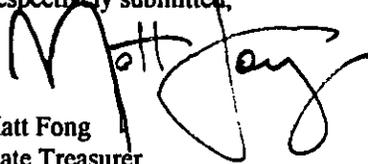
On behalf of the members of the California Debt and Investment Advisory Commission, I am pleased to submit the Commission's 1996 Annual Report. This report provides an overview of the Commission's responsibilities and output during 1996, and presents a summary of the year's debt issuance activity.

The Commission, in conjunction with several statewide associations representing local government and finance officers, completed a video presentation for public officials responsible for the investment of public funds. In addition, the Commission developed investment seminars that focused on: (1) the fundamental concepts and methods of investing public funds; (2) the management of a governmental investment portfolio; (3) the roles and responsibilities of local officials in the investment process; and (4) the means for ensuring the safety and liquidity of investments while obtaining the best returns possible.

In response to concern that rule changes by the Securities and Exchange Commission might expose some local agencies and public officials to securities fraud liabilities, the Commission developed a seminar and guidelines. The seminar educated issuers about their legal obligations and offered practical advice on how to minimize their liabilities. The guidelines are a comprehensive set of recommendations intended to assist local government issuers of land-based securities in complying with the rule changes. This report has been selected by the Government Finance Officers Association for its *Award for Excellence* for training assistance publications in the area of governmental debt and fiscal policy.

As this report details, the Commission continues to provide ongoing educational and technical assistance to state and local government agencies in California.

Respectfully submitted,


Matt Fong
State Treasurer

California Debt and Investment Advisory Commission

The California Debt and Investment Advisory Commission was created in 1981 to assist state and local governments effectively and efficiently issue, monitor and manage public debt. To carry out its responsibilities, the Commission maintains a database of all public debt issued in California, conducts a continuing education program, publishes a monthly newsletter with debt issuance data and informative articles, and conducts research to develop reports, guidelines and briefs on topical issues. In 1996, the Commission's responsibilities were expanded to include a municipal education program to help local governments safely and effectively invest public funds.

1996 Members

Matt Fong
California State Treasurer
and Chairman

Pete Wilson
Governor

or

Craig L. Brown
Director
Department of Finance

Kathleen Connell
State Controller

Robert G. Beverly
State Senator

Lucy Killea
State Senator

Jan Goldsmith
State Assemblyman

Gary Miller
State Assemblyman

Donald W. Merz
Treasurer/Tax Collector
Sonoma County

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AN INTRODUCTION TO THE COMMISSION

The California Debt and Investment Advisory Commission (CDIAC) was created in 1981 as the California Debt Advisory Commission (CDAC) with the passage of Chapter 1088, Statutes of 1981 (AB 1192, Costa). This statute mandates the Commission to serve as the State's clearinghouse for public debt issuance information and to assist state and local agencies with 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 concerning debt issuance in the state;
- 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 in an effort to reduce debt issuance cost and to protect the debt issuers' credit ratings in the market;
- o Undertake or commission studies on methods to reduce debt issuance costs and to improve credit ratings;
- o Recommend legislative changes to improve the marketability of state and local agency issued debt and to ensure repayment of debt; and
- o Assist the Housing Bond Credit Committee and all state financing authorities and commissions in carrying out their responsibilities.

Since its creation in 1981, the Legislature has given the Commission additional responsibilities. Section 53583(c)(2)(B) of the California Government Code requires issuers to report specific information to the Commission when they (1) sell refunding or revenue bonds through negotiation or private placement or (2) issue bonds payable in a foreign currency. Pursuant to legislation enacted in 1992 (Chapter 772, SB 1464, Mello), the Commission is required to collect specific fiscal information on Mello-Roos community facilities districts (CFDs) which issue bonds after January 1, 1993. SB 1464 requires that all CFDs issuers, regardless of the date of sale of the bonds, report draw on reserve or default information to the Commission. Under the provisions of Chapter 229, Statutes of 1995 (SB 1275), certain Marks-Roos local bond pool participants issuing debt are required to report yearly fiscal status information and, regardless of when their debt is issued, to report to the Commission draws on reserve funds or non-payments of principal and interest within ten days of each occurrence.

As of January 1, 1997, the Commission's responsibilities were expanded to include the development of a continuing education program in the area of local agency investments as a result of the passage of AB 1197 (Takasugi) in 1996. This measure also changed the Commission's name to the California Debt and Investment Advisory Commission.

The Commission fulfills its statutory mandates through a variety of programs and publications which are summarized in this report. Data on the debt issued in California is primarily derived from the information reported on behalf of issuers of California public debt. In developing programs and publications, the staff supplements its expertise and knowledge with information from experts in the financial community and outside data sources.

THE COMMISSION MEMBERS

The Commission consists of nine members, including the State Treasurer, the Governor or the Director of the Department of Finance, the State Controller, two local government finance officials, two Assembly members, and two Senators. The State Treasurer serves as the Chairman and appoints the two local government officials. The Speaker of the Assembly appoints the Assembly representatives and the Senate Rules Committee appoints the Senate representatives. Appointed members serve four-year terms, or at the pleasure of their appointing power. The Commission meets throughout the year to direct the activities of its 13-member staff.

THE TECHNICAL ADVISORY COMMITTEE

To assist the Commission to fulfill its mandated functions, the Technical Advisory Committee (TAC) was established in 1983. The TAC is comprised of approximately thirty individuals representing participants in the municipal debt issuance process, including bond counsel, financial advisors, underwriters, credit analysts, insurance providers, investors, and local issuers, and serves two primary functions:

- 1) To assist the Commission in its deliberations by providing a forum for initial discussion of issues, problems, and topics related to public finance and municipal debt issuance; and
- 2) To provide technical review and critique of reports, issue briefs, and other CDIAC documents before they are published.

Since its inception, the TAC has continually provided Commission staff with valuable advice on a wide variety of issues, ranging from the contents of CDIAC'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 State Treasurer appoints TAC members to staggered two-year terms. All TAC members serve without compensation. Appendix B shows the members of the Technical Advisory Committee that served during calendar year 1996.

THE COMMISSION'S PROGRAMS

The Commission engages in a wide range of activities that can be classified into three general program areas: (1) data collection, (2) policy research and development, and (3) technical assistance.

Data Collection

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 date. The data reported to CDIAC 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. Depending on market conditions, the volume of individual debt issuance reports received ranges from 2,500 to 4,000 each year. Data from these reports is the basis for the statistical information disseminated by the Commission.

Policy Research and Development

The Commission's mandated functions include some that are intended to improve the market for public debt issued in California. Such functions include efforts to maintain contact with all participants in the municipal debt industry, to undertake or commission studies of various aspects of the market in order to provide guidance to state and local debt issuers, and to recommend legislative changes in matters affecting public debt issuers. To fulfill these functions, CDIAC's Policy Research section gathers information from CDIAC's debt issuance database, public and private experts throughout the municipal industry, public and private finance groups, periodicals and journals, and other existing resources. With the assistance of the Executive Director, the Commission determines the issues that are addressed by the Policy Research Section. Research staff remains knowledgeable of developments and events in the municipal and other financial markets in order to provide the Executive Director and the Commission with input and advice on making such determinations.

The Commission selects projects that are of current interest and have practical relevance to public finance practitioners. These projects are typically designed to help issuers reduce issuance costs and keep issuers apprised of emerging trends in public finance. The Commission places a high priority on making its data and expertise available to public agencies in useful forms. This accessibility is the crux of the Commission's technical assistance program.

Technical Assistance

CDIAC's technical assistance program has three components. The first is the publication of reference materials, issue briefs, hearing documents, statistical reports, and technical guidelines for state and local issuers. One of the Commission's most notable publications is the *California Debt Issuance Primer*, which contains information on the types of debt instruments available and the roles and responsibilities of municipal debt issuers and private industry professionals. The *Primer* provides a comprehensive overview of and reference document for the debt issuance process in California.

The second component is CDIAC's seminar program. Since 1984, CDIAC has organized educational seminars focusing on public finance matters and the debt issuance process. Offered throughout the year at various locations in the state, CDIAC seminars are designed to: (1) introduce public officials who are new to the field of public finance to the municipal debt issuance process; (2) strengthen the expertise of public officials who are familiar with the municipal debt issuance process; and, (3) inform public officials about current topics that may affect public finance and public debt issuance. The majority of the attendees are from local agencies while the remainder represent state and federal agencies.

In addition to the educational seminars, CDIAC has conducted public hearings on current matters affecting public finance and the debt issuance process. The purpose of these hearings is to provide a forum for discussion of the varying points of view, to provide local and state officials with information, and to provide CDIAC with a foundation for research. Further, CDIAC has acted as co-sponsor of public finance-related conferences, symposia, and seminars conducted by private companies and statewide associations. Such co-sponsorships allow CDIAC to contribute its expertise to the event, increase contacts with experts from public and private sectors, and keep abreast of current matters affecting public finance and the debt issuance process in California.

The third component of CDIAC's technical assistance program is responding to inquiries concerning California debt issuance. The Commission receives daily contacts from representatives of public and private entities and the media for data on debt issuance and information on the nature and application of specific debt instruments. CDIAC staff responds to over 2,000 such requests for assistance each year.

CALIFORNIA PUBLIC FINANCE IN 1996

OVERVIEW

In 1996, state and local agencies in California issued a total of \$36.6 billion in short- and long-term debt. This total represents a 36 percent increase from the \$27 billion issued in 1995. The increase in total volume was due primarily to the State of California's increased level of short- and long-term issuance. After a one-year hiatus, the State re-entered the short-term market in 1996 with a \$5 billion revenue anticipation note. The State also sold \$7 billion in long-term debt, almost double its 1995 volume. Forty-six percent of the total statewide long-term volume was for refunding prior debt, as issuers took advantage of moderate interest rates throughout the year.

Interest rates remained stable throughout the year and there were no major events that impacted the market such as the Orange County bankruptcy which affected debt issuance practices throughout 1995. The most noteworthy event for local issuers in California was the passage of Proposition 218 in November 1996. This Proposition may impede bond issuance in 1997 and beyond, but the effects of the Proposition were not evident in the 1996 figures.

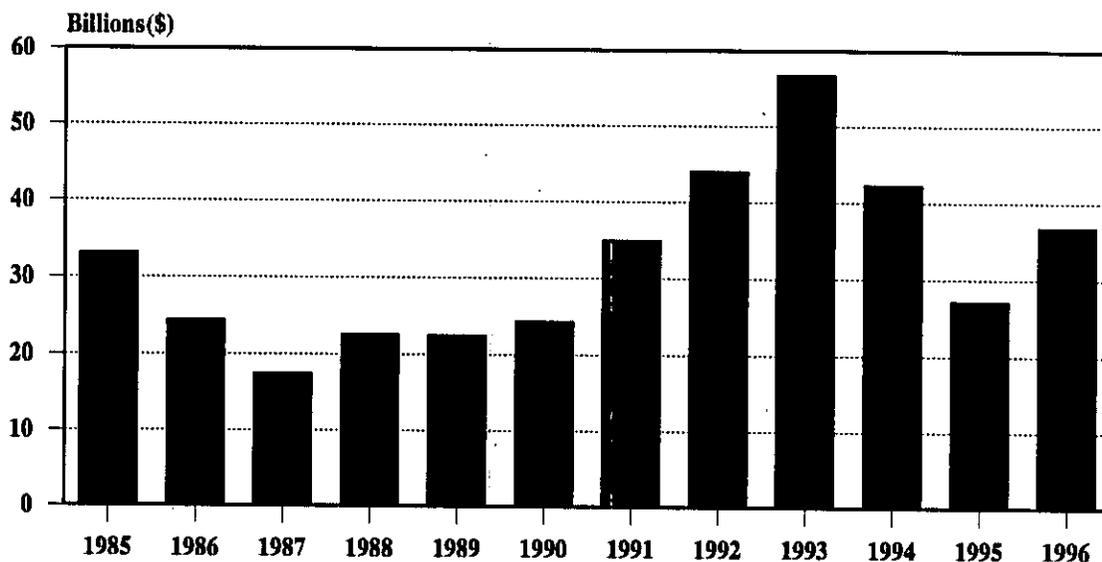
CALIFORNIA DEBT ISSUANCE IN 1996

This section summarizes California public debt statistics and highlights the major purposes for which new debt was issued in 1996. A more detailed treatment of public debt issued in California is provided in the Commission's two companion publications: *1996 Calendar of Public Debt Issuance* and *1996 Summary of California Public Debt*.

Overall volume for 1996 increased by 36 percent over the 1995 level, ending two years of declining volume. As shown in Chart 1, total debt issuance after reaching \$32.9 billion in 1985, declined in 1986, and again in 1987. Total volume rose modestly again in 1988 to a plateau spanning three years. Then the volume of state and local debt issuances began a steady climb to reach a peak of \$56.7 billion in 1993. It dropped by 25 percent in 1994 to \$42.2 billion and by 36 percent in 1995 to \$27 billion.

Chart 1

California Public Debt Issuance
1985 through 1996



State Issuance

The 36 percent increase in statewide debt during 1996 reflects increases in both state and local issuance, with the greatest increase occurring in state volume. The State's 1996 issuance totaled \$12.6 billion, up 253 percent from the \$3.8 billion debt issued in 1995. The State took advantage of the relatively low interest rates to refund \$3.8 billion in long-term debt and effect significant savings in debt payments. New money issuance totaled \$3.2 billion, up 18 percent from the 1995 new money issuance of \$2.7 billion.

State general obligation bond issuance decreased in 1996 from the \$1.2 billion sold in 1995. However, this year for the first time G.O. issuance was complemented by the State's new commercial paper program, which is designed to allow more flexibility in the timing of general obligation bond issuance for project financing. In 1996, G.O. issuance and commercial paper together totaled \$1.3 billion.

Capital improvements and public works issuance amounted to \$1.9 billion, 15 percent of the State's total long-term issuance. The majority of the issuance for that category was for prisons and jails (\$700 million); water supply and distribution (\$478 million); and public buildings (\$396 million). Commercial/industrial development bonds for pollution control totaled \$1.6 billion (12 percent of the State total). Seventy-four percent of the commercial industrial volume (\$1.2 billion) was for refunding prior debt.

Local Issuance

By contrast, local agency issuance volume of \$23.5 billion increased just 2 percent from the 1995 volume of \$23 billion. The total consisted of \$6.6 billion in short-term interim financing and \$16.9 billion of long-term issuance. These totals are almost the same as those for 1995, which consisted of \$6.7 billion in short-term financing and \$16.3 billion in long-term debt. Of the long-term debt issued by local agencies, \$9.4 billion was new money and \$7.5 billion refundings (44 percent). The new money total is a 15 percent decrease from 1995 when there was \$11.1 billion in new long-term issuance.

The bulk of local agency short-term issuance was for tax and revenue anticipation notes (TRANs and TANs). Local agency TRAN and TAN issuance for 1996 of \$6.551 billion was about \$2 million less than the 1995 total volume. There were 804 separate issues in 1996 as compared to 734 in 1995.

Overall local agency bond issuance decreased about 5 percent in 1996. There was a lower volume of issuance for Mello-Roos Community Facilities limited tax obligation bonds, revenue (pool) bonds and tax allocation bonds for the year. However, public enterprise, general obligation, public lease revenue, sales tax revenue and special assessment bonds increased in volume from 1995.

Forty-two percent, or \$10 billion, of total local debt was issued for capital improvements and public works. This was an increase of 18 percent from the \$8.5 billion sold in 1995. Over half of the capital improvement financings was for the following purposes: water supply and distribution (\$2.2 billion); multiple capital improvements and public works (\$1.6 billion); airports (\$1.3 billion); and power generation and transmission projects (\$1.2 billion).

Issuances by non-profit student loan corporations increased 85 percent from \$260 million issued in 1995 to \$485 million in 1996. The entire 1996 issuance was new money.

Local short-term issuance decreased this year by \$63 million. Local agencies sold \$6.6 billion in interim financing notes, down just under 1 percent from \$6.7 billion sold in 1995.

Total Issuance

The total number of debt issues reported sold in 1996 was 1,782. Of that total, 124 were state issues; 11 were student loan corporation financings; and the remaining 1,647 were sold by local issuers. This is up 10 percent from the total 1,596 issues reported in 1995.

Table 1 shows a comparison of California long-term and short-term public debt issuance, including refundings, between 1995 and 1996.

The most dramatic difference in the two-year comparison is in short-term debt financing. This reflects the State's return to interim financing in 1996. For the first time in over a decade, there was no State interim financing issuance in 1995. In 1996, the State issued \$5 billion in short-term notes representing 91 percent

of the \$5.5 billion increase in total short-term financing. State cash flow financing (\$5 billion) and project interim financing (\$595 million) together account for the entire increase in short-term debt.

Table 1

**California Public Debt Issuance
Long-term vs. Short-term
1995 and 1996
(Millions \$)***

	1995	1996	Percentage Change
Long-term Debt	\$20,307	\$24,407	+20.2
(Refundings)	(6,307)	(11,313)	+79.4
(New Money)	(14,000)	(13,094)	-6.5
Short-term Debt	<u>6,702</u>	<u>12,234</u>	+82.5
Total	\$27,009	\$36,641	+35.7

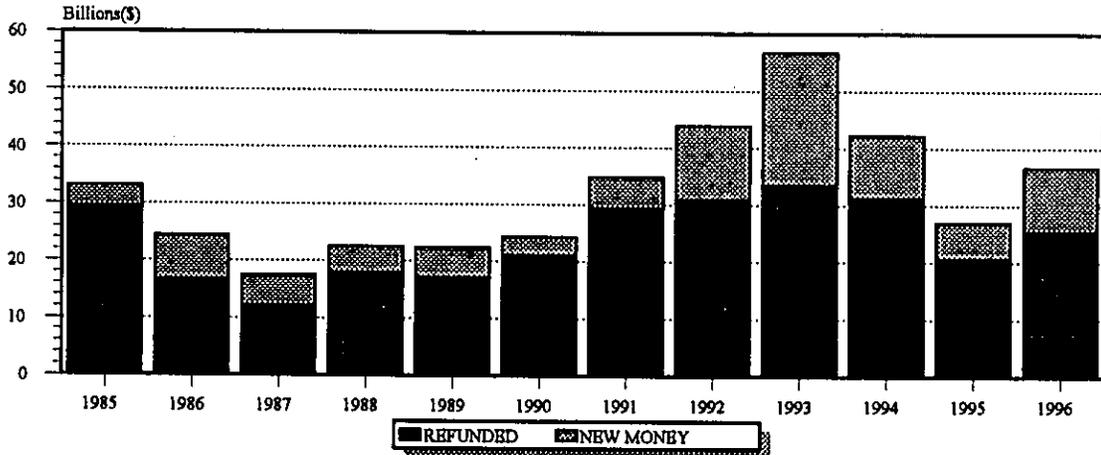
Note: Figures include state and local governmental entities and Student Loan Corporation issues.
*Totals may not add due to rounding

Long-term debt financing increased at both the state and local levels. The State's total long-term debt issuance was \$7.1 billion, nearly twice the 1995 issuance of \$3.8 billion. For both years, a large percentage of the State's long-term issuance was for refunding of prior debt. In 1996, \$3.8 billion of the State's long-term debt (54 percent) was refundings; the refunding total in 1995 was \$1.1 billion (29 percent of total long-term issuance). Local agencies also refunded more long-term debt in 1996 (44 percent of the total long-term volume) than in 1995 when 32 percent of the total long-term debt was refunded.

Refunding of prior debt increased significantly in 1996 with a little over 32 percent of the total California debt issuance refunded, as compared to 23 percent of the total volume in 1995. This is also a significant factor in the increase of California's overall 1996 debt issuance volume. New money issues, which accounted for 54 percent of the total long-term debt issued in 1996, declined 6 percent from the 1995 level. Chart 2 illustrates the refunding vs. new money issuance since 1985.

Chart 2

**California Public Debt Issuance
Refunding vs. New Money
1985 through 1996**



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

Chart 3 illustrates the distribution of the type of debt instruments sold in 1996. Of an aggregate \$36.6 billion sold by California public agencies, notes (\$11.9 billion) and commercial paper (\$1.1 billion) total \$12.9 billion and account for 35 percent of the total. This is an increase of 72 percent over \$7.5 billion of notes and commercial paper sold in 1995. The State is the major contributing factor to this growth in both note (\$5.0 billion) and commercial paper (\$595 million) issuance. Local agency note and commercial paper issuance remained relatively stable. The category of notes includes tax anticipation, revenue anticipation, tax and revenue anticipation, bond anticipation, grant anticipation, and tax allocation notes.

Enterprise revenue bonds, typically issued for capital improvements and public works projects, totaled \$6.4 billion and represent nearly 18 percent of all 1996 debt issues. Other financings representing more than 10 percent of the total issuance by type include conduit revenue bonds (\$5.5 billion), and notes/commercial paper (\$12.9 billion). Each of the other debt instrument types accounted for less than 10 percent of the total issuance volume.

Chart 3

**California Debt Issuance by Type
January 1, 1996 - December 31, 1996**

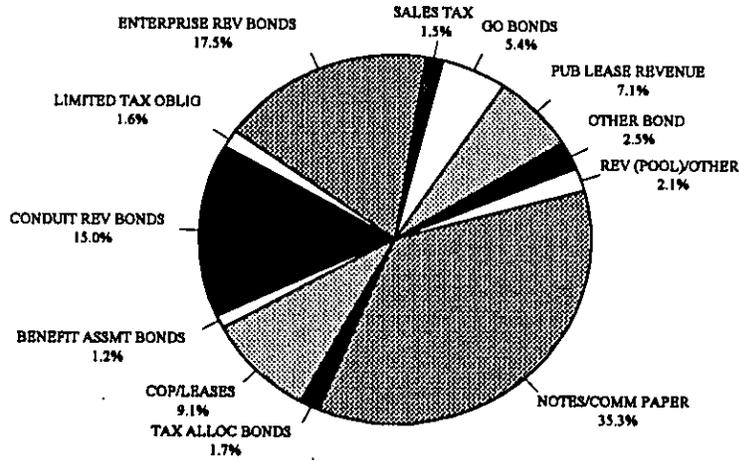
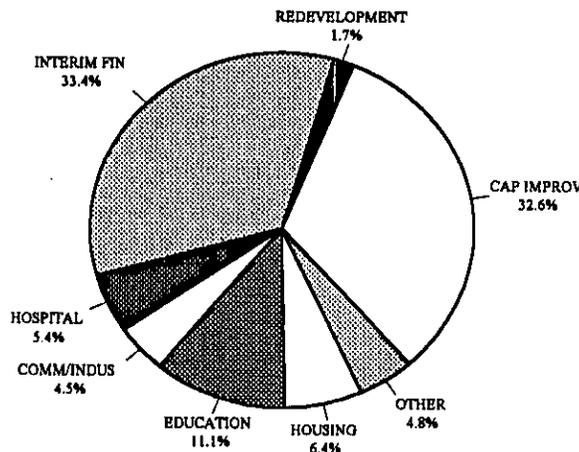


Chart 4 shows the distribution of 1996 California public debt issuances by purpose. Two purposes of financing (interim financing and capital improvement) account for 66 percent of the aggregate \$36.6 billion sold by all California public agencies. Interim financings (\$12.2 billion), the largest purpose category, and capital improvements financings (\$11.9 billion) each accounted for one-third of the total aggregate. At 11 percent, education financing (\$4.1 billion) is the next largest category. The remaining categories - housing, commercial/industrial redevelopment, hospital/health care, redevelopment, and other purposes - each accounted for less than 10 percent of the total 1996 California public debt volume.

Chart 4

**California Debt Issuance by Purpose
January 1, 1996 - December 31, 1996**



State Issuance Increases in 1996

As shown in Table 2, the 1996 debt issuance for agencies and departments of the state totaled \$12.7 billion, up 235 percent from the \$3.8 billion in debt issued in 1995. This total consisted of \$5.6 billion in short term debt (44 percent of the total volume), composed of a \$5 billion anticipation note and the new commercial paper program, and \$7 billion in long-term issuance. In 1995, long-term issuance amounted to \$3.8 billion and there was no short-term financing. All but one category of debt financings increased in 1996.

In terms of long-term debt, capital improvements and public works issuance amounted to \$1.9 billion, 15 percent of the state's total volume. This category includes issuance for prisons and jails (\$700 million); water supply and distribution (\$478 million); and public buildings (\$396 million). Commercial/industrial development bonds for pollution control totaled \$1.6 billion, or 12 percent, of the State total. Seventy-four percent of the commercial industrial volume, \$1.2 billion, was for refunding prior debt. Refunding was a major component of every category - in amounts ranging from 40 to 74 percent of issuance.

Table 2

**State of California
Public Debt Issuance by Purpose
1995 and 1996
(Millions \$)***

	1995	1996	Percentage Change
Interim Financing	\$0	\$5,595	n/a
Educational Facilities	600	1,312	+119%
Housing	1,381	1,161	-16%
Commercial/Ind. Devel.	74	1,563	+2012%
Hospital/Med. Facil.	408	1,092	+168%
Cap. Impr./Public Works	1,313	1,940	+48%
Redevelopment	0	0	n/a
Other	0	0	n/a
Total	\$3,776	\$12,663	+235%

Note: Figures may include taxable debt issuances and issuances for the purpose of refunding existing debt.
*Totals may not add due to rounding.

General obligation bond issuance decreased in 1996 from the \$1.2 billion sold in 1995. However, this year for the first time G.O. issuance was complemented by the State's new commercial paper program, which is designed to allow more flexibility in the timing of general obligation bond issuance for project financing. In 1996, G.O. issuance and commercial paper together totaled \$1.3 billion.

Local Agencies Issue for Infrastructure

Table 3 provides a breakdown of local agency issuance in 1995 and 1996. Capital improvements and public works represents the primary reason for local agency issuances in these years of issuance volume for local agencies. Approximately \$10 billion was issued by local agencies for public infrastructure projects in 1996. This is an 18 percent increase from the 1995 issuance (\$8.5 billion). Over half of the capital improvement financings were for the following purposes: water supply/storage/distribution (\$2.2 billion); multiple improvements and public works (\$1.6 billion); airports (\$1.3 billion); and power generation/transmission projects (\$1.2 billion). Twenty-eight percent of the total local agency issuance was for interim financing (\$6.6 billion). Educational facilities financing, which had the largest increase, accounted for 10 percent (\$2.3 billion) of total with the remaining debt issuance purposes — housing, hospital/medical facilities, commercial/industrial development, redevelopment, and *other purposes* — each less than 10 percent of total local agency issuance.

Of the long-term debt issued by local agencies, \$9.4 billion was new money (56 percent) and \$7.5 billion refundings (44 percent). Refunding in 1995 was only 23 percent. The new money total in 1996 is a 15 percent decrease from 1995 when there was \$11.1 billion in new long-term issuance.

Table 3
California Local Agencies
Public Debt Issuance by Purpose
1995 and 1996
(Millions \$)*

	1995	1996	Percentage Change
Interim Financing	\$6,702	\$6,639	-1%
Educational Facilities	1,366	2,281	+67%
Housing	1,296	1,201	-7%
Commercial/Ind. Devel.	191	97	-49%
Hospital/Med. Facil.	1,003	880	-12%
Cap. Impr./Public Works	8,499	10,002	+18%
Redevelopment	906	628	-31%
Other	3,010	1,765	-41%
Total	\$22,972	\$23,494	+2%

Note: Figures may include taxable debt issuances and issuances for the purpose of refunding existing debt.
*Totals may not add due to rounding.

A comparison of the types of debt financings issued by local agencies appears in Table 4. Total debt issuance volume for local agencies (\$23.5 billion) increased a modest 2 percent from 1995. The majority of debt type categories showed a loss. Issuance of COPs, as a type of debt as opposed to notes, bonds, and other type of debt, was the only type of debt issuance increased in 1996. The greatest decrease was a 22 percent drop in local agency commercial paper issuance.

Table 4
California Local Agencies
Public Debt Issuance by Type
1995 and 1996
(Millions \$)*

	1995	1996	Percentage Change
Bonds	\$13,537	\$12,932	-4%
Commercial Paper	6,936	408	-22%
COPs/Leases	1,976	3,338	69%
Notes	523	6,816	-2%
Other	1	0	n/a
Total	\$22,972	\$23,494	2%

Note: Figures may include taxable debt issuances and issuances for the purpose of refunding existing debt.
 *Totals may not add due to rounding.

The most significant increase was in certificates of participation and lease issuance, which increased 69 percent in 1996. The total was \$3.3 billion, up from the almost \$2 billion sold in 1995. Twenty-seven percent of the COP volume was for refunding prior debt. Revenue (pool) bonds, which had increased by two and one half times to \$942 million in 1995, decreased 20 percent to \$754 million in 1996. This type of bond financing is used primarily by joint power agencies for infrastructure or pool financings. Five other bond categories increased in 1996 — general obligation bonds (19 percent), public enterprise revenue bonds (21 percent), public lease revenue bonds (48 percent), special assessment bonds (33 percent), and sales tax revenue bonds (11 percent). Bond categories that decreased in 1996 include conduit revenue bonds, limited tax obligation bonds, *other* bonds and tax allocation bonds.

Although State issuance of commercial paper increased in 1996, local agency commercial paper issuance dropped 22 percent in 1996. Thirty-four percent of the commercial paper issued was for refunding prior issues.

Local agencies sold \$6.477 billion in TRANs in 1996 vs. \$6.498 billion in 1995. Even though issuance declined by less than a 1 percent, the number of TRAN issuances increased by 10 percent. Total note issuance (TANs, TRANs, BANs, RANs, and other notes) decreased to \$6.8 billion down 2 percent from total note issuance of \$6.9 billion in 1995.

Agencies in L.A. County Second Only to State in Issuance

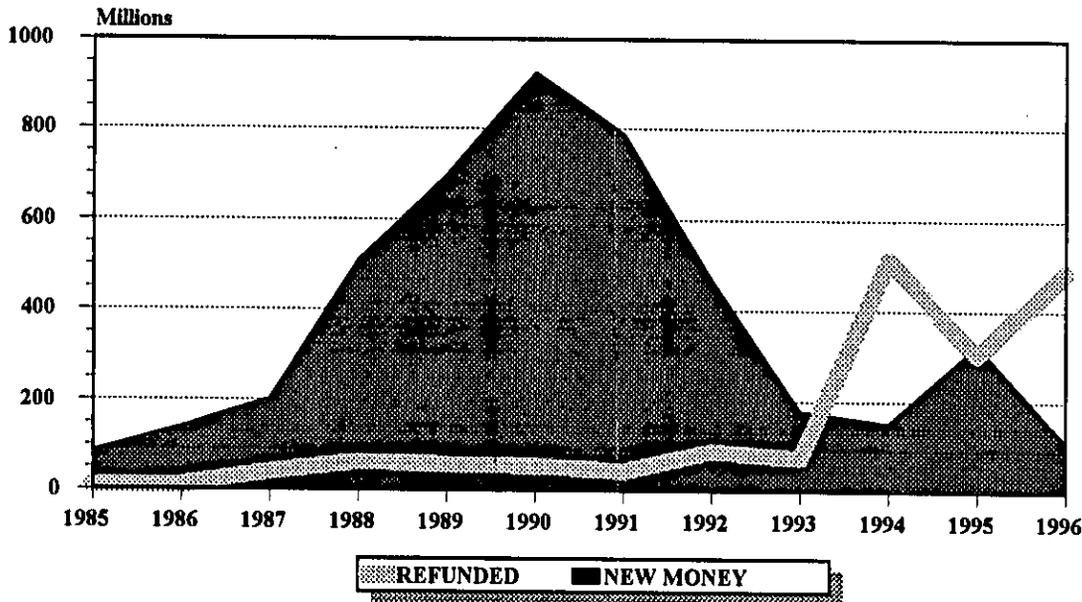
The State of California and its authorities and agencies were issued \$12.7 billion of debt in 1996. Issuers in Los Angeles County issued \$5.3 billion of debt in 1996, almost 15 percent of the total State volume, followed by multiple county issuers and Orange County, issuing \$3.9 billion and \$2 billion respectively. Over \$1 billion issuance was reported from agencies in Alameda (\$1.1 billion), San Bernardino (\$1.1 billion), San Diego (\$1.7 billion), and San Francisco (\$1.3 billion) counties. Only one county (Alpine) reported no debt issuance for 1996. Multiple issuers are those agencies that are joint powers agencies located in several counties or whose jurisdictions cross county lines.

Mello-Roos Bond Issuance Declines

Mello-Roos Community Facilities Districts (CFDs) sold 53 debt issuances in 1996. Total volume for the year was \$593 million, down 6 percent from \$628 million issued in 1995. Issuers used \$251 million for capital improvements and \$340 million for funding educational facilities. Chart 5 provides a historical perspective of Mello-Roos issuances by CFDs since 1983, with a breakdown of refunding versus new money.

Chart 5

Mello-Roos Issuance Refunding vs. New Money January 1, 1985 - December 31, 1996

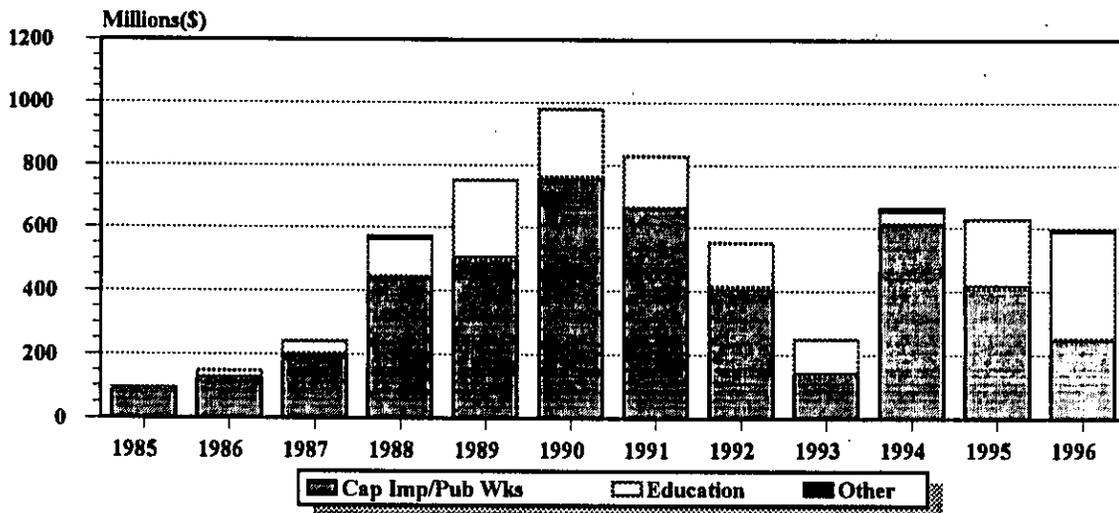


Source: California Debt and Investment Advisory Commission

Following the sale of a single \$8.5 million issue in 1983, issuance by CFDs increased steadily over the next seven years. After reaching a peak volume of \$977 million in 1990, CFD issuances declined by 15 percent to \$828 million in 1991, by another 33 percent to a volume of \$553 million in 1992, and continued to drop by another 55 percent in 1993 to just \$249 million for the year - the lowest volume registered since 1987. The volume has two components, the number of issues sold per year and the average dollar size per issue. The highest dollar amount per issue (\$16.4 million) was registered in 1986, when nine issues were sold for an aggregate \$147 million. The largest number of CFD issues (73) was sold in 1990 and, again, in 1991 with an average issue size of \$13.4 million and \$11.3 million, respectively. In 1993 the average issue size dropped to an all-time low of \$8.3 million, when CFDs sold 30 issues totaling \$249 million. CFD issuances increased in 1994 (49 issues totaling \$662 million averaging \$13.5 million per issue) then decreased 5 percent in 1995 (57 issues totaling \$621 million averaging \$10.9 million per issue). In 1996, CFD issuances declined an additional 6 percent to 53 issues totaling \$593 million averaging \$11.2 million. From 1983 through 1996, Community Facility Districts reported 528 issuances to the Commission with a combined total of \$6.3 billion for the period, which averages to \$12 million per issue. A breakdown of Mello-Roos issuances by purpose is shown in Chart 6.

Chart 6

Mello-Roos Issuance by Purpose
January 1, 1986 - December 31, 1996



Source: California Debt and Investment Advisory Commission

Taxable Financings

Issuers sold \$2.6 billion in taxable debt in 1996. This total represents a drop of 30 percent from the \$3.8 billion taxable issuance in 1995. Over 60 percent of the \$2.6 billion was sold for capital improvements (\$619 million), interim financing (\$565 million), and pension obligation bonds (\$555 million). Pension obligation bond issuances decreased 78 percent from the \$2.6 billion issued in 1995.

Taxable interim (\$565 million) and capital improvements financing issues (\$619 million) increased from 1995 issuances of \$82 million and \$431 million respectively. Total taxable issuance was 7 percent of the total statewide volume.

Competitive vs. Negotiated Financings

Table 5 provides an eleven-year comparison of negotiated vs. competitive financings. Nineteen percent of the year's total volume was competitively-bid issues (a decrease from 1995) while negotiated financings reached 81 percent. The State sold 12 percent of its debt competitively this year. This percentage is down from the last several years due to the large volume of refunding bonds sold. Local agencies bid 24 percent of their issues competitively and 76 percent by negotiation. This is up from 1995 when 18 percent of the local issue were competitively bid.

Table 5
State and Local Debt Issuance
Competitive vs. Negotiated Financings
1986 through 1996
(Millions \$)

Year	Competitive	% of Total	Negotiated	% of Total
1996	\$ 6,990	19.1%	\$29,651	80.9%
1995	5,857	22.0	21,153	78.0
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	18,091	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	16.6	27,460	83.4

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

ACCOMPLISHMENTS IN 1996

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, CDIAC 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 1996, CDIAC published the 15th volume of **DEBT LINE**, the Commission's monthly newsletter, and released eight new publications, which are described below. (A listing of all CDIAC publications currently in print is available upon request.)

1995 Summary of California Public Debt [CDAC #96-2]

This report is a companion volume to the *1995 Annual Report [CDAC #96-4]*. The purpose of this report is to provide a profile 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, 1995.

The report is devoted to tables that summarize 1995 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, type of issuing agencies (state, cities, counties, etc.), and Mello-Roos financings. This report is the eleventh *Summary* published since 1985.

1995 Calendar of Debt Issuance [CDAC #96-3]

A companion publication to the *1995 Annual Report [CDAC #96-4]* and the *1995 Summary of California Public Debt [CDAC #96-2]*, the calendar contains detailed information on each California debt issue sold in 1995 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 eleventh in a series published annually since 1985.

1995 Annual Report
[CDAC #96-4]

Fourth in a series, this report summarizes the activities of the Commission on an annual basis. As such, the *1995 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 1995, and outlines major new projects planned by the Commission for 1996. 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 1995.

The *1995 Annual Report* is supplemented by several charts and tables that provide a perspective on California public debt activity over time, as well as an appendix containing an excerpt from the Government Code upon which the California Debt and Investment Advisory Commission's programs and operations are based, and other pertinent information relating to the Commission.

State and Local Tax and Bond Measures
Results of the 1996 Primary Election, June 1996
[CDAC #96-5]

The California Debt and Investment Advisory Commission has been reporting the results of bond and tax measures since 1986. This report is a summary of the bond and tax measures which were decided at the March 26, 1996 Primary Election in California. Included is data from the California Secretary of State's Office and the 58 county clerks' election departments. The Commission tracked 80 state and local bond and tax measures in the March Primary Election. Of that total, 32 were approved by voters and 48 failed.

Disclosure Guidelines for Land-Based Securities
[CDAC #96-6]

The *Guidelines* recommend disclosure practices for compliance with the Securities and Exchange Commission amendments to Rule 15c2-12 (adopted in November 1994) for land-based financings (i.e., Mello-Roos and special assessment bonds). The *Guidelines* provide background on land-based financings in California, municipal securities regulation, primary market disclosure and continuing disclosure for land-based securities. This report has been selected by the Government Finance Officers Association for its *Award for Excellence* for training assistance publications in the area of governmental debt and fiscal policy.

In addition to continuing disclosure, the *Guidelines* address primary market disclosure, since information relevant for continuing disclosure purposes, such as developer financial information, also is relevant for initial offerings.

Local Agency Investment Guidelines
[CDAC #96-7]

The *Guidelines* were developed by the California Debt and Investment Advisory Commission to assist local agencies in their efforts to comply with new state investment laws (SB 564, SB 866 in 1995 and SB 864 in 1996). Developed with assistance and input of representatives from seven statewide associations and the Legislature, the *Guidelines* are designed to interpret the provisions of these laws and provide recommendations on compliance strategies.

The *Guidelines* briefly describes four major issues (Annual Investment Policy, Fund Management, Reporting Requirements and Treasury Oversight Committees) and offers a description of the minimum legal requirement for compliance with each section of the law. These descriptions represent the best judgment of the investment professionals involved, and are intended only as guidance for local agencies in their efforts to comply with the laws. Also included is a consensus recommendation which represents the group's advice as to the proper approach based upon a public policy perspective.

1996 Mello-Roos Yearly Fiscal Status Report
[CDIAC #97-1]

This *1996 Mello-Roos Community Facilities Districts Yearly Fiscal Status Report* is the fourth annual report issued detailing specific fiscal information on Community Facilities Districts (CFDs). The report is prepared annually from information submitted to the Commission by CFD agencies issuing bonds since January 1, 1993. Legislation enacted in 1992 (SB 1464, Mello Chapter 772, Statutes of 1992) requires that all issuers of CFD bonds report annually, until the bonds are retired, on the fiscal status of their bonds sold. Legislation was amended in 1993 to include a requirement for reporting data on all CFD-issuer defaults or draws on reserve funds.

In 1996, a total of 76 issuers, located in 22 counties, were required to file status reports on 154 separate bond issues. All issuers complied with the reporting requirement. An additional five issuers reported voluntarily on bonds sold prior to January 1, 1993. A total of 161 CFD bond issues are included in this report.

Annual Summary 1996: The Use of Housing Revenue Bond Proceeds
[CDIAC #97-3]

This is the twelfth 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 CDIAC by the issuing agencies. This *Summary* includes information on the incomes, family sizes, 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 \$8.3 billion in housing revenue bonds, issued between January 1, 1985 and June 30, 1996, were subject to the reporting requirements in 1996. Of this volume, local issuers submitted detailed housing data on a total volume of \$7.3 billion (88 percent). The information included in this report indicates that multifamily bond proceeds of \$7 billion provided funds for the construction of 121,863 units. Additionally, \$796 million in funds for single-family mortgages have been made available from bond proceeds.

OTHER COMMISSION PUBLICATIONS AND VIDEO

DEBT LINE (Monthly)

In 1996, approximately 1,750 public and private subscribers received copies of **DEBT LINE**, CDIAC'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.

DEBT LINE provides three basic types of information. First, it provides information to issuers and other public finance professionals on municipal bond financing transactions occurring in the state. Agencies which are considering a financing transaction often consult **DEBT LINE** for vital information on similar issues in the market, such as the volume of debt issuance, interest costs, type of sale, and members of the financing team. Others consult the newsletter for an indication of 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 expositions of a particular topic. For example, issuer concerns with the new SEC continuing disclosure rule and municipal enforcement initiative were investigated beginning with the February 28th State Assembly Committee on Banking and Finance informational hearing in the April article *State Legislature Looks into SEC Actions*. This article was followed up by *CDAC Hosts SEC Briefing* (June 1996). Additionally, CDIAC published guidelines (*Disclosure Guidelines Top Agenda at June CDAC Meeting*, July 1996) and produced seminars (*Disclosure Doubleheader: CDAC Seminars in Berkeley and Long Beach Address Issuer Concerns*, November 1996). From time to time, the Commission publishes articles of interest to the public finance community such as *Consequences of Failure to Comply with Continuing Disclosure Requirements* which appeared in the September 1996 issue. An Attorney General informal opinion headlined the September 1996 issue in the article titled *Attorney General Responds to State Treasurer's Marks-Roos Questions*.

Third, **DEBT LINE** is the primary vehicle for advising the public of the Commission's activities. It includes announcements concerning new CDIAC publications, programs, and seminars, as well as summaries of the Commission's meetings and hearings.

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 technical issues, including suggestions for addressing these issues. These are somewhat more technical than a typical **DEBT LINE** article, but not lengthy enough to be published in report form, and are made available separately in the *Issue Brief* format. Currently, the Issue Brief series includes:

Issue Brief No. 1 - Competitive versus Negotiated Sale of Debt - is intended to assist public issuers in determining the appropriate method of sale for their debt offerings.

Issue Brief No. 2 - Understanding the Underwriter Spread - is designed to provide public issuers with a basic understanding on how underwriters are compensated as part of the debt transaction and to identify ways of evaluating the various components of the underwriting spread.

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.

Investment Practices Video

As part of its effort to promote the continuing education of public officials in the area of investment practices, CDIAC and several statewide associations prepared an educational video for local elected officials. The video discusses the importance of investment oversight, the basics of investment programs, and provide some tips for monitoring investment program performance.

CDIAC's partners in the video project included the following statewide associations:

- California State Association of Counties
- California Society of Municipal Finance Officers
- California Association of County Treasurers and Tax Collectors
- California Municipal Treasurers Association
- California Special Districts Association
- Association of California Water Agencies
- California Association of Sanitation Agencies

The video entitled "*How Safe Is Your Money?*" is specifically targeted at local elected officials who have less available time to attend the investment seminars and workshops that are available through their associations. CDIAC and its partners hope that the video can be viewed in the context of a city council or board of supervisors meeting or at a local special event held for that purpose. The video is available from local associations or may be purchased from CDIAC at a cost of \$6.50.

COMMISSION SEMINARS AND SYMPOSIUMS

In 1996 the Commission continued to offer seminar programs as part of its public assistance function, including events which are co-sponsored by statewide associations. These seminars and symposiums are designed to serve the needs of various groups and to bring players in the financial market together for an exchange of information and a fresh look at persisting problems. CDIAC's ongoing educational program is constantly evolving to meet the varied and changing needs of the financial community it serves.

Seminar on Waste Facilities Financing

A one-day seminar, titled *Financing Solid Waste Facilities: Making The Deal Work For Both You and the Market*, was held February 1, 1996, in Burbank. CDIAC conducted the seminar with three co-sponsors, the California Integrated Waste Management Board, the California State Association of Counties, and the League of California Cities. The seminar brought together solid waste professionals, local finance officers, and municipal bond industry professionals to discuss the means to achieve viable financing strategies for solid waste projects in the current regulatory environment.

Topics included solid waste regulations and compliance strategies; flow control and related court decisions and legislation affecting solid waste management; the role of state and local agencies in waste management; the integration of waste management into the debt issuance process; the credit quality of and disclosure requirements for solid waste bond issuers.

Symposium on 1996 Ballot

A symposium entitled *The 1996 Elections: The Voters Take Charge* was offered jointly by the CDIAC and Standard and Poor's Corporation (S&P) on March 7, 1996, in Los Angeles. The symposium drew individuals from state and local governments as well as members of the public finance community to discuss voter attitudes and preferences that would influence the outcome of the 1996 elections and state general obligation bond issues that would be voted on statewide in the Primary Election in March, as well and those that might be placed on the November General Election ballot.

The symposium, the fifth co-hosted by CDIAC and S&P, represents an ongoing commitment by CDIAC and S&P to provide a forum for public and private sector officials to discuss critical issues facing the State of California and its local jurisdictions. Previous symposia focused on K-12 education, housing, transportation issues and water issues.

Investing Public Funds Seminar

Investing Public Funds: Fundamentals of Managing Your Portfolio, a one and one-half day investment seminar was held May 2-3, 1996, in San Diego and October 17-18, 1996, in Berkeley. CDIAC developed this new seminar to allow investment professionals, local finance officers, and local public officials responsible for the investment of public funds the opportunity to discuss (1) the fundamental concepts and methods of investing public funds; (2) the management of a governmental investment portfolio; (3) the roles and responsibilities of local officials in the investment process; and (4) the means for ensuring the safety and liquidity of investments while obtaining the best returns possible. This inaugural seminar is part of the Commission's new educational program for public officials concerning the investment of public funds.

Disclosure Seminar

The SEC's new continuing disclosure rule and municipal enforcement initiative generated concern among issuers about their liabilities under the federal securities law. The Commission addressed these concerns by offering the *Understanding Municipal Securities Regulation: Complying with Disclosure Requirements and Avoiding Enforcement Action* seminar on September 19-20, 1996, in Berkeley, and again on September 26-27, 1996, in Long Beach. This seminar educated issuers about their legal obligations and offered practical advice on how to minimize their liabilities. The seminar included presentations by officials from the SEC and CDIAC and reviewed the disclosure role of counsel, underwriters and financial advisors. This seminar was open to both public and private sector professionals.

Fundamentals 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 May 16-17, 1996, in Irvine. The one and one-half day seminar covered the basics of a bond issue, including the participants' roles, types of debt financings, credit ratings, disclosure issues, and ethics. The seminar's faculty consisted of private and public financing professionals. The *Fundamentals* seminar, which has attracted hundreds of participants over the last seven years, was open only to local and state officials.

Mechanics of a Bond Sale Seminar

For public officials who require more advanced training in public finance, CDIAC offered the *Mechanics of a Bond Sale* seminar. The seminar, held on October 24-25, 1996, in Irvine, provided an in-depth examination of each step of the bond issuance process. CDIAC's *Mechanics* seminars are designed to take public officials through the steps in a debt financing and include such topics as capital outlay planning, structuring a bond issue and putting together a financing team, preparation of legal documents, marketing and pricing an issue, risks and rewards of debt issuance, investing bond proceeds, and methods for achieving and maintaining a positive credit rating.

THE COMMISSION'S PUBLIC HEARINGS

As part of its mandated tasks, CDIAC 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. CDIAC's public hearings are held at various locations throughout the state, often on consecutive days in both northern and southern California. This allows for timely input from all interested parties. 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.

THE COMMISSION'S PUBLIC OUTREACH EFFORTS

The Commission is often invited to conferences and other gatherings to address various issues related to California debt issuance and debt management. CDIAC uses these opportunities to share the Commission's views on various public finance matters and to learn about issues of concern for groups who have an interest in how state and local agencies issue and manage debt. In 1996, CDIAC staff made presentations and conducted workshops for groups including the following:

- Annual *Bond Buyer* Conference on Public Finance
- Asia Foundation of San Francisco
- Association for Government Leasing and Finance
- California Association of County Treasurers & Tax Collectors
- California Constitution Revision Commission
- California Integrated Waste Management Board
- California Municipal Treasurers Association
- California Society of Municipal Analysts
- California State and Local Institutional Investors Conference
- California State Association of Counties
- Claremont Institute's Annual Public Policy Conference and
Legislative Roundtable
- Fulcrum Information Services
- Fund Services Associates Seminar

Government Finance Officers Association Annual Meeting
Institute for International Research
League of California Cities
Local Agency Investment Fund Conference
Municipal Bond Insurance Association
National Council of State Legislatures' Fiscal Partners Project
National Federation of Municipal Analysts
Orange County Public Financing Advisory Committee
Practicing Law Institute
Public Securities Association Spring Conference
Robert Morris Associates Conference
Securities and Exchange Commission
Special Districts Association Conference
Special District Board Management Institute
State Debt Management Network Conference
UCLA Extension Public Policy Program
University Extension, UC Davis
University of Southern California, Sacramento Center

THE COMMISSION'S DATA REPOSITORY

For calendar year 1996, the data collection unit of the Commission processed 1,910 reports of proposed debt issuance by California state and local issuers of public debt. CDIAC also received 1,782 reports for issues sold during the year. These included issues that were reported as proposed sales in prior years but were actually sold in 1996. Each of the over 3,692 reports CDIAC processed in 1996 contains detailed information on that particular sale of public debt.

In addition to debt issuance reports, CDIAC compiled data on the use of housing revenue bond proceeds. For the *1996 Annual Summary: The Use of Housing Revenue Bond Proceeds*, the Commission contacted 199 local agencies for data on 630 debt issuances relating to multifamily and single-family housing projects. These bond proceeds were used to assist in the financing of a reported 121,863 multifamily units and 2,860 single family residences.

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

Database Conversion

The cornerstone of the Data Collection and Analysis Unit is a database system which receives, stores, and compiles debt issuance information reported to the Commission. To accommodate new mandates for additional debt issuance data collection and to provide technical assistance in a more efficient manner, the Commission transitioned to an in-house developed relational database application in 1995.

The benefits of the new application are reflected in changes to the calendar of issues pages in **DEBT LINE**. Changes include: (1) the addition of guarantor and trustee names (if reported) on sold issues; and (2) addition of final date of maturity and the type of maturity. This additional information is reported to CDIAC via the new *Report of Proposed Debt Issuance* and the *Report of Final Sale* forms.

Data on Disk Subscriptions

Fourteen subscribers received monthly sold information data under CDIAC's new *Data on Disk* project. Subscribers received one diskette each month containing the data on sold issues reported to the Commission for that timeframe. The data, which is the sold data published in the *Calendar* portion **DEBT LINE**, excludes information on proposed issues. A pre-paid subscription for the current calendar year costs \$77.58 including tax. Prior calendar years' sold data may be requested for each prior year for a total of \$6.47 prepaid.

CDIAC Goes On Line

The Commission is on the State Treasurer's Home Page on the Internet. This site provides information about current events, press releases, and general **STO** information. It also includes a link to CDIAC's Home Page, which provides selected information about the Commission, CDIAC reports (*Disclosure Guidelines for Land-Based Securities* and *Local Agency Investment Guidelines*), current CDIAC seminar schedules, and reported defaults and draws for Mello-Roos and Marks-Roos financings. In the future, this site will also provide the latest statistics on state and local debt issuance from the Commission's database of public debt issuance and revised reporting forms reflecting CDIAC's new name .

The CDIAC Home Page is located at <http://www.treasurer.ca.gov/stocda.htm> on the Treasurer's Home Page under the *Boards and Commissions, California Debt and Investment Advisory Commission*. To request information or assistance, contact CDIAC by E-Mail at cdiac@treasurer.ca.gov.

THE OUTLOOK FOR 1997

The California Debt and Investment Advisory Commission's 1996 agenda includes a combination of new and ongoing programs as CDIAC enters its 15th year. This chapter highlights programs and activities planned for 1997.

Proposition 218 Seminars

Voter approval of Proposition 218, the Right to Vote on Taxes Act, presented a multitude of questions. The act increased voter approval requirements for local taxes, fees and assessments and imposed major new restrictions on local fees and assessments. These provisions affect a wide range of activities, including water, sewer and refuse collection; fire protection; library services; parks and school playgrounds; landscaping; street lighting and maintenance. The act also presents new challenges and uncertainties for cities, counties, special districts, and school districts about how to shape and administer revenue-raiding and debt-issuance practices.

CDIAC, University Extension, UC Davis and UCLA Extension Public Policy Program co-sponsored "*Implementing Proposition 218: Mapping and Navigating the Changing Landscape of Local Government Finance*". In 1997, the one-day seminar was held January 9 in Vallejo, January 16 in City of Industry, February 19 in Sacramento, and February 27 in Cerritos. Issues covered included background information on the proposition, new Proposition 218 requirements and limitations for local governments, implementation of the provisions of the act, areas of the new law that present uncertainties or that may require further interpretation, and the direction of possible implementing legislation in the state legislature.

The California Debt and Investment Advisory Commission and Standard and Poor's Rating Services co-sponsored *Privatization in the '90s: Will Proposition 218 and Welfare Reform Inspire the Movement?* held March 11, 1997 in San Francisco. With the recent passage of Proposition 218 and the current efforts to reform welfare, local governments now are examining privatization as an option or tool to assist them in their efforts to meet the further challenges presented by these two forces. One panel considered how privatization can assist local governments in the post-Proposition environment. Speakers included a representative from the City of Scottsdale, Arizona, who discussed that city's experience with privatization of its fire services. Another panel looked at privatization as an option that might help local governments respond to the challenges presented by welfare reform. Public and private sector speakers participated on that panel.

CDIAC to Sponsor Legislation

CDIAC plans to sponsor legislation to require a geographical linkage between the member agencies of Marks-Roos public financing authorities (PFAs) and projects financed through their bond issues. Presently, the act does not require that a member agency of the PFA have jurisdiction over the project financed through the sale of bonds by the PFA. This raises two concerns. First, an issuing agency that has no geographic connection to the project being financed is not in the position to exercise adequate oversight over the project or the financing, and may consequently expose itself to fraud liabilities under the federal securities laws. Second, if the project fails, the community in which it is located—which may have had no involvement in the decision to issue bonds—will be left to *workout* the failed project, and will face the difficult task of finding a new developer for land already burdened with the Marks-Roos debt. For these reasons, the public agency that ultimately will be most directly impacted by the issuance of bonds under the Marks-Roos Act should be a participant in the decision to issue the bonds.

In addition, CDIAC has outlined proposed legislation to require the beneficiary agency to hold a public hearing on the question of the public benefit to be derived from the financing. The Attorney General has opined that each local agency that will benefit from a Marks-Roos financing must, prior to the sale of the bonds, make a finding of public benefit. Requiring a public hearing on this question would serve as a safeguard against questionable financings by subjecting the question of public benefit to public scrutiny and establishing a public record of the legislative body's reasoning in reaching this finding.

Investment Practices Seminar

In its efforts to provide continuing education of public officials in the area of investment practices, CDIAC is planning additional public finance investment seminars for 1997. CDIAC developed an investments fundamentals seminar, *Investing Public Funds: Fundamentals of Managing Your Portfolio*, to provide information on public portfolio investment management for investment professionals, local finance officers, and local public officials responsible for the investment of public funds. The 1997 seminars will provide more advanced training than the fundamentals seminars held in 1996. Public agency officials and their staff responsible for or involved in the investment of public funds are encouraged to attend.

California Debt Issuance Primer: Revised and Expanded Edition

The *California Debt Issuance Primer* is a reference manual developed for state and local government officials responsible for the issuance and management of public debt issues. The *Primer*, originally developed under consultant contract and published in 1988, was subsequently updated in 1990. Designed as a reference manual, 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 the roles of participants in a debt financing, the steps in the debt issuance process, state oversight and financing programs, and key terms and concepts in public finance.

Due to the many changes in state and federal law, as well as recent innovations in the area of debt issuance and management, the Commission is laying the groundwork for reworking, revising, and expanding the *Primer*. The revised version should be available late-1997.

Fundamentals of Debt Financing Seminar

While specialized seminars represent the future of CDIAC's technical assistance efforts, the Commission's regular seminar series remain an important part of its continuing education program in 1996. Offered in both southern and northern California, these popular seminars are open to any and all interested public agency officials and staff. Seminar sessions are conducted by municipal finance industry experts, including members of the Commission's TAC, and public officials with extensive experience in public finance.

The *Fundamentals of Debt Financing*, the Commission's introductory seminar for public officials interested in understanding the debt issuance and debt management process, will be held on April 3-4, 1997 in Irvine. This one and one-half day seminar is designed to cover the basics of a bond issue, including the participants' roles, types of debt financings, credit ratings, and disclosure issues.

Mechanics of a Bond Sale Seminar

CDIAC again will offer the *Mechanics of a Bond Sale* seminar on May 1-2, 1997 in Irvine. This seminar is designed for more advanced training in public finance and focuses on the technical aspects of bond issuance. Offered to public agency officials and their staff, the *Mechanics* seminar will include in-depth examinations of each step of the bond issuance process, starting from the capital outlay planning stage to the post-bond sale administrative stage.

APPENDICES

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

Chapter 11.5. CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

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

(a) There is created the California Debt and Investment 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 and Investment 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 that the public agency or nonprofit corporation has filed the information required by Section 8855.5 and this section with the California Debt and Investment 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. Amounts received under this section shall be deposited in the California Debt and Investment 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 director and other persons necessary to perform the duties imposed upon it by this chapter. The executive director 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
1996**

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Tom Friery
City of Sacramento
George Jeffries
City of Tustin
Norma Lammers
CA State Association of Counties
Jeff Thomas
City of Tustin
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Sharon Yonashiro
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Kitahata & Company
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Jones Hall Hill & White

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Thomas Kenny
Franklin Advisers

COMMISSION TECHNICAL ADVISORY COMMITTEE 1997

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Olivenhain Municipal Water District
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CA State Association of Counties
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Amy Doppelt
Fitch Investors Service
Steve Zimmermann
Standard & Poor's Corp.

INVESTOR REPRESENTATIVE MEMBERS

Thomas Kenny
Franklin Advisers

TRUSTEE REPRESENTATIVE MEMBERS

Mike Klugman
Wells Fargo Bank

COMMISSION FUNDING AND EXPENDITURES

The Commission is funded out of the California Debt and Investment Advisory Commission Fund, established under Chapter 1088/81. The CDIAC 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 1 percent (2.5 basis points), up to \$5,000 for each issue, to the lead underwriter or purchaser of a debt issue.

As Table 6 indicates, the Commission required \$1,284,904 in fiscal year 1995-96 to conduct its mandated functions. This was entirely offset by \$1,612,968 in revenues. By the start of the 1996-97 fiscal year, the CDIAC Fund balance increased to \$1,015,497.

Table 6

**California Debt and Investment Advisory Commission
Operating Revenues and Expenditures
Fiscal Year 1995-96**

CDIAC Fund:	
Beginning balance (7/1/95)	\$ 581,840
Revenues*	1,612,968
Reimbursements	<u>53,204</u>
Total resources	\$ 2,248,012
Expenditures:	
Staff salaries	\$ 543,010
Staff benefits	142,974
General expense	40,431
Printing	57,749
Communications	11,618
Postage	16,215
In-state travel	19,292
Out-of-state travel	5,225
Training	5,978
Facilities operation	64,586
Consultant and professional contracts	322,403
Data processing	2,425
Central administrative services	18,363
Equipment	<u>34,635</u>
Total expenditures	\$1,284,904
Operating transfers out	52,389
CDIAC Fund: Ending balance (6/30/96)	\$1,015,497

*Includes interest earnings.

**California Debt and Investment Advisory Commission
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